

Compliance

This report has been prepared in accordance with the Companies Act 1985 as amended by the Directors' Remuneration Report Regulations 2002. As required, this report is being put to shareholders at the forthcoming AGM for an advisory vote.

The sections within this report that have been audited by Deloitte LLP are indicated.

Throughout 2008 the company complied with Schedule A of the Combined Code on Corporate Governance (the Code) regarding best practice on the design of performance-related remuneration.

Remuneration Committee

The Remuneration Committee (the Committee) normally meets at least four times a year and determines the remuneration of the executive directors and senior employees. The Committee is composed entirely of non-executive directors and comprises Mr J R W Orange, who chairs the Committee and is the company's senior non-executive independent director, Messrs J Darby, D C Lindsell and Professor D G Roberts. Messrs S J Dobbie and R V Emerson retired from the Committee on 6 June 2008. The Board considers that the membership of the Committee is in compliance with the Code recommendation, on the basis that it considers Mr J R W Orange to be independent, notwithstanding his length of service. Sir David John, the company's Chairman, is not a member of the Committee, but attends by invitation. Mr S C Lockett is not a member of the Committee but usually attends meetings by invitation, except when his own remuneration is being discussed, as the company considers it important that the Chief Executive is fully aware of discussions concerning remuneration policy and the remuneration packages of its most senior employees.

No director of the company is involved in determining his own remuneration. The determination of the remuneration of the non-executive directors is a matter reserved for Board decision.

The Committee acts within its agreed written terms of reference and complies with the relevant provisions of the Code in implementing its remuneration policy. The terms of reference are published on the company's website (www.premier-oil.com).

The role of the Committee includes:

- considering and determining the remuneration policy for executive directors;
- within this agreed policy, considering and determining the total compensation package of each executive director of the company;
- considering and advising on the general principles under which remuneration is applied to employees of the company;
- determining the awards to be made under the company's long-term incentive schemes; and
- determining the policy for pension arrangements, service agreements and termination payments to directors.

As in previous years, the principal focus of the Committee in 2008 has been to ensure that the remuneration packages of the senior executives are set at levels which are sufficient to retain and attract high-quality individuals in what remains a competitive market.

The Committee takes independent advice from Hewitt New Bridge Street, a leading firm of remuneration consultants, which is appointed as an advisor to the Committee. Hewitt New Bridge Street do not provide any other services to the company. No other person or company materially assisted the Committee during the year.

Remuneration policy

The company's remuneration policy is to provide remuneration packages which ensure that directors and senior management are fairly and responsibly rewarded for their contributions. The aim is to provide remuneration packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the group's objectives and thereby enhance shareholder value. The Committee takes account of the level of remuneration paid to executive directors and senior managers of comparable public companies, as well as pay and conditions throughout the remainder of the group.

The main components of executive directors' remuneration are basic salary, an annual performance-related cash and share bonus scheme with a deferred element, benefits, long-term incentives and pension provision. Each element is discussed in detail below.

The remuneration therefore contains a suitable balance of direct performance-related remuneration, which links both the short-term financial performance of the group and the long-term shareholder return with the executive's total remuneration. The remuneration package is weighted so that the majority of reward may potentially come from the performance-related elements of the package.

The Committee endorses the principle of mitigation of damages on early termination of a service contract.

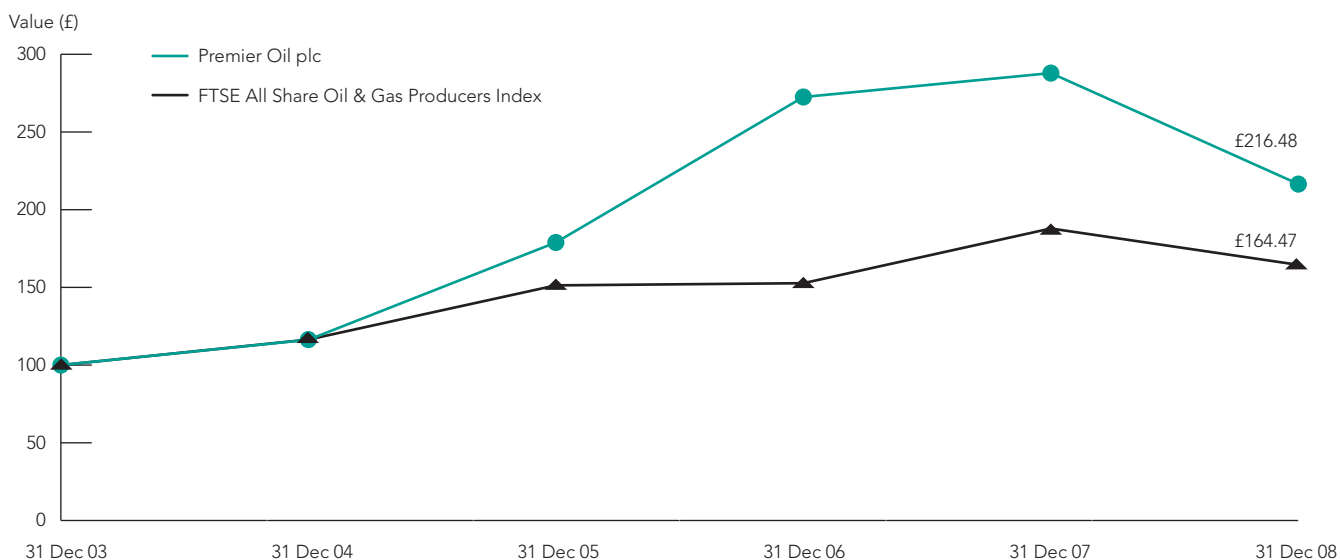
It is the Committee's current intention to continue with the above remuneration approach for 2009 and subsequent years although the Committee will keep the matter under review. The Committee's current intention with regard to share options is that they will continue to be awarded only in special circumstances. Shareholders approved the adoption of the Asset and Equity Plan (AEP) at the AGM in 2004 (together with a matching shares element approved at the AGM in 2006) and awards have continued to be granted thereunder. However, the AEP expires in May 2009 and so a new Long Term Incentive Plan (LTIP), based in part on the AEP, will be proposed at the forthcoming AGM and, subject to shareholder approval being received, future long-term incentive awards will be granted under that plan. Summary details of the LTIP are set out in the Asset and Equity Plan (Audited) section of this report and full details of its principal terms are contained in the Notice of AGM, accompanying this document.

The company's Articles of Association provide that the remuneration paid to non-executive directors is to be determined by the Board within the limits set by the shareholders.

Performance chart

The chart below shows the company's total shareholder return (TSR), defined as the increase in the value of a share, including re-invested dividends, over the last five financial years compared with the equivalent information in respect of the FTSE All Share Oil & Gas Producers Index, which the Committee considers to be the most relevant equity market index.

Total shareholder return



This graph looks at the value, at 31 December 2008, of £100 invested in Premier Oil plc on 31 December 2003 compared with the value of £100 invested in the FTSE All Share Oil & Gas Producers Index.

Contracts of service

Save for automatic termination when each executive director becomes 60 years of age, the executive directors have rolling service contracts and are subject to re-election by shareholders under the company's Articles of Association and the provisions of the Code. The service contract of each executive director may be terminated on 12 months' notice in writing by either side, in accordance with current market practice. In such event, the compensation commitments in respect of their contracts could amount to one year's remuneration based on base salary, annual bonus and long-term incentive scheme entitlement, benefits in kind and pension rights during the notice period. There are provisions for earlier termination by the company in certain circumstances. If such circumstances were to arise, the executive director concerned would have no claim against the company for damages or any other remedy in respect of the termination. There are no other provisions, such as liquidated damages clauses, which expressly provide for compensation in the event of early termination. The Committee would apply general principles of mitigation to any payment made to a departing executive director and would consider each case on an individual basis. Messrs S C Lockett and R A Allan have service contracts dated 9 December 2003. Mr A R C Durrant has a service contract dated 1 July 2005 and Mr N Hawkings' service contract is dated 23 March 2006.

Non-executive directors have letters of appointment, which are all effective for a period of three years (subject to reappointment by the members in General Meeting), all of which have a notice period of three months. Sir David John and Mr J R W Orange have letters of appointment issued on 28 July 2006. Professor D G Roberts has a letter of appointment dated 30 June 2006 and Mr J Darby has a letter of appointment dated 1 September 2007. Messrs D C Lindsell and M Romieu have letters of appointment dated 17 January 2008 following their appointment to the Board on that date.

External appointments

Executive directors are entitled to accept non-executive appointments outside the company providing that the Board's approval is sought. Mr A R C Durrant currently holds one external non-executive directorship with Clipper Windpower plc and is entitled to retain the fees earned connected therewith (2008: US\$76,300 and 2007: US\$43,500).

Remuneration structure

The remuneration package for the executive directors comprises base salary, bonus, benefits, entitlement to participate in the company's long-term incentive schemes (and all-employee share schemes) and pension.

Base salary

Base salary is reviewed each year against other comparable companies in the oil and gas sector and general market data on the basis of companies in similar industries and those of a similar size. The objective is to ensure that the base salary, when taken together with the rest of the package, provides a competitive but performance-driven remuneration package. The policy of the Committee has been to position base salaries between the median and upper quartile.

Base salary (continued)

The salaries of the executive directors as at 1 January 2009 are as follows:

	Salary £	Percentage increase from 2008 %
S C Lockett	435,000	10.1
R A Allan	300,000	5.3
A R C Durrant	320,000	10.3
N Hawkings	300,000	15.4

For all the executive directors, these increases, which in some cases are somewhat larger than normal, were determined after considering a range of factors such as company performance, the development of the executive and the positioning of his salary in relative terms. In addition, account was taken of the recommendations of Hewitt New Bridge Street that these levels represent salaries between the median and upper quartile for executives in similar roles, in companies of similar size in the oil and gas sector and in general industry companies (excluding financial services) also of a similar size.

While salary is reviewed by reference to market conditions, the performance of the company and the performance of the individual, the Committee would not regard this element of remuneration as directly performance-related.

Annual bonus scheme

The total annual bonus potential, which is non-pensionable, is 100 per cent of base salary. Half of any bonus earned is payable immediately in cash and the remaining half is payable in shares and deferred for three years. The deferred element of the bonus is contingent upon the relevant beneficiary remaining in employment for the three years from the date of the award, but is not dependent on any further performance-related measures.

Performance measures for 2008 are explained in the table below:

Performance measures	Maximum bonus potential	Conditions
Exploration, portfolio management and strategic development	70%	Various milestones identified for the year, to achieve the medium-term production target in excess of 50,000 boepd, including the drilling and success of exploration wells and the development of strategic investment/divestment opportunities.
Production	10%	To achieve the production number contained in the 2008 budget approved by the Board.
Operating cost per barrel	10%	To achieve the operating cost per barrel number contained in the 2008 budget approved by the Board.
Health, safety, environment and security	10%	Combined frequencies of lost time injuries and restricted work day cases of or below 1.7 cases per million man-hours worked.

Following a review of the 2008 targets, the Committee agreed that the production and operating cost per barrel targets and the health, safety, environment and security target had been achieved. The Committee agreed a 25 per cent award out of the maximum 70 per cent in relation to the exploration, portfolio management and strategic development targets. This resulted in a total award of 55 per cent of salary (27.5 per cent paid as cash and 27.5 per cent deferred in shares as indicated above) for performance against the above targets (2007: 65 per cent of salary, paid as 32.5 per cent cash and 32.5 per cent deferred shares).

The annual bonus scheme for the 2009 financial year has a similar structure and the same maximum award level. The performance metrics have been changed to include, amongst other things, specific targets relating to funding and management of the exploration portfolio. This reflects the current difficult market conditions and the priorities of the business. Performance measures for 2009 are explained in the table below:

Performance measures	Maximum bonus potential	Conditions
Finance and organisation	30%	To ensure funding is in place to facilitate the investment programme. To manage hedging and commitments to meet funding covenants at conservative oil prices.
Production and development	20%	Various targets including progressing the major new field development projects on time and on budget.
Exploration	20%	Various targets including portfolio management and exploration success.
New business	20%	The delivery of various strategic investment/divestment opportunities.
Health, safety, environment and security	10%	Combined frequencies of lost time injuries and restricted work day cases of or below 1.55 cases per million man-hours worked.

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Benefits

Messrs S C Lockett, R A Allan, A R C Durrant and N Hawkings each received the benefit of a car allowance and medical insurance. Mr R A Allan also received a gym membership subsidy.

Long-term incentive arrangements

The company currently operates the AEP, two Executive Share Option Schemes and an all-employee Share Incentive Plan and Save As You Earn Scheme. Details of the Executive Share Option Schemes and the all-employee share plans are set out in the Share option schemes (Audited) section of this report.

The AEP is currently the company's main long-term incentive arrangement, and details of the awards granted to executive directors under this plan are set out in the Asset and Equity Plan (Audited) section of this report. The life of the AEP will expire in May 2009. Accordingly, it is proposed that a replacement, the 2009 Long Term Incentive Plan (LTIP) be introduced to replace it. Subject to shareholder approval for the LTIP being received, going forward the LTIP will have two primary elements. The first will be an equity bonus pool created by reference to the increase in the equity value per share of the company over a three-year period. The second will involve the grant of performance shares (with an anticipated value on grant of 150 per cent of salary in the case of the Chief Executive and 125 per cent of salary in the case of all other executive directors) subject to a total shareholder return (TSR) performance condition, measured relative to other oil companies.

As to vesting criteria, an equity bonus pool will not be created where the compound growth per annum in share price is below 10 per cent. At 10 per cent compound growth per annum, 1 per cent of the growth will become the pool. At 20 per cent compound growth per annum, 2.5 per cent of the growth will become the pool. The size of the pool will increase on a straight-line basis between these two points. Individuals' rights to the proceeds from the pool are based on a pre-determined allocation. In the event that the value of an individual entitlement exceeds 100 per cent of salary, the Committee must be satisfied that there has been long-term improvement in the underlying financial performance of the company. Performance shares will not vest if the company's TSR performance is below the median of a comparator group comprising approximately 35 companies. At the median they will vest as to 25 per cent and at upper quartile or above as to 100 per cent with proportionate vesting on a straight-line basis between those two points.

Half of any executive director's vested award will be received in shares and the other half in the form of an award of deferred shares which will vest three years later (i.e. six years after the initial grant). Any such deferred shares shall also attract the grant of a Matching Award over further shares with such Matching Award being subject to a TSR performance condition on the same terms as currently apply to Matching Awards granted under the AEP (as described in more detail in the Asset and Equity Plan (Audited) section of this report).

These two elements have been chosen to ensure that there will be continued alignment between the interests of shareholders and executives via share price performance as well as providing an important incentive to management to outperform the company's most relevant competitors via the TSR performance condition.

Pension

Details of the executive director's pension arrangements are set out in the Pension schemes (Audited) section of this report.

Summary of actual remuneration (Audited)

	Salary and fees 2008 £'000	Benefits in kind* 2008 £'000	Annual cash bonus 2008 £'000	Total 2008 £'000	Total 2007 £'000	Pension contributions 2008 £'000	Pension contributions 2007 £'000
Executive directors:							
S C Lockett ¹ (Chief Executive)	395.0	17.0	108.6	520.6	547.9	50.0	15.7
R A Allan	285.0	17.0	78.4	380.4	373.2	57.9	54.4
A R C Durrant ²	341.7	20.2	79.8	441.7	425.4	–	–
N Hawkings ³	260.0	16.5	71.5	348.0	339.5	52.9	49.4
Non-executive directors⁴:							
Sir David John (Chairman)	130.0	–	–	130.0	115.0	–	–
J R W Orange ⁵ (Senior independent director)	50.0	–	–	50.0	46.0	–	–
J Darby ⁶	40.0	–	–	40.0	11.7	–	–
S J Dobbie ⁷	15.3	–	–	15.3	35.0	–	–
R V Emerson ⁷	21.0	–	–	21.0	41.0	–	–
D C Lindsell ⁸	42.7	–	–	42.7	–	–	–
Professor D G Roberts	40.0	–	–	40.0	35.0	–	–
M Romieu ⁸	38.2	–	–	38.2	–	–	–
Total	1,658.9	70.7	338.3	2,067.9	1,969.7	160.8	119.5

Summary of actual remuneration (Audited) (continued)

Notes:

1. A contribution of £50,040 was paid in 2008 to Mr S C Lockett's personal money purchase pension scheme. In 2007 £35,672 was paid as a salary supplement and £15,684 was paid into his personal money purchase pension scheme, as part of his pension arrangements.
 2. £51,716 of Mr A R C Durrant's remuneration relates to a salary supplement as part of his pension arrangements.
 3. Mr N Hawkings sacrificed £50,000 of his 2008 bonus into his personal money purchase pension scheme.
 4. The basic fee for each of the non-executive directors (excluding the Chairman) at the end of 2008 was £40,000 per annum. An additional fee of £8,000 per annum was paid per committee Chairmanship.
 5. Mr J R W Orange is provided with an additional set fee of £2,000 per annum in respect of his position as senior independent non-executive director.
 6. Mr J Darby's total remuneration in 2007 is calculated from 1 September 2007, being the date of his appointment to the Board.
 7. Messrs S J Dobbie and R V Emerson retired from the Board on 6 June 2008.
 8. Messrs D C Lindsell and M Romieu's total remuneration in 2008 is calculated from 17 January 2008, being the date of their appointments to the Board.
- * Benefits in kind represent gym membership, car allowance and medical insurance.

On 22 July 2006 the company entered into an Advisory Service Agreement with former non-executive director Mr M A K Alizai, under which he provided services as an advisor to the Board. Mr Alizai was paid US\$87,500 for the year to 21 July 2008, when the agreement terminated.

Shares held in trust in respect of the deferred element of the annual bonus for directors are as follows:

	Awarded on 21 March 2006 at 888p ¹ and earliest vesting on 21 March 2009	Awarded on 17 January 2007 at 1128p ¹ and earliest vesting on 17 January 2010	Awarded on 11 January 2008 at 1317p ¹ and earliest vesting on 11 January 2011	Awarded on 22 January 2009 at 741.5p ¹ and earliest vesting on 22 January 2012
S C Lockett	5,631	9,973	9,229	14,649
R A Allan	4,730	7,812	6,638	10,569
A R C Durrant	2,956	7,812	6,662	10,755
N Hawkings	3,604	7,812	6,021	9,642

Notes:

1. Mid-market closing price on date of award.

Pension schemes (Audited)

Mr S C Lockett is a member of the Premier Oil plc Retirement and Death Benefits Plan (the Scheme), subject to the earnings cap. The Scheme is a funded, registered final salary scheme, which provides a pension on broadly a fiftieths accrual basis of up to two-thirds salary at the normal pension age of 60. Benefits are actuarially reduced on early retirement before age 60 and pensions in payment increase in line with the lower of inflation or 5 per cent per annum.

The company has decided to continue to operate its own cap on pensionable earnings beyond April 2006, when the external cap was removed. For the year to 31 December 2008 this was set at £112,800 increasing to £117,600 for the year to 31 December 2009.

The company has agreed to provide Messrs S C Lockett, R A Allan, A R C Durrant and N Hawkings with a pension substantially as if they were contributing members of the Scheme and, in regard to service completed subsequent to their appointment as directors, not subject to the earnings cap. The additional value of this target pension provision, relative to the standard terms applied to staff, is made available at the directors' option in the form of either an enhanced scale of pension contributions or a non-pensionable salary supplement. As at the year-end, Messrs S C Lockett, R A Allan and N Hawkings had elected the former and Mr A R C Durrant had elected the latter.

Messrs R A Allan and N Hawkings are members of a money purchase pension arrangement to which, during 2008, the company contributed £57,917 and £52,912 respectively; these amounts include £34,637 and £29,632 respectively in regard to the enhanced pension contributions referred to above. Mr S C Lockett is a member of a money purchase pension arrangement to which, during 2008, the company contributed £50,040 in regards to the enhanced pension contributions referred to above.

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Pension schemes (Audited) (continued)

The accrued pension entitlements of the directors who were members (or deemed members) of the Scheme during 2008 are as follows:

	(a) Accrued pension as at 31 December 2008 £'000 pa	(b) Transfer value in respect of (a) as at 31 December 2008 £'000	(c) Accrued pension as at 31 December 2007 £'000 pa	(d) Transfer value in respect of (c) as at 31 December 2007 £'000	Increase from (d) to (b) less contributions by director during 2008 £'000	(e) Transfer value of increase in accrued benefit £'000	(f) Increase in accrued pension (excluding inflation) £'000
S C Lockett	54.0	393.2	42.7	290.8	79.8	69.9	9.6
R A Allan	24.8	236.6	17.9	166.8	53.8	59.2	6.2
A R C Durrant	18.5	187.7	11.9	117.3	54.1	61.9	6.1
N Hawkings	13.4	120.1	8.0	68.9	36.7	45.7	5.1

Notes:

- The amounts of accrued pension under (a) and (c) represent the accrued pension entitlements of the director as at the stated dates.
- The transfer value under (d) has been calculated on the basis of actuarial advice in accordance with the guidance note 'GN11: Retirement Benefit Schemes – Transfer Values' issued by the Board for Actuarial Standards under the Financial Reporting Council. This guidance note was replaced by the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 (SI 2008/1050) with effect from 1 October 2008.
- The transfer values under (b) and (e) have been calculated in line with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 (SI 2008/1050).
- The amounts under (e) represent the increase in value of the directors' benefits in terms of the value, on the transfer value basis in force at the end of the year, of the excess of the end-year accrued benefits over the start-year accrued benefits (as revalued by price inflation) less contributions by the directors.
- The values stated above correspond with the target level of final salary pension provision; in practice, the pension benefits for these directors are principally established through individual money purchase arrangements and salary supplements. Thus, in the case of Mr A R C Durrant, who has elected not to receive enhanced pension contributions, the company's pension obligation will be met entirely by the payment of salary supplements.
- In addition to the current provision noted above, Mr R A Allan is entitled to a deferred pension under the Scheme in respect of a prior service period with the company between September 1986 and November 1999.
- Members of the Scheme have the option to pay additional voluntary contributions; none of the directors have elected to do so.

The following payments were made to a former director of the company in respect of unfunded pension liabilities:

	Amount of unfunded pension paid during 2008 £	Amount of unfunded pension paid during 2007 £
J A Heath	32,526	31,275

Asset and Equity Plan (Audited)

The AEP is designed to reward an improvement in the asset value of the business and the market value of the company over a three-year period. The plan therefore has two bonus pools – an asset bonus pool and an equity bonus pool. The asset bonus pool is created by reference to the increase in the net asset value per share of the company over a three-year period and the equity bonus pool is created by reference to the increase in the equity value per share of the company over a three-year period. In both cases, no bonus pool is created where the compound growth per annum in the relevant measure (asset value or share price) is below 10 per cent. At 10 per cent compound growth per annum, 1 per cent of the growth becomes the pool. At 20 per cent compound growth per annum, 2.5 per cent of the growth becomes the pool. The size of the pool increases on a straight-line basis between these two points. In addition, the vesting of awards is subject to the Committee being satisfied that there has been satisfactory improvement in the performance of the company.

Under this plan awards have been made annually and will mature on the third anniversary of grant. They are not pensionable. The AEP is a broadly-based plan with participation points being awarded to eligible employees, including executive directors, throughout the group. New employees who join the company part of the way through the duration of a three-year award are awarded participation points in that award on a time-apportioned basis. In addition, employees who receive a significant promotion during an award period are eligible to receive an increased participation, also on a time-apportioned basis. The maximum benefit that an individual may receive will normally be limited to twice his or her base salary per annum, except where the compound growth rate exceeds 20 per cent per annum in either the asset or equity bonus pool, in which case the Committee may increase the limit on such a proportionate basis as it determines to be fair and reasonable.

At the time of vesting, 50 per cent of an award is payable in cash and 50 per cent is payable in the form of an award of deferred shares. Awards granted in 2007 and 2008 will, however, be payable entirely in shares, with 50 per cent payable in the form of deferred shares.

The Matching Award scheme is an amendment to the plan approved by shareholders at the 2006 AGM which gives participants the option to increase the six-month deferral of the share element of the scheme to three years. This extended deferral is mandatory for the executive directors and senior management but voluntary for other staff. The shares deferred for the extended period will participate in a Matching Award. The release of this part of the award will therefore be six years following the initial grant of the award under the plan.

Asset and Equity Plan (Audited) (continued)

Matching Awards are subject to performance criteria related to comparative TSR over a three-year period. The comparator group consists of about thirty five listed companies in the oil and gas sector. TSR will be measured as the percentage increase in a return index of the comparator group between the beginning and end of the performance period, which begins on the first day of the financial year in which the Matching Award is granted. The return index at the beginning of the performance period is the average of the return index on each weekday in the three-month period prior to the start of the performance period. In order to ascertain the return index at the end of the performance period, the same averaging method will be used for the three months prior to the end of the performance period. If the company's TSR is at the median against the comparator group, then Matching Awards vest on a 0.5:1 basis and where comparative performance is at or above the upper decile, Matching Awards vest on a 2.5:1 basis (with proportionate vesting on a straight-line basis between these two points). Independent external advice will be taken to assess whether the company has met the TSR performance condition and to confirm that the companies which made up the index and the measurement of the company's performance are both in accordance with the rules of the AEP.

Details of Deferred Shares and Matching Awards granted to directors under the Asset and Equity Plan are set out below:

	Date of grant	Type of award	Awards held at 1 January 2008	No. of Deferred Shares granted during 2008 ¹	No. of Matching Awards granted during 2008 ²	Shares lapsed during 2008	Awards held at 31 December 2008	Market price of shares on day of award	Performance period	Earliest vesting date
S C Lockett	17.01.07	Deferred Share	42,268	–	–	–	42,268	1127p	–	01.01.10
	27.03.07	Matching Award	105,670	–	–	–	105,670	1235p	01.01.07 – 31.12.09	01.01.10
	11.01.08	Deferred Share	–	33,706	–	–	33,706	1317p	–	01.01.11
	13.03.08	Matching Award	–	–	84,265	–	84,265	1343p	01.01.08 – 31.12.10	01.01.11
			147,938	33,706	84,265	–	265,909			
R A Allan	17.01.07	Deferred Share	29,600	–	–	–	29,600	1127p	–	01.01.10
	27.03.07	Matching Award	74,000	–	–	–	74,000	1235p	01.01.07 – 31.12.09	01.01.10
	11.01.08	Deferred Share	–	20,114	–	–	20,114	1317p	–	01.01.11
	13.03.08	Matching Award	–	–	50,285	–	50,285	1343p	01.01.08 – 31.12.10	01.01.11
			103,600	20,114	50,285	–	173,999			
A R C Durrant	17.01.07	Deferred Share	15,574	–	–	–	15,574	1127p	–	01.01.10
	27.03.07	Matching Award	38,935	–	–	–	38,935	1235p	01.01.07 – 31.12.09	01.01.10
	11.01.08	Deferred Share	–	20,114	–	–	20,114	1317p	–	01.01.11
	13.03.08	Matching Award	–	–	50,285	–	50,285	1343p	01.01.08 – 31.12.10	01.01.11
			54,509	20,114	50,285	–	124,908			
N Hawkings	17.01.07	Deferred Share	13,206	–	–	–	13,206	1127p	–	01.01.10
	27.03.07	Matching Award	33,015	–	–	–	33,015	1235p	01.01.07 – 31.12.09	01.01.10
	11.01.08	Deferred Share	–	17,658	–	–	17,658	1317p	–	01.01.11
	13.03.08	Matching Award	–	–	44,145	–	44,145	1343p	01.01.08 – 31.12.10	01.01.11
			46,221	17,658	44,145	–	108,024			

Notes:

1. There are no performance criteria for the Deferred Shares.
2. Matching Awards granted are the maximum award possible under the Matching Award scheme, subject to performance criteria.

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Outstanding Asset and Equity Plan awards

As at 31 December 2008, a total of 1,254.55 participation points have been allocated under the 2006 award. 1,171.25 participation points were awarded in 2006 on the date of grant and 204.80 have been awarded since then, as time-apportioned compensatory awards to employees (other than executive directors) who have joined the company during the three-year performance period. 121.50 participation points have been forfeited due to participants leaving the employment of the company. The directors have been allocated the following points under the 2006 award:

	Number of participation points
S C Lockett	62
R A Allan	45
A R C Durrant	45
N Hawkings	45

The equity bonus pool of the 2006 award was calculated by comparing the market value calculated by reference to the average share price for the three months prior to the date of award (1 January 2006), with the market value similarly calculated to 31 December 2008. The minimum vesting threshold for the equity bonus pool was not achieved, resulting in this part of the award lapsing.

An independent external valuation of the asset bonus pool of the 2006 award will take place following the publication of the year-end results. If it is determined that the minimum vesting threshold has been achieved, 50 per cent of the awards will be released in cash and 50 per cent will be in deferred shares.

As at 31 December 2008, a total of 6,015.70¹ participation points have been allocated under the 2007 award. 450.50 participation points have been awarded since the date of grant, as time-apportioned compensatory awards to employees (other than executive directors) who have joined the company during the three-year performance period and 343.0 participation points have been forfeited due to participants leaving the employment of the company. The increase in aggregate participation points reflects the decision to extend the award to all global employees. The directors have been allocated the following points under the 2007 award:

	Number of participation points
S C Lockett	320
R A Allan	210
A R C Durrant	210
N Hawkings	210

Notes:

1. The figure of 6,266.20 published in the 2007 Annual Report regarding the 2007 award included 509.60 participation points allocated for approved vacant positions. Not all of these vacancies have been filled and therefore the points have not been awarded.

As at 31 December 2008, a total of 7,252.60 participation points have been allocated under the 2008 award. The directors have been allocated the following points under the 2008 award:

	Number of participation points
S C Lockett	310
R A Allan	205
A R C Durrant	205
N Hawkings	205

2009 awards

The 2009 awards will be granted under the LTIP, subject to its approval at the 2009 AGM.

Share option schemes (Audited)

Executive Share Option Scheme 1995

Options granted under the 1995 scheme are normally exercisable, at the acquisition price, not less than three years after their date of grant and will lapse (unless previously exercised) on their tenth anniversary. No payment is made for the grant of an option. Options cannot be exercised until pre-determined performance conditions have been achieved. For options granted prior to 2000 the performance requirement was that the share price plus the value of dividends paid must, as measured at the end of any consecutive three-year period, have grown at a rate equal to or greater than the FTSE All Share Oil & Gas Producers Index over the same period. Options granted during and after 2000 are dependent upon growth in the company's earnings per share of at least 3 per cent per annum compound above the Retail Price Index over a three-year period.

Mr S C Lockett held options under this scheme during the financial year. The options are listed in the table below:

	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2008	Event	Mid-market price on date of exercise (£)	Options held at 31 December 2008
S C Lockett	16.04.98	16.04.03 – 16.04.08	3.725	7,680	Exercised ¹	13.74	–

Notes:

1. The mid-market closing price on the date of exercise (8 January 2008) was £13.74 resulting in a gain on exercise of £10.02 per share.

Executive Share Option Scheme 2003

This scheme replaced the 1995 scheme on completion of the company's Scheme of Arrangement in 2003. Options granted under the scheme are normally exercisable not less than three years after their date of grant and will lapse (unless previously exercised) on their tenth anniversary. No payment is made for the grant of an option. Options cannot normally be exercised until pre-determined performance conditions have been achieved. In the case of certain employees the performance condition is growth in earnings per share of at least 3 per cent per annum compound above the Retail Price Index over a three-year period. In other cases, including grants made to Mr A R C Durrant under the scheme in 2005, the performance condition is based on the company's TSR in comparison with a group of eight companies as follows: Burren Energy, Cairn Energy, Dana Petroleum, Paladin Resources, Tullow Oil, Venture Production, Soco International and JKC Oil & Gas, measured between 1 June 2005 and 31 May 2008. Options will vest as to 30 per cent in the event that median performance is achieved, with proportionate vesting on a straight-line basis up to 100 per cent if upper quartile performance is achieved. TSR was selected as the performance measure for this plan as it aligns the interests of directors with shareholders by requiring superior TSR compared to competitor companies.

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2008	Event	Mid-market price on date of exercise (£)	Options held at 31 December 2008
A R C Durrant ^{1,2}	01.06.05	01.06.08 – 31.05.15	5.87	100,000	Lapsed	–	–
N Hawkings ³	16.05.05	16.05.08 – 15.05.15	5.35	20,000	–	–	20,000

Notes:

1. The grant to Mr A R C Durrant was made as part of his recruitment terms, to compensate him for the value loss he suffered on leaving his previous employer.
2. On the completion of the performance period it was established that performance conditions had not been achieved, and therefore the options lapsed with effect from 11 July 2008.
3. The grant to Mr N Hawkings was made as part of his recruitment terms, where it was agreed that the grant would not be subject to any pre-vesting performance conditions.

Savings Related Share Option Scheme 2003

Under this scheme, employees (including executive directors) with six months or more continuous service are invited, within a period of 42 days of the announcement of the annual results, to join the scheme. Employees may save between £5 and £250 per month, through payroll deduction for a period of three or five years, after which time they can acquire shares at a market value set at the time of invitation discounted by up to 20 per cent.

Directors' interests under this scheme are shown below:

	Date of grant	Exercisable dates	Acquisition price per share (£)	Options held at 1 January 2008	Event	Mid-market price on date of exercise (£)	Options held at 31 December 2008
S C Lockett	03.05.07	01.06.10 – 30.11.10	9.96	948	–	–	948
R A Allan	03.05.07	01.06.12 – 30.11.12	9.96	1,644	–	–	1,644
A R C Durrant	04.05.06	01.06.11 – 30.11.11	8.16	1,973	–	–	1,973
N Hawkings	04.05.06	01.06.11 – 30.11.11	8.16	1,973	–	–	1,973

The mid-market closing price of the company's shares at 31 December 2008 was £9.85 (31 December 2007: £13.10). The intra-day trading price of the company's shares during 2008 was between £5.69 and £18.50.

Share Incentive Plan (Audited)

Under this plan, employees, including executive directors, may make contributions to acquire shares in the company (Partnership Shares). If an employee agrees to buy Partnership Shares, the company currently matches the number of Partnership Shares bought with an award of shares (Matching Shares), on a one-for-one basis. Should an employee leave the SIP scheme before the end of the three-year holding period they will lose the right to the Matching Shares, unless he/she leaves due to injury, redundancy, TUPE transfer, retirement, death or the sale of the company.

In the case of the award of Matching Shares, the company has not required performance criteria to be fulfilled, as the purpose of the plan is to encourage all employees to become shareholders in the company.

The company invites all company employees to make contributions to acquire Partnership Shares on a monthly basis. During 2008, Messrs S C Lockett, R A Allan, A R C Durrant and N Hawkings contributed the maximum monthly amount of £125 to the plan.

Shares held beneficially in this plan by the directors during the financial year were as follows:

	Shares held on 1 January 2008	Total Partnership Shares purchased in 2008 at prices between 742p and 1710p	Total Matching Shares awarded in 2008 at prices between 742p and 1710p, vesting in 2011	Shares held on 31 December 2008	Partnership and Matching Shares acquired between 1 January and 24 March 2009
S C Lockett	3,309	126	126	3,561	96
R A Allan	3,300	126	126	3,552	96
A R C Durrant	760	127	127	1,014	96
N Hawkings	760	127	127	1,014	96

Sourcing of shares and dilution limits

The company uses the Premier Oil plc Employee Benefit Trust to satisfy the obligations of the Executive Share Option Schemes, the AEP and the directors' deferred bonus shares. The Employee Benefit Trust currently holds sufficient shares to meet short-term requirements, and future obligations will be met using a combination of market purchases, financed by the company, and newly-issued shares. The number of shares held by the Employee Benefit Trust as at 31 December 2008 was 863,339 (31 December 2007: 205,152).

The rules of each of the company's share-based incentive schemes contain limitations on the total number of options and awards over new shares that can be awarded, in accordance with the Association of British Insurers' guidelines.

By order of the Board

J R W Orange

Chairman of the Remuneration Committee
25 March 2009