

### Compliance and the role of our Board

The company has established procedures and policies to ensure compliance with the code provisions set out in Section 1 of the Combined Code on Corporate Governance (the Code). As recommended by the Code, we report below on how the main and supporting principles of the Code have been applied throughout the year and explain any areas where we have not complied with any of the Code's provisions. While this is an important exercise, the Board does not believe that good governance can be defined merely in terms of compliance with a set of rules. The overall purpose of the Board is to represent the company's owners, ensure that the company's strategic objectives are properly pursued and the major business risks are actively monitored and managed. This goes beyond regulatory compliance and puts the interests of our shareholders as the Board's primary focus.

The Board considers that the company has complied with the provisions of the Code throughout the year under review (and subsequently up to the date of this report) except in those areas mentioned below.

### The Board

The Board of Directors currently comprises the Chairman, the Chief Executive, three other executive directors and five independent non-executive directors. Brief biographical details of each director and a note of their Board committee memberships are set out in the Board of Directors section. Details of the executive directors' service contracts and the non-executive directors' letters of appointment are laid out in the Remuneration Report.

Premier is an international business which has to manage a variety of political, technical and commercial risks. It is therefore important that the Board contains the appropriate mix of skills and experience to meet these challenges. Premier's Board has such a mix given the diverse business backgrounds of the non-executive directors. They are encouraged to have direct contact with the company's senior executives between Board meetings and also encouraged to visit the company's operations abroad in order to familiarise themselves with its activities and to meet local management. The Board visited the company's operations in Norway in December 2008.

The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects, the overall group debt and equity structure and consideration of significant financing matters. The Board has continued to focus its efforts in 2008 on strategic issues which will create shareholder value, monitoring performance against agreed objectives and discussing future business opportunities.

Matters Reserved for Board Decision are laid down in writing, including the appointment of the Company Secretary who is responsible for ensuring that Board procedures and rules are applied. A copy of the Matters Reserved for Board Decision can be found on the company's website ([www.premier-oil.com](http://www.premier-oil.com)). Formal procedures are in place to enable individual Board members to take independent advice where appropriate.

The formal agenda for each Board meeting is set by the Chairman in consultation with the Chief Executive and the Company Secretary. Formal Board and Board committee minutes are circulated to all directors at the next Board meeting. Board members receive a monthly report of the company's activities which incorporates an update on the annual budget and progress against major objectives. In accordance with the authority given under the company's Articles of Association, the company has established a standing committee of the Board, consisting of any two directors, to carry out routine business. The minutes of all meetings of this committee are circulated to the Board.

In accordance with the company's Articles of Association, the Board is allowed to authorise conflicts and potential conflicts of directors, where appropriate. Formal procedures are in place to ensure the Board's powers of authorisation of conflicts are operated effectively and the procedures are followed. The Board determined that during 2008 these procedures were enforced and adhered to accordingly.

### The Chairman

The Chairman's role is part-time and he is a non-executive director. His key responsibility is the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. Between Board meetings the Chairman is responsible for ensuring the integrity and effectiveness of the Board/Executive relationship. This requires regular contact with the Chief Executive between Board meetings, as well as contact with other Board members, shareholders, joint venture partners and host governments. In 2008, the Chairman visited several of the company's overseas operations to meet senior industry and government representatives. The Chairman and the non-executive directors meet periodically without the executive directors present and the non-executive directors meet once a year without the Chairman.

The roles of Chairman and Chief Executive are separate and their responsibilities are clearly established, set out in writing and agreed by the Board.

### Senior independent director

Mr J R W Orange, who is Chairman of the Remuneration Committee, is the company's senior independent non-executive director. In this role, he is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman or Chief Executive.

### Non-executive directors

The non-executive directors bring independent judgement to bear on issues of strategy, performance and resources, including key appointments and standards of conduct. Non-executive directors comprise over one half of the Board. Selection of suitable non-executive directors is a matter for Board approval following recommendations made by the Nomination Committee.

We require that our non-executive directors are free from any relationship or circumstances that could materially interfere with the exercise of their independent judgement. The Board has determined that each of the non-executive directors, with the exception of the Chairman, is independent.

At the time of his original appointment, on 1 March 1998, the Chairman was also considered independent by the Board. However, in accordance with the Combined Code, the ongoing test of independence for the Chairman is not appropriate. Sir David John completed 11 years of service in March 2009, and in accordance with Code provisions, he will be considered for re-election at the Annual General Meeting (AGM).

Mr J R W Orange was appointed to the Board in 1997. Whilst his service exceeds the term referred to in the Code, the Board considers that his experience and long-term perspective of Premier's business continues to provide a most valuable contribution and that it benefits from his input to the Board's deliberations.

The Board is strongly of the view that the important qualities when considering the issue of independence of non-executive directors are independence of spirit and objectivity of mind, and therefore regards Mr J R W Orange as an independent director. In accordance with Code provisions, he will be considered for re-election at the AGM.

### Induction, training and development

New directors to the company receive a full induction to the company. This consists of a 'bible' of information covering such items as the most recent minutes, terms of reference of Board committees and Matters Reserved for Board Decision, as well as meetings with the Board, Chief Executive and other executive directors.

The company has directors' and officers' liability insurance in place, and details of the policy are given to new directors on appointment.

### Re-election of directors

In accordance with the company's Articles of Association one third of directors retire each year, with their reappointment being subject to the approval of shareholders. This requires directors to submit themselves for re-election at least every three years. In addition, any non-executive director having held office for more than nine years will be subject to re-election on an annual basis.

### Board performance evaluation

The Board and its directors are subject to regular appraisal. The aim is to improve both individual contributions and group achievement.

The Board carried out a questionnaire-based evaluation process in 2008. While it is not a fixed policy, the current view of the Board is that alternation between internal and external reviews has significant merits, not least in keeping the exercise fresh amongst Board members.

The evaluation covered the performance of the Board, its principal committees, the individual non-executive directors and the Chairman. The results of the evaluation were reviewed by the Chairman and discussed in detail by the Board. The directors have concluded that, following this evaluation, the Board and its committees operate effectively and also consider that each director is contributing effectively and demonstrates commitment to the role.

### Board committees

The Board has established an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee, each of which has formal terms of reference approved by the Board. The terms of reference for each committee can be found on the company's website ([www.premier-oil.com](http://www.premier-oil.com)). The Company Secretary provides advice and support to the Board and all Board committees. Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the company's expense. The Remuneration Report provides details on the role and activities of the Remuneration Committee. An Audit and Risk Committee Report and a Nomination Committee Report are also provided in this Annual Report.

**Board committees (continued)**

The number of meetings of the Board and its committees during 2008 and individual attendance by directors, is shown below:

	Board	Audit and Risk	Remuneration	Nomination
<b>Number of meetings</b>	<b>8</b>	<b>2</b>	<b>7<sup>1</sup></b>	<b>1</b>
<b>Attendance:</b>				
Sir David John	8/8	2/2*	5/7*	1/1
R A Allan	8/8	1/2*	–	–
J Darby	8/8	2/2	6/7	1/1
S J Dobbie <sup>2,3</sup>	3/3	1/1	1/2	1/1
A R C Durrant	8/8	2/2*	–	–
R V Emerson <sup>2</sup>	3/3	1/1	3/3	1/1
N Hawkings	8/8	1/2*	–	–
D C Lindsell <sup>4</sup>	7/8	2/2	5/6	–
S C Lockett	8/8	2/2*	5/7*	1/1
J R W Orange <sup>5</sup>	7/8	1/2	7/7	1/1
Professor D G Roberts	8/8	–	6/7	1/1
M Romieu <sup>6</sup>	8/8	2/2*	–	–

**Notes:**

- There were six scheduled meetings of the Remuneration Committee during the year; the remaining meeting (only attended by Messrs R V Emerson and J R W Orange) was called to approve the detail of arrangements approved in principle by a prior scheduled meeting of the Committee.
  - Messrs S J Dobbie and R V Emerson retired from the Board and its committees on 6 June 2008.
  - Mr S J Dobbie missed one Remuneration Committee meeting due to the rescheduling of the meeting.
  - Mr D C Lindsell was appointed to the Audit and Risk Committee on 17 January 2008, and the Remuneration Committee on 11 March 2008.
  - Mr J R W Orange missed one Board and Audit and Risk Committee meeting due to the rescheduling of these meetings.
  - Mr M Romieu was appointed to the Audit and Risk Committee on 11 March 2008. He attended one meeting by invitation, prior to his appointment as a member of the Committee.
- \* By invitation.

**Executive Committee**

The Board has delegated the day-to-day running of the group to the Chief Executive who has established an Executive Committee to assist him in this role. The Committee is made up of each of the executive directors and the Company Secretary. The Executive Committee is chaired by the Chief Executive.

The responsibilities of the Executive Committee include the development of group strategy for approval by the Board, portfolio management and the monitoring of performance against the targets set by the Board. At its weekly meetings it also reviews health, safety, environmental and security performance and operational business performance reports. The Executive Committee is also responsible for reviewing the information provided to the Board.

Three regional business units – North Sea and West Africa; Middle East-Pakistan and Asia – manage the geographical spread of business in the group. Each business unit is headed by a regional business manager who delivers against specific strategies and performance targets set by the Executive Committee.

**Internal control**

The directors are responsible for establishing and maintaining the group's system of internal control. The internal control system is regularly reviewed by the Board. Internal control systems in any group are designed to meet the particular needs of that group and the risks to which it is exposed, and by their nature can only provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the directors have established with a view to providing effective internal control are described below. These procedures have been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements.

*Management of business risks* – This is an ongoing process, in accordance with the Turnbull guidance, and has been established for identifying, evaluating and managing risks faced by the group. This is based on each business unit and corporate function producing a risk matrix which identifies the key business risks – strategic, operational, financial and external – the probability of those risks occurring, their impact if they do occur and the actions being taken to manage those risks to the desired level. Risk acceptance and reduction objectives are defined with particular attention given to safety and environmental factors, and applied to ensure that the risks are at a level that is as low as reasonably practicable.

The directors receive assurance directly from the business units and functional management through the completion of annual declarations confirming compliance with the group's policies, procedures and risk management processes. These processes are designed to manage rather than eliminate risk of failure to achieve business objectives.

### Internal control (continued)

The company has adopted a framework model for application across the group and an annual report is produced in compliance with that model and with the group risk management process. The report is presented to the Audit and Risk Committee.

*Monitoring* – A business management system (BMS) is in force which regulates a wide range of day-to-day activities both in the UK and overseas offices, including environmental controls, health and safety regulations and political risks. Part of this BMS is a documented review and assurance activity, which deals with the risk review and audit processes. The purpose of the audit process is to ensure that the policies and procedures within the BMS are being adhered to. The purpose of the risk review process is to identify the significant risks to the business, rate them consistently, and ensure we have mitigating measures in place to manage them. The Group Health, Safety, Environment and Security Manager is accountable for the overall running of the process with the Group Financial Controller specifically responsible for the financial aspects.

The effective operation of internal control procedures is reviewed during visits to the overseas offices by head office staff. Audits of joint venture operations are carried out by joint venture partners on a regular basis.

A process of business control reviews has been developed and implemented across the group. This process is designed, inter alia, to provide assurance to the Board that the company is embedding effective risk management into its operations. The report of each review is presented to the Audit and Risk Committee. A rolling three-year plan to cover all business units has been put in place.

During 2008 a number of financial control reviews were carried out:

Vietnam: Finance and procurement control gap analysis

Pakistan: Policy and procedures review

Indonesia: Procurement practices review

All recommended actions following these reviews are being implemented.

In addition, a number of operational reviews took place in 2008:

Vietnam: Chim Sáo project safety

Indonesia: Gajah Baru project safety

Anoa production competency assurance

Anoa production safety case

Congo: Frida well environmental impact assessment

These operational reviews all produced satisfactory results.

During 2008, the key business risks and internal control weaknesses identified were formally discussed by the Executive Committee and the Board on a periodic basis. This process will continue during 2009.

The Board will receive regular reports on any major problems that have occurred and how the risks have changed over the period under review.

*Management structure* – The Board has overall responsibility for the group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the group's affairs. The executive directors together with the Company Secretary constitute the Executive Committee which normally meets weekly.

*Corporate accounting* – Responsibility levels are communicated throughout the group as part of corporate accounting and an authorisation manual which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures. This manual was updated during the year to reflect the group's focus on development projects in the medium-term.

*Quality and integrity of personnel* – The integrity and competence of personnel is ensured through high recruitment standards and subsequent training.

*Budgetary process* – There is a comprehensive budgeting system with an annual budget approved by the Board, covering capital expenditure, cash flow, the income statement and balance sheet. Monthly results are reported against budget, and revised forecasts for the year are prepared regularly. Separate approval processes and limits are in place for unbudgeted expenditure items.

*Investment appraisal* – The group has clearly defined procedures for capital expenditure. These include authority levels, commitment records and reporting, annual budget and detailed appraisal and review procedures. The authority of the directors is required for key treasury matters including changes to equity and loan financing, interest rate and foreign currency policy including foreign currency hedging, oil price hedging, cheque signatories and opening of bank accounts. Comprehensive due diligence work is carried out if a business or an asset is to be acquired.

During 2008, the Board reviewed the group's system of internal control and is satisfied that all the controls in place are appropriate to provide reasonable assurance against any material misstatement or loss. The review is conducted on a regular basis and changes are made to internal control systems to address any new risks or exposures arising as a result of changes to the business or the business environment.

### Going concern

After making enquiries and in light of the group's available loan facilities, the group budget for 2009 and the medium-term plans (including those described in note 26 in the notes to the consolidated financial statements), the directors have reasonable expectation that the group has adequate resources to continue operations for the foreseeable future. The going concern basis for the financial statements has therefore continued to be adopted. Further details are set out in the Financial Review.

### Communication with shareholders

Communication with shareholders is given significant attention. Extensive information about the group's activities is provided in the Annual Report and Financial Statements and in the Interim Report which are made available to shareholders. The company has also produced a summary review document in each of the last six years highlighting Premier's capabilities and operations. These documents are available to all shareholders. The company's website ([www.premier-oil.com](http://www.premier-oil.com)) also provides detailed information on the group's activities.

In accordance with Companies Act 2006 provisions and the company's Articles of Association, the company uses its website as its default method of publication for statutory documents. The company operates a process of deemed consent; shareholders are given 28 days to indicate whether they wish to continue receiving hard copies of all statutory documents by post, before being deemed as consenting to web-based communications. Consenting shareholders are sent notification in the post each time the company places a statutory document on its website.

The last 'deemed consent' process took place in 2007. All new shareholders will receive hard copies of statutory documents until the next process is undertaken.

Shareholders are reminded that they have the right to request – at any time – all future communications to be sent by post, or to request a hard copy of a particular document which has been published on the company's website.

The company believes that the reduction in the number of unwanted communications printed and sent by post, following this 'deemed consent' process, not only results in cost savings to the company, but also reduces the impact that the unnecessary printing and distribution of reports has on the environment.

The company continues to promote the Premier Oil plc Share Portal, at [www.premier-oil-shares.com](http://www.premier-oil-shares.com). By registering on the website, shareholders are able to access their shareholding online, at their convenience, and have the ability to update their shareholding account (e.g. change their address) and submit queries on their account directly to the company's Registrars. Shareholders will also have the ability to vote online prior to the 2009 AGM. The Share Portal also encourages shareholders to register to receive communications by e-mail, rather than by post, thus further reducing the number of documents printed and distributed. Shareholders who have registered for this service will receive an e-mail notifying them when the company has added a statutory document to its website, ensuring the prompt and efficient delivery of information. For each new registration processed, the company will donate £1 to PURE the Clean Planet Trust, a UK charity dedicated to combating climate change.

The company has posted on its website, guidelines advising shareholders of how to deal with potential Boiler Room scams, where shareholders may have received unsolicited phone calls concerning investment matters, often where callers have stated they work for a subsidiary of, or on behalf of, the company. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at discount, or offers of free analysis reports, as the company does not retain the services of any such business for these purposes.

There is regular dialogue with institutional investors, and the Chairman, Chief Executive and Finance Director, who are the directors responsible for dealing with shareholders, ensure that other members of the Board receive full reports of shareholder meetings. Enquiries from individuals on matters relating to their shareholding and the business of the group are welcomed and are dealt with in a timely manner. All shareholders are encouraged to attend the AGM to discuss the progress of the group.

By order of the Board

#### **S C Huddle**

Company Secretary

25 March 2009