

## 32 REPORT OF THE DIRECTORS //

The directors submit their report and the audited group financial statements for the year ended 31 December 2008.

### Results and dividends

The group's net profit for the year amounted to US\$98.3 million (2007: profit of US\$39.0 million). A dividend is not proposed (2007: US\$nil).

### Principal activities

The principal activities of the group are oil and gas exploration, development and production. The group operates through subsidiary undertakings and joint ventures, details of which are shown in notes 10 and 11 in the notes to the consolidated financial statements.

### Business review

The company is required by the Companies Act to set out in this report a fair review of the business of the group during the financial year ended 31 December 2008 and of the position of the group at the end of the year (the business review). The information that fulfils the requirements of the business review can be found in the following sections of the Annual Report and Financial Statements:

- Chief Executive's Review
- Financial Review
- Company Risk Factors
- Key Performance Indicators, within the Financial Review
- Environmental, employee, social and community matters, within the Social Performance Review

The Chairman's Statement and Financial Review also include details of expected future developments in the business of the group.

### Annual General Meeting (AGM)

The company's 7th AGM will be held on Friday 29 May 2009 at 11.00am. The Notice of the Meeting accompanies this report.

### Share capital

The company's authorised share capital is £157,612,282 comprising 315,224,564 Ordinary Shares of 50 pence each (representing 100 per cent of the total authorised share capital). The rights attached to the company's authorised share capital can be found in note 19 in the notes to the consolidated financial statements. No person has any special rights of control over the company's share capital and all issued shares are fully paid.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights.

The authority given to the directors to allot shares at the 2008 AGM was granted for a period of one year. There were 66,411 Ordinary Shares issued under the group's share option schemes during the year. A resolution will be put to the forthcoming AGM to renew this authority.

At the 2008 AGM, authority was also given to the directors for one year to allot shares for cash either in connection with a rights issue, or of up to 5 per cent of the then issued share capital as if statutory pre-emption rights did not apply. A similar resolution will be put to the impending AGM to renew this authority.

At the end of the year 233,054,104 shares in the authorised Ordinary Share capital of the company were unissued.

The AGM held in 2008 authorised the purchase by the company of up to 12,317,770 shares and the balance of this authority will remain available until the forthcoming AGM, when the granting of a similar authority will be proposed. During 2008, the company purchased 2,798,186 Ordinary Shares with a nominal value of £1,399,093.00, and representing 3.4 per cent of the company's issued share capital, for a consideration, excluding commission, of £25,308,632.40 (US\$46,746,056.52). The shares were held by the company as Treasury Shares at year-end, and were cancelled by the company on 23 March 2009.

### Directors

The directors who served throughout the year (except as noted) were as follows:

- Sir David John (Chairman)
- Mr Robin Allan
- Mr Joe Darby
- Mr Scott Dobbie (resigned 6 June 2008)
- Mr Tony Durrant
- Mr Ron Emerson (resigned 6 June 2008)
- Mr Neil Hawkings
- Mr David Lindsell (appointed 17 January 2008)
- Mr Simon Lockett (Chief Executive)
- Mr John Orange (Senior independent non-executive director)
- Professor David Roberts
- Mr Michel Romieu (appointed 17 January 2008)

Biographical details of all directors can be found in the Board of Directors section of this report.

### Directors' election and rotation

- Mr Hawkings is retiring by rotation, and, being eligible, will offer himself for re-election at the forthcoming AGM; and
- Sir David John and Mr J R W Orange, as non-executive directors with more than nine years service, will retire under the provisions of the Combined Code, and, being eligible, will offer themselves for re-election at the forthcoming AGM.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The powers of directors are described in the Corporate Governance Report and in the Matters Reserved for Board Decision, a copy of which can be found on the company's website, [www.premier-oil.com](http://www.premier-oil.com).

### Directors' interests

Beneficial interests of directors holding office at the year-end, and of their families, in Ordinary Shares of the company are set out below:

Name	1 January 2008 or date of appointment	31 December 2008	At 24 March 2009
Sir David John <sup>1,3</sup>	16,700	16,700	16,700
R A Allan <sup>2</sup>	11,881	18,992	19,068
J Darby <sup>3</sup>	–	4,000	4,000
A R C Durrant <sup>2</sup>	30,380	30,622	30,699
N Hawkings <sup>2</sup>	380	622	699
D C Lindsell <sup>3</sup>	–	3,000	3,000
S C Lockett <sup>2</sup>	35,969	50,760	50,836
J R W Orange <sup>3,4</sup>	5,000	8,500	8,500
Professor D G Roberts	–	–	–
M Romieu	–	–	–

Notes:

1. This includes 1,700 Ordinary Shares held by Sir David John's wife.
2. The beneficial interests of the executive directors include personal shareholdings together with Share Incentive Plan Partnership Shares and any Matching Shares held for more than three years.
3. The beneficial interests of the non-executive directors comprise personal shareholdings.
4. This includes 1,000 Ordinary Shares held by Mr J R W Orange's wife.

Directors' interests in share options, deferred bonus shares, deferred and matching share awards under the Asset and Equity Plan and deferred Share Incentive Plan entitlements are shown in the Remuneration Report together with details of the remuneration of all directors who served during the year.

### Directors' indemnities

The company has granted an indemnity to all its directors under which the company will, to the fullest extent permitted by law and to the extent provided by the Articles of Association, indemnify them against all costs, charges, losses and liabilities incurred by them in the execution of their duties.

### Substantial shareholders

At 24 March 2009 the company had received notification from the following institutions, in accordance with chapter 5 of the Disclosure and Transparency Rules, of interests in excess of 3 per cent of the company's issued Ordinary Shares with voting rights:

Name of shareholder	Notified number of voting rights	Notified percentage of voting rights	Nature of holding <sup>1</sup>
Ameriprise Financial, Inc.	4,028,672	5.076%	Indirect
Aviva plc and subsidiaries (direct interests)	3,371,792	4.10%	Direct
AXA S.A. and group companies	7,498,283	9.13%	Indirect
Bear, Stearns International Trading Ltd	2,552,847	3.109%	Direct
Schroders plc	8,094,087	9.876%	Indirect

Notes:

1. Where the nature of the holding is both direct and indirect, the larger holding has been quoted.

### Payment policy

The group's policy in respect of its suppliers is to establish terms of payment when agreeing the terms of business transactions and to abide by the terms of payment. At 31 December 2008 the group had trade creditors totalling US\$50.3 million (2007: US\$51.5 million).

### Hedging and risk management

Details of the group's policy on hedging and risk management are provided in the Financial Review. A further disclosure has been made in note 17 of the notes to the consolidated financial statements related to various financial instruments and exposure of the group to price, credit, liquidity and cash flow risk.

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### Subsequent events

Post balance sheet events are disclosed in note 26 of the notes to the consolidated financial statements.

### Donations

During the year the company made charitable contributions amounting to US\$41,578 (2007: US\$66,688). No political contributions were made during the year (2007: US\$nil).

### Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the group as a whole.

Furthermore, the directors are not aware of any agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

### 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.

### Auditors

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985. A resolution to reappoint Deloitte LLP as auditors will be put to shareholders at the forthcoming AGM.

By order of the Board

### **S C Huddle**

Company Secretary  
25 March 2009