Registration number: 02761032

Premier Oil E&P UK Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

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Premier Oil E&P UK Limited

Contents

Premier Oil E&P UK Limited

Company Information

Directors	R A Allan A R C Durrant J E Forsyth D G Griffin R A Rose A G Gibb P D Williams
Company secretary	D A Rose (appointed 1 November 2018)
Registered office	23 Lower Belgrave Street London SW1W 0NR
Auditors	Ernst & Young LLP Blenheim House Fountainhall Road Aberdeen United Kingdom AB15 4DT

Premier Oil E&P UK Limited

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report on Premier Oil E&P UK Limited (the "company") for the year ended 31 December 2018.

Results

For the year to 31 December 2018 the company made a profit of US$18,205,975 (2017: profit of US$76,326,745).

Principal activity and business review

The company was incorporated on 2 November 1992 and is part of the Premier Oil plc group of companies. It is engaged in the exploration for and production of oil and gas on the United Kingdom Continental Shelf.

The company's key financial and other performance indicators during the year were as follows:

	Unit	2018	2017
Production	kboepd	7.5	15.8
Realised price per barrel of oil	US$	60.6	52.3
Operating cost per boe	US$	49.1	31.6

Development and production

Production from Premier Oil E&P UK fields averaged 7.5 kboepd (2017: 15.8 kboepd), significantly lower than that of 2017 due to natural reserves decline in the Huntington field.

The Premier-operated Huntington field was the highest producer in the UK portfolio in 2018 with production averaging 6.0 kboepd (2017: 13.0 kboepd) reflecting forecast natural decline and several unplanned shut downs. Modifications to the FPSO were made to facilitate gas import which, together with the conversion of a former production well to a water injector, has improved reservoir deliverability and plant stability. The Huntington field has continued to benefit from high operating efficiency post period end with production averaging over 6 kboepd year to date in 2019.

Production from the Premier-operated Balmoral Area was 1.2 kboepd (2017: 2.2 kboepd). Production was impacted by an extended summer maintenance shut down and temporary loss of Balmoral field production. Balmoral field recommenced production in May 2019. As a result of cost control and asset performance, cessation of production from the Balmoral Area has now been deferred until 2021.

In the Southern North Sea, the Rita and Hunter fields ceased production in mid-2018 following closure of the Theddlethorpe gas processing terminal.

In August, Premier and its partners sanctioned the development of the Tolmount Main gas field in the Southern Gas Basin. The Tolmount Main gas field is expected to produce around 500 Bcf of gas with peak production of up to 300 mmscfd. The Tolmount Main gas project is now well into its execution phase. Construction of the minimal facilities platform commenced in Rosetti Marino's Ravenna yard in December 2018 with fabrication of the primary structural steel and nodes as well as the rolling of the tubulars underway and progressing to plan. At Easington, Centrica's onshore receiving terminal, preparation for modifications required for Tolmount gas import has started and significant purchase orders are being placed for engineering work-scopes. The four well development drilling programme is scheduled to commence mid-2020 with the first well expected to come on-stream in the fourth quarter of that year. Premier continues to estimate that its share of the capex to develop Tolmount Main will be around US$120 million.

Principal activity and business review (continued)

Exploration

Premier has contracted the Ensco 123 rig to drill the Tolmount East appraisal well in August ahead of drilling the Tolmount Main development wells in 2020. The well is targeting 220 Bcf to 300 Bcf (P50 to P10) of gross unrisked resource in an area to the east of the main Tolmount field which sits above the Tolmount Main gas water contact. On success, the Tolmount East appraisal well will be suspended for use as a future producer to be tied back to the Humber Gathering System infrastructure.

The company continues to actively manage the remainder of its UK exploration portfolio and has relinquished or sold licenses in 2018 it does not deem to have value, with associated cost savings having been realised. The company plans to mature the work programmes on select licences it deems attractive during 2019, along with further exploration prospects on its current production licences.

Principal risks and uncertainties

The key business risks are set out below:

Liquidity risk

The company is reliant on group funding and has the risk that sufficient funds are not available to finance the business. The group has an established financial management system to ensure that it is able to maintain an appropriate level of liquidity and financial capacity and to manage the level of assessed risk associated with the financial instruments. The group maintains access to capital markets through the cycle through proactive engagement with banks and lenders as evidenced by the recent completion of refinancing.

Exploration success and reserves addition

The company's future success depends largely on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

Operational hazards and responsibilities

Oil and gas drilling and producing operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. The company also mitigates insurable risks to protect against significant losses by maintaining a comprehensive insurance program 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.

Production and development delivery and decommissioning execution

The company manages a variety of projects, including exploration and development projects and the construction or expansion of facilities and pipelines. Project delays may delay expected revenues and project cost overruns could make projects uneconomic. The company's ability to complete projects depends upon numerous factors beyond the company's control. These factors include the uncertain geology and reservoir performance leading to lower production and reserves; the availability of services including FPSOs and rigs; availability of technology and engineering capacity; availability of skilled resources; maintaining project schedules and costs as well as fiscal, regulatory, political and other conditions leading to operation problems.

Principal risks and uncertainties (continued)

Commodity price risk

The company is also exposed to oil and gas price fluctuations which affect its revenues and the values of its oil and gas interests. Decreases in the oil and gas prices are likely to reduce profitability by decreasing revenue without a proportional decrease in costs; they may necessitate impairment of asset values and may make projects uneconomic. The company's exposure to such fluctuations is managed through the company's participation in the group's hedging arrangements.

Foreign exchange risk

Exchange rate exposures relate only to sterling receipts and expenditures. The group's treasury function takes out forward contracts to manage this risk at a group level.

Interest rate risk

The company has long-term loans with interest rates which are linked to LIBOR. The exposure to interest rates is managed by maintaining an appropriate mix of both fixed and floating interest rate borrowings within its debt portfolio.

Joint venture partner alignment

The company has the risk that joint venture partners are not aligned in their objectives and drivers which may lead to inefficiencies and/or delays. Several of our projects are operated by our joint venture partners and our ability to influence our partners is sometimes limited due to our small interest in such ventures. The company performs due diligence and has regular engagement with the partners in the joint venture. Premier pursues strategic acquisition opportunities where appropriate to gain a greater deal of influence and control.

Supply chain delivery

We are heavily dependent on supply chain providers to deliver services and products to time, cost and quality criteria. There is a heightened risk of the financial viability of key suppliers during periods of downturn in the upstream services sector which could result in causing delays or cost over-runs on projects or operations. The company manages this risk through enhanced due diligence of supply chain providers and continually monitors contractual performance and delivery.

Brexit

On 23 June 2016 the United Kingdom voted to leave the European Union. The longer term political and economic effects of this event are as yet unclear as negotiations on Britain's future relationship with EU member states are ongoing with a target exit date of 31 October 2019. Management continue to monitor the situation closely and review potential risks to the group.

Approved by the Board on 24 June 2019 and signed on its behalf by:

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R A Rose
Director

Premier Oil E&P UK Limited

Directors' Report for the Year Ended 31 December 2018

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 December 2018.

Dividends
The directors did not recommend the payment of a dividend (2017: US$nil).

Directors' of the company
The directors who held office during the year were as follows:

R A Allan

A R C Durrant

J E Forsyth

D G Griffin

R A Rose

S R Wheaton (resigned 1 July 2018)

A G Gibb

P D Williams (appointed 1 July 2018)

Directors' indemnities
The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Future developments
The directors do not foresee any changes in the company's activities in the immediate future.

Going concern
The company is part of the Premier Oil plc group ('the group') and is reliant on funding from the group to meet its liabilities as they fall due. The group monitors its funding position and its liquidity risk throughout the year to ensure it has access to sufficient funds to meet its forecast cash requirements. Cash forecasts are regularly produced based on, inter alia, the group's latest life of field production and expenditure forecasts, management's best estimate of future commodity prices (based on recent forward curves, adjusted for the group's hedging programme) and the group's borrowing facilities. Sensitivities are run to reflect different scenarios including, but not limited to, changes in oil and gas production rates, possible reductions in commodity prices and delays or cost overruns on major development projects. This is done to identify risks to liquidity and covenant compliance and enable management to formulate appropriate and timely mitigation strategies.

Management's base case forecast assumes an oil price of US$60/bbl and US$65/bbl in 2019 and 2020, respectively and production in line with prevailing rates. The group has run downside scenarios, where oil and gas prices are reduced by a flat US$5/bbl throughout the going concern period and where total group production is forecast to reduce by 10 percent.

At 31 December 2018 the group continued to have significant headroom on its financing facilities and cash on hand. The base case forecasts show that the group will have sufficient financial headroom for the 12 months from the date of approval of the company statutory accounts. In the downside scenarios ran, no covenant breach is forecasted in the going concern period. If more severe sustained downside cases were to materialise then, in the absence of any mitigating actions, a breach of one or more of the financial covenants may arise during the 12 month going concern assessment period. Potential mitigating actions could include further non-core asset disposals, additional hedging activity or deferral of expenditure.

Going concern (continued)

Accordingly, after making enquiries and considering the risks described above, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the directors of the company have concluded that it is appropriate to assume that they will continue to have access to funding from the group in order to meet its liabilities as they fall due and hence to adopt the going concern basis of accounting in preparing the company financial statements.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Appointment of auditors

The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 24 June 2019 and signed on its behalf by:

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R A Rose

Director

Premier Oil E&P UK Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Premier Oil E&P UK Limited

Opinion

We have audited the financial statements of Premier Oil E&P UK Limited (the 'company') for the year ended 31 December 2018, which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Members of Premier Oil E&P UK Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the Members of Premier Oil E&P UK Limited (continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst + Young LLP

Moira Ann Lawrence
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP, statutory auditor
Aberdeen

24 June 2019

Premier Oil E&P UK Limited

Profit and Loss Account for the Year Ended 31 December 2018

	Note	2018 US$ 000	2017 US$ 000
Turnover	4	162,478	284,253
Production costs		(142,147)	(182,027)
Depreciation and amortisation expense	9	(11,045)	(52,900)
Impairment charge on tangible assets	9	-	(12,189)
Impairment reversal on tangible assets	9	-	12,095
Exploration and pre-licence exploration expense		(302)	(16,309)
Administrative costs		280	616
Operating profit		9,264	33,539
Net interest receivable	6	55,388	36,904
Foreign exchange gains/(losses)		1,642	(5,223)
Expected Credit Loss	12	(25,036)	-
		31,994	31,681
Profit before tax		41,258	65,220
Tax on profit	7	(23,052)	11,107
Profit after tax		18,206	76,327

The above results were derived from continuing operations.

A statement of comprehensive income has not been presented as no items of comprehensive income other than the profit for the financial year were incurred during the financial year. As such, comprehensive income for the year amounted to US$18,205,975 (2017: US$76,326,745).

Premier Oil E&P UK Limited

(Registration number: 02761032)
Balance Sheet as at 31 December 2018

	Note	2018 US$ 000	2017 US$ 000
Fixed assets			
Intangible assets	8	73	59,689
Tangible assets	9	104,124	59,663
Investments	10	65,924	65,924
Deferred tax assets	11	35,487	81,756
		205,608	267,032
Current assets			
Trade and other receivables	12	1,091,512	1,088,280
Cash at bank and in hand		161	463
		1,091,673	1,088,743
Creditors: Amounts falling due within one year			
Trade and other payables	13	(64,245)	(82,849)
Provisions	14	(26,417)	(77,242)
		(90,662)	(160,091)
Net current assets		1,001,011	928,652
Total assets less current liabilities		1,206,619	1,195,684
Provisions for liabilities	14	(515,699)	(517,182)
Net assets		690,920	678,502
Capital and reserves			
Called up share capital	15	97,233	97,233
Translation reserve	16	(14,941)	(14,941)
Retained earnings	16	608,628	596,210
Shareholders' funds		690,920	678,502

These financial statements were authorised for issue by the Board on 24 June 2019 and signed on its behalf by:

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R A Rose

Director

Premier Oil E&P UK Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Called up share capital US$ 000	Translation reserve US$ 000	Retained earnings US$ 000	Total US$ 000
At 1 January 2017	97,233	(14,941)	519,883	602,175
Profit and total comprehensive income for the year	-	-	76,327	76,327
At 31 December 2017	97,233	(14,941)	596,210	678,502

	Called up share capital US$ 000	Translation reserve US$ 000	Retained earnings US$ 000	Total US$ 000
At 1 January 2018	97,233	(14,941)	596,210	678,502
Adjustment on adoption of IFRS 9 *(Note 12)*	-	-	(5,788)	(5,788)
At 1 January 2018	97,233	(14,941)	590,422	672,714
Profit and total comprehensive income for the year	-	-	18,206	18,206
At 31 December 2018	97,233	(14,941)	608,628	690,920

1 General information

The company is a private company limited by share capital, incorporated and domiciled in England.

The company is a wholly-owned subsidiary of Premier Oil plc and acts as an intermediate holding company for the Premier Oil plc group.

The address of its registered office is:
23 Lower Belgrave Street
London
SW1W 0NR

The principal place of business is:
Upper Denburn House
Prime Four Business Park
Kingswells
Aberdeen
AB15 8PU

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of new and revised standards

In the current year the following new and revised Standards and Interpretations have been adopted, none of which have a material impact on the company's annual results.

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. The company has applied IFRS 9 using the modified retrospective approach with no restatement of comparative information and differences being recorded in opening retained earnings at 1 January 2018. The only impact on the measurement of financial assets under IFRS 9 is the change to the company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss. Upon the adoption of IFRS 9, the company was required to recognise ECLs which resulted in a decrease in retained earnings by US$5,788,080 as at 1 January 2018.

2 Accounting policies (continued)

At the date of approval of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

• IFRS 16 Leases
• IFRS 17 Insurance Contracts
• IFRIC 23 Uncertainty over Income Tax Treatments

• Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions
• Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contract
• Amendments to IFRS 9 - Prepayment Features with Negative Compensation
• Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures
• Annual Improvements (2015-2017 Cycle): IFRS 3 Business Combinations - Previously held interests in a joint operation
• Annual Improvements (2015-2017 Cycle): IFRS 11 Joint Arrangements - Previously held interests in a joint operation
• Annual Improvements (2015-2017 Cycle): IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
• Annual Improvements (2015-2017 Cycle): IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

Other than as disclosed below, the Directors do not expect that the adoption of the other Standards listed above will have a material effect on the financial statements of the company in future periods.

IFRS 16 Leases ('IFRS 16') was issued in January 2016 to replace IAS 17 Leases and is effective from 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases, with limited exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. Under IFRS 16, at the commencement date of a lease, a lessee is required to recognise a liability to make lease payments ('lease liability') and an asset representing the right to use the underlying asset during the lease term ('right-of-use asset'). Lessees will be required to separately recognise the interest expense associated with the unwinding of the lease liability and the depreciation expense on the right-of-use asset. These costs will replace amounts previously recognised as operating expenditure in respect to an operating lease in accordance with IAS 17. In applying IFRS 16 for the first time the company has applied the short-term lease practical expedient by not recognising lease liabilities in respect to lease arrangements with a remaining lease term of less than 12 months as at 1 January 2019.

During 2018, the company performed a detailed assessment of the impact of IFRS 16. The company will adopt the modified retrospective approach to adoption on 1 January 2019, measuring right-of-use assets at an amount equal to their respective lease liability on adoption, with the cumulative effect of adopting the standard recognised at the date of initial application without restatement of comparative information. IFRS 16 will have a material impact on the accounting treatment of our lease arrangements with the recognition of the lease liability and associated right-of-use asset in respect to the FPSO vessel on Huntington.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

The financial statements are presented in United States dollars, which is the currency of the primary economic environment in which the company operates (its functional currency).

2 Accounting policies (continued)

Going concern
The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further information relating to the use of the going concern assumption is provided in the "Going Concern" section of the Directors Report.

Summary of disclosure exemptions
The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share Based Payment, because the share based payment arrangement concerns the instruments of another group entity;
(b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(J) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
(c) the requirements of paragraph 33(c) of IFRS 5 Non Current Assets Held for Sale and Discontinued Operations;
(d) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
(f) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of; (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 50 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture;
(g) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
(h) the requirements of IAS 7 Statement of Cash Flows;
(i) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
(j) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
(k) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
(l) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets; and
(m) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15.

Exemption from preparing group accounts
The financial statements contain information about Premier Oil E&P UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Premier Oil Plc, a company incorporated in Great Britain.

Foreign currency transactions and balances
The financial statements are presented in United States dollars, which is the currency of the primary economic environment in which the company operates (its functional currency). All transactions denominated in foreign currencies, being currencies other than the functional currency, are recorded in the functional currency at actual exchange rates as of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. 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 income statement.

2 Accounting policies (continued)

Revenue recognition

Revenue from contracts with customers is recognised when or as the company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids, and other items sold by the company usually coincides with title passing to the customer and the customer taking physical possession. The company principally satisfies its performance obligations at a point in time and the amounts of revenue recognised relating to performance obligations satisfied over time are not significant. Under the company's joint operation arrangements, revenue is recognised according to the actual liftings. However, where liftings do not match working interest or entitlement interest, an adjustment is made to cost of sales representing the amount due to/from joint venture partners representing over/underlift movements.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The company reassesses its unrecognised deferred tax asset each year taking into account changes in oil and gas prices, the company's proven and probable reserve profile and forecast capital and operating expenditures.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantially enacted at the balance sheet date.

2 Accounting policies (continued)

Interest in joint arrangements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Most of the company's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. The company reports its interests in joint operations using proportionate consolidation – the company's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the financial statements on a line-by-line basis.

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the financial statements using the equity method accounting. During the year, the company did not have any material interests in joint ventures.

Where the company transacts with its joint operation partners, unrealised profits and losses are eliminated to the extent of the company's interest in the joint operations.

Intangible assets

The company follows the 'successful efforts' method of accounting for intangible fixed assets.

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

Pre-licence costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the profit and loss account as they are incurred.

Exploration and evaluation (E&E) costs

Costs of E&E are initially capitalised as intangible fixed assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible fixed assets. Tangible assets used in E&E activities (such as the company's vehicles, drilling rigs, seismic equipment and other property plant and equipment used by the company's exploration function) are classified as tangible fixed assets. However, to the extent that such a tangible asset is consumed in developing an intangible fixed asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of tangible fixed assets utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases. E&E costs are not amortised prior to the conclusion of appraisal activities.

2 Accounting policies (continued)

Treatment of intangible fixed assets at conclusion of appraisal activities

Intangible fixed assets related to each exploration licence/prospect are carried forward, until the existence (or otherwise) of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value, after any impairment loss, of the relevant intangible fixed assets is then reclassified as development and production assets, once a field development plan has been approved or a gas sales agreement has been signed. If, however, commercial reserves have not been found, the capitalised costs are charged to expense after conclusion of appraisal activities.

Tangible assets

The company follows the 'successful efforts' method of accounting for tangible fixed assets.

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

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

The net book values of producing assets are depreciated generally on a field by field basis using the unit-of-production (UOP) method by reference to a 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 straight line basis over the remaining life of the asset of 3 years.

Furniture, fittings and equipment are depreciated on a straight line basis over 3 years.

Provisions

Provision for decommissioning is recognised in full when the related facilities are installed. 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.

Investments

Investments held as fixed assets are shown at cost less provision for impairment. Where the directors consider that an impairment of the value of the investment has occurred, the investment value is written down through the profit and loss account.

Over and underlift

Petroleum products and under and overlifts of crude oil are recorded at market value, within current assets or current liabilities as appropriate.

2 Accounting policies (continued)

Trade and other receivables
Trade and other receivables are stated net of any appropriate allowances for expected credit losses.

Leases
Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Impairment of non-financial assets
An impairment test is performed at least annually and whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

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

Derivatives and hedging
The company used oil price swaps in the year to manage some of the risks arising from fluctuations in commodity prices.

All derivative financial instruments are initially recorded at cost, including transaction costs. Derivatives are subsequently carried at fair value. All changes in fair value are recorded as respective income or expense in the year in which they arise.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the profit and loss account. Embedded derivatives which are closely related to host contracts, including in particular price caps and floors within the company's oil sales contracts, are not separated and are not carried at fair value.

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.

3 Critical accounting judgements and key sources of estimation uncertainty

Going concern
The application of the going concern basis of accounting (section above).

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Carrying value of intangible exploration and evaluation assets and of property, plant and equipment along with the proved and probable reserves estimates.
Proved and probable reserve estimates are based on a number of underlying assumptions including oil and gas prices, future 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.

Decommissioning estimates
The decommissioning provision represents the present value of estimated decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2026. This provision has been created based on the company's internal estimates and, where available, operators' 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.

Recognition of deferred tax assets
The company's deferred tax assets are recognised to the extent that taxable profits are expected to arise in the future against which tax losses and allowances in the company can be utilised. In accordance with paragraph 37 of IAS 12 - 'Income Taxes', the company re-assessed its deferred tax assets with respect to ring fence tax losses and allowances. The corporate model used to assess the extent to which it is appropriate to recognise the company's tax losses as deferred assets was re-run, using an oil price assumption of Dated Brent forward curve for two years and assumptions in 'real' terms thereafter.

4 Turnover

Turnover is stated net of sales related taxes and trade discounts and represents the sale value of the company's share of petroleum production during the year and after adjusting for any realised hedging gains or losses. All turnover is derived from production and sales made in the United Kingdom.

5 Auditors' remuneration

	2018 US$ 000	2017 US$ 000
Audit of the financial statements	70	68

This audit fee was borne by the ultimate parent company in the current year. No non-audit services were provided in the year (2017: US$nil).

6 Net interest receivable

	Note	2018 US$ 000	2017 US$ 000
Interest payable:			
Interest on bank overdrafts and borrowings		(638)	-
Unwinding of decommissioning provision	14	(25,155)	(24,979)
Other finance costs		(14,536)	(10,887)
		(40,329)	(35,866)
Interest receivable:			
Interest income on bank deposits		-	4
Interest receivable from group companies		95,717	72,766
		95,717	72,770
Net interest receivable		55,388	36,904

7 Income tax

Tax charged/(credited) in the profit and loss account

	2018 US$ 000	2017 US$ 000
Current taxation		
UK corporation tax on profit for the year	(23,217)	7,161
Deferred taxation		
Arising from origination and reversal of temporary differences	47,073	(21,711)
Adjustments in respect of prior periods	(804)	3,443
Total deferred taxation	46,269	(18,268)
Tax expense/(credit) in the profit and loss account	23,052	(11,107)

Corporation tax us calculated at the UK ring-fence corporation tax rate for the year of 40% (2017: 40%).

The credit for the year can be reconciled to the profit per the profit and loss account as follows:

7 Income tax (continued)

	2018 US$ 000	2017 US$ 000
Profit before tax	41,258	65,220
Corporation tax at ring fence rate	16,503	26,088
Adjustments in respect of prior periods	(804)	10,604
Investment allowance de-recognised	-	700
Tax rate differences	19,500	(13,553)
Expenditure not deductible/income not taxable for tax purposes	(12,153)	(28,404)
Group relief received for nil consideration	(13,038)	(6,542)
Impact of foreign exchange	4,696	-
Losses de-recognised	11,157	-
Decommissioning loss carryback	(2,809)	-
Total tax charge/(credit)	23,052	(11,107)

8 Intangible assets

	Exploration and evaluation assets US$ 000
Cost or valuation	
At 1 January 2017	151,870
Additions	22,805
Exploration expense	(114,986)
At 31 December 2017	59,689
At 1 January 2018	59,688
Additions	7,753
Disposals	(794)
Exploration expense	400
Oil and gas properties transfer to P&D	(66,974)
At 31 December 2018	73

The amounts for intangible exploration and evaluation (E&E) assets represent costs incurred on active exploration projects. These amounts are written off to the profit and loss account 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. In December 2018, the company disposed of its entire 50% equity interest in the P2212/P2301 Cobra and P2290 Newton licences to Verus.

9 Tangible assets

	Furniture, fittings and equipment US$ 000	Oil and gas properties US$ 000	Total US$ 000
Cost or valuation			
At 1 January 2017	25,009	451,724	476,733
Additions	-	24,968	24,968
Disposals	-	(31)	(31)
Revision to decommissioning assets	-	19,651	19,651
At 31 December 2017	25,009	496,312	521,321
At 1 January 2018	25,009	496,312	521,321
Additions	-	67,892	67,892
Disposals	(25,009)	-	(25,009)
Transferred from E&E	-	66,974	66,974
Revision to decommissioning assets	-	(76,772)	(76,772)
At 31 December 2018	-	554,406	554,406
Depreciation			
At 1 January 2017	18,174	390,521	408,695
Charge for year	2,393	50,507	52,900
Eliminated on disposal	-	(31)	(31)
Impairment	-	12,189	12,189
Impairment reversal	-	(12,095)	(12,095)
At 31 December 2017	20,567	441,091	461,658
At 1 January 2018	20,567	441,091	461,658
Charge for the year	1,854	9,191	11,045
Eliminated on disposal	(22,421)	-	(22,421)
At 31 December 2018	-	450,282	450,282
Carrying amount			
At 31 December 2018	-	104,124	104,124
At 31 December 2017	4,442	55,221	59,663

9 Tangible assets (continued)

Amortisation and depreciation of 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 on an entitlement basis 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.

In April 2018, Premier Oil E&P UK Limited disposed of all non oil & gas assets as the Wilton Road premises lease were vacated and lease terminated. All software was transferred to Premier Oil Aberdeen Services Limited.

The Tolmount project was sanctioned in August 2018 and as a result, the costs associated with the project were transferred from intangible exploration and evaluation assets.

Impairment
During the year, no impairment charge or reversal of impairment of oil and gas properties was recognised (2017: impairment charge of US$12.2 million and impairment reversal of US$12.1 million).

10 Investments in subsidiaries

	US$ 000
Carrying amount	
At 31 December 2017	65,924
At 31 December 2018	65,924

Details of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Registered office	Holding	Proportion of ownership interest and voting rights held 2018	2017
Premier Oil E&P UK Energy Trading Limited	Natural gas trading	23 Lower Belgrave Street, London, SW1W 0NR England	Ordinary shares	100%	100%
Premier Oil E&P UK EU Limited	Natural gas exploration, development and production	23 Lower Belgrave Street, London, SW1W 0NR England	Ordinary shares	100%	100%

11 Deferred tax

	2018 US$ 000	2017 US$ 000
Net deferred tax asset at 1 January	81,756	63,488
Origination and reversal of temporary differences	(47,073)	21,711
Adjustments in respect of prior years	804	(3,443)
At 31 December	35,487	81,756

	2018 US$ 000	2017 US$ 000
Capital allowances in excess of depreciation	(39,237)	(43,114)
Temporary differences in respect of decommissioning	74,724	124,870
Total	35,487	81,756

The Company's deferred tax assets at 31 December 2018 are recognised to the extent that they can be utilised against current tax attributes. In addition to the above, there are carried forward ring-fence tax losses of approximately US$27.9 million (2017: US$Nil) for which a deferred tax asset has not been recognised, as it is unlikely that this asset will be recovered.

12 Trade and other receivables

	2018 US$ 000	2017 US$ 000
Trade debtors	17,365	9,049
Prepayments	6,356	15,133
Stock underlift	4,134	11,858
Corporation tax asset	24,189	3,105
Amounts owed by group companies*	1,039,468	1,049,135
	1,091,512	1,088,280

*The impairment provision required under IFRS 9 was calculated using 12 month expected credit losses (ECL) and the allowance for ECL is split between an adjustment on transition of US$5,788,080 and current year movement of US$25,036,347. The company has recorded all financials assets at amortised cost.

13 Trade and other payables

	2018 US$ 000	2017 US$ 000
Trade creditors	1,647	11,263
Accrued expenses	60,173	68,375
Social security and other taxes	2	-
Other creditors	-	1,240
Stock overlift	2,360	1,908
Corporation tax	63	63
	64,245	82,849

14 Long term provisions

	Note	Decommissioning US$ 000
At 1 January 2018		594,424
New provisions and changes in estimates		7,841
Spend against provision		(51,020)
Unwinding of discount	6	25,155
Decrease due to foreign exchange differences		(34,284)
At 31 December 2018		542,116
Non-current liabilities		515,699
Current liabilities		26,417

The decommissioning provision represents the present value of estimated decommissioning costs relating to oil and gas interests in the UK which are expected to be incurred up to 2026. This provision has been created based on the company's internal estimates and, where available, operators' 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.

15 Called up share capital

Allotted, called up and fully paid shares

	2018 No. 000	2018 US$ 000	2017 No. 000	2017 US$ 000
Ordinary shares of £2,370 each	21	97,233	21	97,233

16 Reserves

Translation reserve

The balance held on this reserve is the difference resulting from retranslation of the prior year comparatives in 2016 when the presentation currency of the company was changed from pound sterling to United States dollars.

Retained earnings

The balance held on this account is the accumulated profits of the company.

17 Obligations under leases and hire purchase contracts

Operating leases

The company held contracts for the sixth to eighth floors of 129 Wilton Road in London which were terminated on 31 January 2018. The company is a lessee under the Huntington project for a Floating, Production, Storage and Offloading (FPSO) vessel. The lease term commenced in 2013 for 5 years until 2018, and has been extended to April 2020.

The total future value of minimum lease payments is as follows:

	2018 US$ 000	2017 US$ 000
Within one year	57,440	37,162
In two to five years	18,454	9,102
	75,894	46,264

The amount of non-cancellable operating lease payments recognised as an expense during the year was US$61,680,132 (2017 - US$73,545,984)

18 Capital Commitments

The total amount contracted for but not provided in the financial statements was US$56,359,821 (2017 - US$87,068,546).

19 Parent and ultimate parent undertaking

The company's immediate parent is Premier Oil E&P Holdings Limited.The ultimate parent and controlling party is Premier Oil plc, a company incorporated in Great Britain and registered in Scotland. Premier Oil plc is the parent undertaking of the largest and smallest group of which the company is a member and for which group financial statements are prepared. Copies of these financial statements are available upon request from 23 Lower Belgrave Street, London, SW1W 0NR.