Registration number: 02907493

Premier Oil E&P UK EU Limited

Annual Report and Financial Statements

for the year ended 31 December 2018

Premier Oil E&P UK EU Limited

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Premier Oil E&P UK EU 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 EU Limited

Strategic Report for the year ended 31 December 2018

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

Results
For the year to 31 December 2018 the company made a profit of £36,755,971 (2017: profit of £24,953,710).

Principal activity and business review
The principal activity of the company is natural gas exploration, development and production.

On 1 January 2018, Premier Oil E&P UK EU Limited sold its interest in the Babbage field to Premier Oil UK Limited at net book value and on 26 June 2018, the sale of the Esmond Transportation System Pipeline to Antin North Sea 2 Limited completed with a consideration of £17.6 million.

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

	Unit	2018	2017
Production	kboepd	1.8	4.9
Operating cost per boe	£	23.2	12.8
Realised price per therm	£	0.5	0.4

The production performance of the two remaining assets Johnston and Ravenspurn North was in line with 2017. The reduction of 3.1Kboepd is entirely related to the sale of the Babbage field.

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.

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 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, development and decommissioning 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.

Commodity price risk

The company is exposed to gas price fluctuations which affect its revenues and the values of its gas interests. Decreases in the 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 US Dollar receipts and expenditures. The group's treasury function takes out forward contracts to manage this risk at a group level.

Interest rates risk

The company has long-term loans with interest rates linked to LIBOR. Therefore, the company is exposed to changes in interest rates. 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

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: £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 January 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.

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.

Future developments

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

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 EU 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 EU Limited

Opinion

We have audited the financial statements of Premier Oil E&P UK EU 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 18, 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 for 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 EU 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 6, 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 EU 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 EU Limited

Profit and loss account for the year ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	18,971	45,784
Production costs		(14,848)	(23,064)
Depreciation and amortisation	9	14,039	9,905
Exploration expense		(194)	-
Pre-licence exploration costs		-	(5)
(Loss) / gain on derivative financial instruments	15	(9,219)	1,574
Gain / (loss) on sale of non-current assets	9	20,104	(17)
Operating profit		28,853	34,177
Net interest receivable / (payable)	5	3,240	(3,262)
Foreign exchange gains		-	21
Expected credit loss	12	(2,525)	-
Profit before tax		29,568	30,936
Tax on profit on ordinary activities	8	7,188	(5,982)
Profit after tax		36,756	24,954

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 profit for the year amounted to £36,755,971 (2017: profit of £24,953,710).

Premier Oil E&P UK EU Limited

(Registration number: 02907493)
Balance sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Tangible assets	9	-	26,557
Deferred tax assets	10	41,596	34,332
Decommissioning funding asset	11	38,054	46,442
		79,650	107,331
Current assets			
Trade and other receivables	12	100,771	83,246
Assets held for sale	9	-	1,787
		100,771	85,033
Creditors: Amounts falling due within one year			
Trade and other payables	13	(7,718)	(7,824)
Short term provisions	14	(675)	(1,209)
Liabilities held for sale	9	-	(2,257)
Net current assets		92,378	73,743
Total assets less current liabilities		172,028	181,074
Creditors: Amounts falling due after more than one year			
Deferred income	11	(38,054)	(46,442)
Long term provisions	14	(88,459)	(125,480)
Net assets		45,515	9,152
Capital and reserves			
Called up share capital	16	132,233	132,233
Retained deficit	17	(86,718)	(123,081)
Shareholders' funds		45,515	9,152

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 EU Limited

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £ 000	Retained deficit £ 000	Total £ 000
At 1 January 2017	132,233	(148,035)	(15,802)
Profit and total comprehensive income for the year	-	24,954	24,954
At 31 December 2017	132,233	(123,081)	9,152

	Called up share capital £ 000	Retained deficit £ 000	Total £ 000
At 1 January 2018	132,233	(123,081)	9,152
Adjustment on adoption of IFRS 9 *(Note 12)*	-	(393)	(393)
At 1 January 2018	132,233	(123,474)	8,759
Profit and total comprehensive income for the year	-	36,756	36,756
At 31 December 2018	132,233	(86,718)	45,515

1 General information

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

The principal activity of the company is natural gas exploration, development and production.

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 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 £393,000 as at 1 January 2018.

2 Accounting policies (continued)

Adoption of new and revised standards (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

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

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

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;

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)
(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.

Foreign currency transactions and balances
The financial statements are presented in pound sterling rounded to the nearest thousand. 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.

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.

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 2018, the company did not have any material interests in joint ventures.

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

2 Accounting policies (continued)

Tax

The tax expense for the period comprises 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.

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 15 years.

2 Accounting policies (continued)

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 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.

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.

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

Decommissioning funding asset
Decommissioning funding asset is recognised based on the present value of the estimated future cash inflows. A corresponding liability is booked as deferred income, and any change in the present value of the estimated cash inflows is reflected as an adjustment to deferred income and the decommissioning funding asset.

Derivatives and hedging
The company uses derivative financial instruments ('derivatives') to manage its exposure to changes in foreign currency exchange rates, interest rates and oil and gas 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 interest payable or receivable in the year in which they arise unless they qualify for hedge accounting, as discussed further below.

For the purposes of hedge accounting, hedging relationships may be of three types: fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability; cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity. Currently the company only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship. In particular any derivatives are reported at fair value, with changes in fair value included in financial income or expense.

2 Accounting policies (continued)

Derivatives and hedging (continued)
For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in financial income. If the hedging relationship is the hedge of a firm commitment or highly probable forecasted transaction, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in the initial carrying value of the asset or liability at the time it is recognised. For all other qualifying cash flow hedges, the cumulative changes of fair value of the hedging instrument that have been recorded in the equity are included in financial income at the time when the forecasted transaction affects net income.

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 group'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

Details of the company's significant accounting judgements and critical accounting estimates are set out in these financial statements and are considered to be:

Fair value of derivatives
The company make an estimate of the fair value of derivatives at the balance sheet date. This is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

Carrying value of tangible assets along with proved and probable reserve 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 2034. 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.

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

Tax and recognition of deferred tax assets

The company's deferred tax assets are recognised to the extent that the 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 access 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 and a gas price assumption of 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 Net interest receivable/(payable)

	Note	2018 £ 000	2017 £ 000
Interest payable:			
Unwinding of decommissioning provision	14	(3,945)	(5,671)
Bank interest payable		(1,081)	(1,979)
		(5,026)	(7,650)
Interest receivable:			
Interest receivable from group companies		8,266	4,388
		8,266	4,388
Net interest receivable/(payable)		3,240	(3,262)

6 Staff costs and directors' remuneration

The company employed no staff during the year (2017: none).

The directors received no remuneration for their services to the company in either the current or preceding years. The directors are also directors of other group entities, it is therefore not possible to allocate the remuneration across entities.

7 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	23	23

7 Auditors' remuneration (continued)

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

8 Income tax

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

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	-	-
Deferred taxation		
(Credit)/charge to the profit and loss account in the year	(7,264)	9,376
Deferred tax on held for sale asset	76	(3,394)
Total deferred taxation	(7,188)	5,982
Tax (credit)/expense in the profit and loss account	(7,188)	5,982

The tax on profit for the year is the same as the ring fence rate of corporation tax in the UK of 40% (2017 - 40%).

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

	2018 £ 000	2017 £ 000
Profit before tax	29,568	30,936
Corporation tax at ring fence rate	11,827	12,374
Adjustments in respect of prior periods	14	36
Investment allowance recognised	(257)	(200)
Tax rate differences	(10,243)	(1,587)
Taxable income not included in profit before tax/expenses not deductible for tax purposes	(4,126)	(833)
Group relief claimed	(4,694)	(647)
Deferred tax asset arising in the year recognised	(3,355)	(3,109)
Deferred tax related to asset disposals/transfers	1,250	(52)
Chargeable gain on disposal	2,396	-
Total tax (credit)/charge	(7,188)	5,982

9 Tangible assets

	Oil and gas properties £ 000
Cost or valuation	
At 1 January 2017	444,458
Additions	3,281
Classified as held for sale	(6,307)
Disposals	(165)
Revision to decommissioning assets	(17,550)
At 31 December 2017	423,717
At 1 January 2018	423,717
Additions	4,036
Disposals	(223,534)
Revision to decommissioning assets	(18,099)
At 31 December 2018	186,120
Depreciation	
At 1 January 2017	411,662
Charge for year	(9,905)
Classified as held for sale	(4,597)
At 31 December 2017	397,160
At 1 January 2018	397,160
Charge for the year	(14,039)
Eliminated on disposal	(197,001)
At 31 December 2018	186,120
Carrying amount	
At 31 December 2018	-
At 31 December 2017	26,557

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. The £14.0 million depreciation credit for the year is a result of reductions in the decommissioning estimates for Ravenspurn North and Johnston. On 1 January 2018, the company disposed of its 50 percent interest in the Babbage field to Premier Oil UK Limited.

On 11 December 2017 Premier Oil E&P UK EU Limited entered into a sale and purchase agreement to sell its entire equity interest in the Esmond Transportation System pipeline to CATS Management Limited. This was reclassified as assets and liabilities held for sale in 2017. The sale completed on 26 June 2018. This resulted in a gain on sale of £18.3 million.

On 26 October 2018 a contingent consideration of £1.9 million was received following the approval of the FDP of the Arran field.

10 Deferred tax

The movement on the deferred taxation balance is as follows:

	2018 £ 000	2017 £ 000
Net deferred tax asset at 1 January	34,332	40,390
Credit/(charge) to the income statement in the year	7,264	(5,982)
Held for sale	-	(76)
Net deferred tax asset at 31 December	41,596	34,332

The company's deferred tax assets are recognised to the extent that they can be utilised against tax attributes from the wider Premier Oil Plc UK group and 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 access 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

	2018 £ 000	2017 £ 000
Fixed asset temporary differences	2,117	(7,802)
Ring fence tax losses	12,995	11,868
Fair value of derivative financial instruments	1,203	(2,485)
Investment allowance	869	612
Temporary differences in respect of decommissioning	24,412	32,139
Total	41,596	34,332

11 Decommissioning funding asset

The decommissioning funding asset relates to the Decommissioning Liability Agreement entered into with E.ON, whereby E.ON agreed to part fund Premier's share of decommissioning the Johnston and Ravenspurn North assets. Under the terms of the agreement, E.ON will provide funding for 70 percent of the decommissioning costs between the expenditure range £40 million to £130 million, based on Premier's net share of the total decommissioning cost of the two assets. This results in maximum possible funding of £63 million from E.ON.

The present value of the estimated cash inflows based on the agreement have been recognised in the year, with the corresponding liability booked to deferred income. Any change in the present value of the estimated cash inflows is reflected as an adjustment to deferred income and the decommissioning funding asset in equal proportion.

12 Trade and other receivables

	2018 £ 000	2017 £ 000
Trade debtors	940	3,422
Amounts owed by group companies*	98,412	71,364
Prepayments	1,419	2,248
Derivative financial instruments	-	6,212
	100,771	83,246

*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 £393,716 and current year movement of £2,524,611. The company has recorded all financials assets at amortised cost.

13 Trade and other payables

	2018 £ 000	2017 £ 000
Trade creditors	-	470
Accrued expenses	4,711	7,354
Derivative financial instruments	3,007	-
	7,718	7,824

14 Long term provisions

	Note	Decommissioning £ 000
At 1 January 2018		126,689
Changes in estimates		(18,182)
Decrease through disposals		(23,401)
Spend against provision		83
Unwinding of discount	5	3,945
At 31 December 2018		89,134
Non-current liabilities		88,459
Current liabilities		675

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 2034. 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 and following the review in 2018, there was a change in accounting estimate of £18.2 million (2017: £17.5 million).

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 Financial instruments

Financial risk management objectives and policies

The company's principal financial liabilities, other than derivative financial instruments (derivatives), comprise trade and other creditors. The main purpose of the derivatives is to manage commodity price fluctuations. The company has various financial assets such as accounts receivable and other financial assets, which arise directly from its operations.

It is the company's policy that all transactions involving derivatives must be directly related to the underlying business of the company. The company does not use derivative financial instruments for speculative exposures.

The main risks that could adversely affect the company's financial assets, liabilities or future cash flows are commodity price risk, credit risk and liquidity risk. The company uses derivative financial instruments to hedge some of these risk exposures.

15 Financial instruments (continued)

Derivative financial instruments

The company uses derivatives to manage its exposure to gas price fluctuations. Gas price hedging is undertaken using embedded derivative sales contracts.

Fair value hierarchy
In line with IFRS 13 - 'Fair Value Measurement' the company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded value that are not based on observable market data.

Assets measured at fair value
The company held the following derivative financial instruments measured at fair value and have been designated as level 2 as at 31 December 2018 and 31 December 2017:

	2018 £ 000	2017 £ 000
Embedded derivative contracts	(3,007)	6,212

Impact on income statement:

	2018	2017
Net fair value at:	**£ 000**	**£ 000**
1 January	6,212	4,638
Net movement in fair value during the year	(9,219)	1,574
31 December	(3,007)	6,212

16 Called up share capital

Allotted, called up and fully paid shares

	2018 No. 000	2018 £ 000	2017 No. 000	2017 £ 000
Ordinary shares of £1 each	132,233	132,233	132,233	132,233

17 Retained deficit

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

18 Parent and ultimate parent undertaking

The company's immediate parent is Premier Oil E&P UK 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.