

Risk factors

Premier is an international business which has to face a variety of strategic, operational, financial and external risks.

Premier's business, financial standing, results and reputation may be impacted by various risks. Not all of these risks are within the company's control and the company may be affected by risks other than those listed below.

Clear responsibility

The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects, corporate costs and significant financing matters and the management of risks. The Board recognises that risk is inherent across Premier's operations, and all activities are subject to an appropriate review to ensure that risks are identified, monitored and if possible, managed.

Risk management process

Premier has an established business management system which includes an integrated risk management process 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 reducing them to as low as reasonably practicable. These risk matrices are updated on a regular basis and made available to the Executive Committee.

Key risks facing Premier, their potential impacts and our responses are outlined below. Effective risk management is critical to achieving our strategic objectives and protecting our assets, personnel and reputation. Premier manages its risks by maintaining a balanced portfolio, through compliance with the terms of its agreements and application of appropriate policies and procedures and through the recruitment and retention of skilled individuals throughout the organisation.

Key business risks

Reserve replacement

Future oil and gas production will depend on our access to new reserves through exploration, negotiations with governments and other owners of reserves, and acquisitions. Failures in exploration or in identifying and finalising transactions to access potential reserves could slow our oil and gas production and replacement of reserves. Premier manages these risks by proactive project planning and milestone driven performance criteria. For exploration, effective peer reviews and thorough diligence on new areas allow us to mitigate risk of failure.

Competition

Premier operates in a very challenging business environment and faces competition on access to exploration acreage, gas markets, oil services and rigs, technology and processes and human resources.

Production

The delivery of Premier's production depends on the successful development of its key projects. In developing these projects we face numerous challenges. These include uncertain geology, availability of technology and engineering capacity, availability of skilled resources, maintaining project schedules and managing costs, as well as technical, fiscal, regulatory, political and other conditions. Such potential obstacles may impair our delivery of these projects and, in turn, our operational performance and financial position (including the financial impact from failure to fulfil contractual commitments related to project delivery).

Health, safety, environment and security (HSES)

Given the range of Premier's operated and joint venture production operations globally, our HSES risks cover a wide spectrum. These risks include major process safety incidents; failure to comply with approved policies; effects of natural disasters and pandemics; social unrest; civil war and terrorism; exposure to general operational hazards; personal health and safety; and crime. The consequences of such risks materialising can be injuries, loss of life, environmental harm and disruption to business activities. Depending on their cause and severity, they can affect Premier's reputation, operational performance and financial position. Premier has an effective and comprehensive HSES management system to mitigate this risk and support safe and secure execution of all critical operating activities.

Reputation

Premier strives to be a good corporate citizen globally and has strong and positive relationships with the governments and communities in the countries where we do business. This is important for maintaining our licence to operate and our ability to secure new resources. Our business principles govern how Premier conducts its affairs. Failure – real or perceived – to follow these principles, or any of the risk factors materialising, could harm our reputation, which could impact our licence to operate, financing and access to new opportunities.

Human resources

Premier's key human resources are essential for the successful delivery of its projects and continuing operations. Loss of personnel to competitors or our inability to attract quality human resources could affect our operational performance and growth strategy. Premier has created salary, bonus and long-term incentive plan processes designed to incentivise loyalty and good performance.

Commodity prices

Oil and gas prices are affected by global supply of and demand for these commodities. Factors that influence these include operational issues, natural disasters, weather, political instability or conflicts and economic conditions or actions by major oil-exporting countries. Price fluctuations can affect our business assumptions and can impact investment decisions and financial position. Premier manages this risk with an oil and gas hedging programme to underpin our financial strength and capacity to fund our future development and operations.

Financial discipline

Premier has established financial policies and processes 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. A financial control framework and a detailed delegation of authority manual are also in place to reasonably protect against risk of financial fraud in the group.

All major investment decisions taken consider an appropriate financial benchmark to secure against downside risk of such investments. The group also undertakes an insurance programme to reduce the potential impact of the physical risks associated with exploration and production activities. In addition, business interruption cover is purchased for a proportion of the cash flow from producing fields. Cash balances are invested in short-term deposits, AAA managed liquidity funds and A1/P1 commercial paper subject to Board approved limits.

Further information on financial instruments and financial risk factors can be found in note 17 in the notes to the consolidated financial statements.

Host government – political and fiscal risks

Premier operates in some countries where political, economic and social transition is taking place. Developments in politics, laws and regulations can affect our operations and earnings. Potential developments include forced divestment of assets; limits on production; import and export restrictions; international conflicts, including war; civil unrest and local security concerns that threaten the safe operation of company facilities; price controls, tax increases and other retroactive tax claims; expropriation of property; cancellation of contract rights; and environmental regulations. It is difficult to predict the timing or severity of these occurrences or their potential effect. If such risks materialise they could affect the employees, reputation, operational performance and financial position of the group.

Joint ventures and partners

Inherently, oil and gas operations globally are conducted in a joint venture environment. Many of our major projects are operated by our partners. Our ability to influence our partners is sometimes limited, due to our small shares in major non-operated development and production operations. Non-alignment on various strategic decisions in joint ventures may result in operational or production inefficiencies or delay. Premier mitigates this risk by continuous and regular engagement of its partners in operated and non-operated projects.