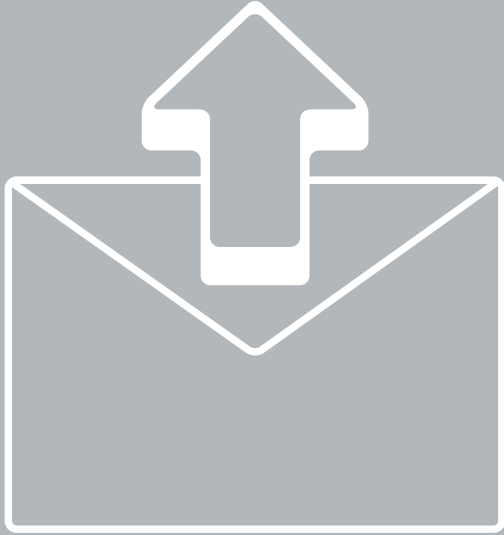




# Have your say



Please tell us what you think we do well and what we can do better. To get in touch:

**Email:**

[premier@premier-oil.com](mailto:premier@premier-oil.com)

**Write to:**

Dr Richard Jones  
Premier Oil plc  
23 Lower Belgrave Street  
London SW1W 0NR

**Telephone:**

+44 (0)20 7730 1111

# contents

## 02 **Simon Lockett** **CEO Premier Oil**

An attractive investment, a just employer and a business partner of choice.

## 04 **Reaping** **the rewards**

Mark Akers, Manager, Corporate Planning, reports on Premier's emergence as an independent oil and gas exploration and production company.

## 10 **Humanity** **in business**

Richard Jones, CSR Manager, talks about why Corporate Social Responsibility is key for Premier.

## 18 **People make** **the difference**

Stephen Huddle, Company Secretary, explains how Premier's people make the difference in business.

## 22 **Health, safety,** **environment and** **security**

Paul Dennis, Group Health, Safety, Environmental and Security Manager, talks about setting standards for excellence at Premier.



## About this report

This Social and Environmental Responsibilities Report 2005 is Premier's first report on our health, social, environmental and safety performance as it relates to our employees and the communities where we operate, since the 2003 restructuring of our Company.

We are proud to report on our ongoing efforts to understand and manage our environmental footprint as well as the international certification and standardisation of our global drilling operations.

Premier's commitment to making positive contributions to the lives of the communities where we work remains unwavering, and we outline here how we structure these interventions.

# An attractive investment, a just employer and a business partner of choice

Simon Lockett, Chief Executive Officer  
Premier Oil, April 2006



**M**uch has happened at Premier since our last Sustainability Report was published in May 2003. The major restructuring of Premier, which was completed on 12 September 2003, resulted in the sale of our interests in Myanmar and part of our Indonesia business. This has strengthened considerably the Company's balance sheet. Our operating focus has changed with the emphasis now primarily on the existing core areas of the North Sea, South and South-East Asia, and West Africa. Our business goals were clarified, with our stated intent of generating significant shareholder value through exploration success and commercial deals.

Our purpose now is, quite simply, to find and produce oil and gas – efficiently, responsibly and profitably. Our search often takes us to remote locations and developing countries where opportunities may be more plentiful.

We recognise that these opportunities may bring different types of risks that need to be managed effectively. Premier has a long history and deep capability in this area and we have always maintained that we will not do business at any cost.

We operate where it is legal to do so; where it is safe for our employees and those contracted to work for us; where we can add value; where we can maintain our high ethical, environmental and safety standards

**“Our purpose now is, quite simply, to find and produce oil and gas – efficiently, responsibly and profitably.”**

– listening to the opinions of those whom we impact and those who impact us, incorporating these into our thinking; where we understand and prepare fully for the potential risks.

This considered approach has made us a leader in the area of responsible business

and, following the restructuring, we are committed to remaining so. We believe that it is this practice that makes us an attractive investment, a just employer and a business partner of choice.

We recognise that we are, and will be, continually judged by how we act, both as a company and as individuals representing the Company. But we are confident in our ability to meet, and even exceed, expectations, because at the very heart of our business are Premier's core values, which both complement and support our strategy. Creativity. Professionalism. Respect. Dynamism. Tenacity. These are the values that shape our day-to-day activities as well as being reflected in our policies and procedures.

Being a socially responsible business is no longer simply an option. It is an essential responsibility: one that we must assume, but also one that is good for our business. It is an area in which Premier is proud to take a lead. ●



# RESTRUCTURED, REFOCUSED AND REAPING THE REWARDS

Mark Akers, Manager, Corporate Planning, reports on Premier's emergence as an independent oil and gas exploration and production company.

Premier has undergone a period of fundamental change since our last Sustainability Report in 2003; one that has seen a comprehensive restructuring of the Company, with our business focus now firmly on oil and gas exploration as well as development and production.


The seeds of our transition were sown in late 1999, when we entered into an alliance with Amerada Hess and the Malaysian oil company Petronas, the result of which was that both Petronas and Amerada Hess owned a 25% stake in Premier. This alliance provided the capital necessary for Premier

to continue the development of its existing portfolio and meet its expenditure programme without the need to dispose of significant assets or renegotiate its existing borrowing facilities. It also provided the most attractive means to realise the inherent value from our existing assets.

Following the completion of the expenditure programme, we carried out a strategic review of operations and, in March 2002, the Company announced its intention to follow a strategic model focused on early value capture of exploration and commercial success, capable of delivering significant

growth in net asset value per share.

In order to pursue this new strategy it was necessary to restructure the Company to realign the shareholder base. In September 2002, Premier agreed to transfer its entire Myanmar business to Petronas and part of the Indonesian West Natuna asset (Block A) to Petronas and Amerada Hess. In consideration for these transfers, Petronas and Amerada Hess cancelled their combined 50% shareholding in Premier and provided cash and debt repayment. The restructuring was completed on 12 September 2003.



Today, Premier, a fully independent company, is pursuing its strategy of building the business through exploration, exploitation and acquisition, with clearly defined objectives:

- To drill at least four high-impact exploration wells per year.
- To increase production to 50,000 barrels of oil equivalent per day in the medium term through full exploitation of the existing asset base and through selected acquisition.

**Premier's exploration strategy**

To achieve our corporate objective of adding significant value through exploration success, we drill approximately 12 wells per

“Today, Premier, a fully independent company, is pursuing its strategy of building the business through exploration, exploitation and acquisition”

year including at least four ‘big hitters’ that have the potential to significantly move the share price. Our geographical focus on West Africa, South Asia and South-East Asia is based on our extensive knowledge of, and experience in, operating in these regions, and on investment criteria that demonstrate that our return on our investment is strongest here too.

Premier has the capability to operate both in an exploration and a production capacity. The decision to operate depends entirely on individual circumstances, such as whether there is another competent operator in the licence with us. Our overriding consideration is to work where we can see we will realise the best commercial outcome. ▶

While we continuously search for new exploration opportunities in our core areas, we do not discount operating outside these regions, if the opportunity presented is considered good enough. Similarly we look for commercial deals that range in size from entry into an exploration licence to full-size asset or corporate acquisitions. In this way we maximise our opportunity set and make full use of our skills, knowledge and existing relationships.

**“Our overriding consideration is to work where we can see we will realise the best commercial outcome.”**

**Corporate governance**

The Board of Premier recognises the importance of good governance and the role it plays in encouraging a higher level of corporate performance. The board has adopted and operates within a robust set of governance policies which are designed to enable entrepreneurship and innovation to thrive within a framework of accountability.

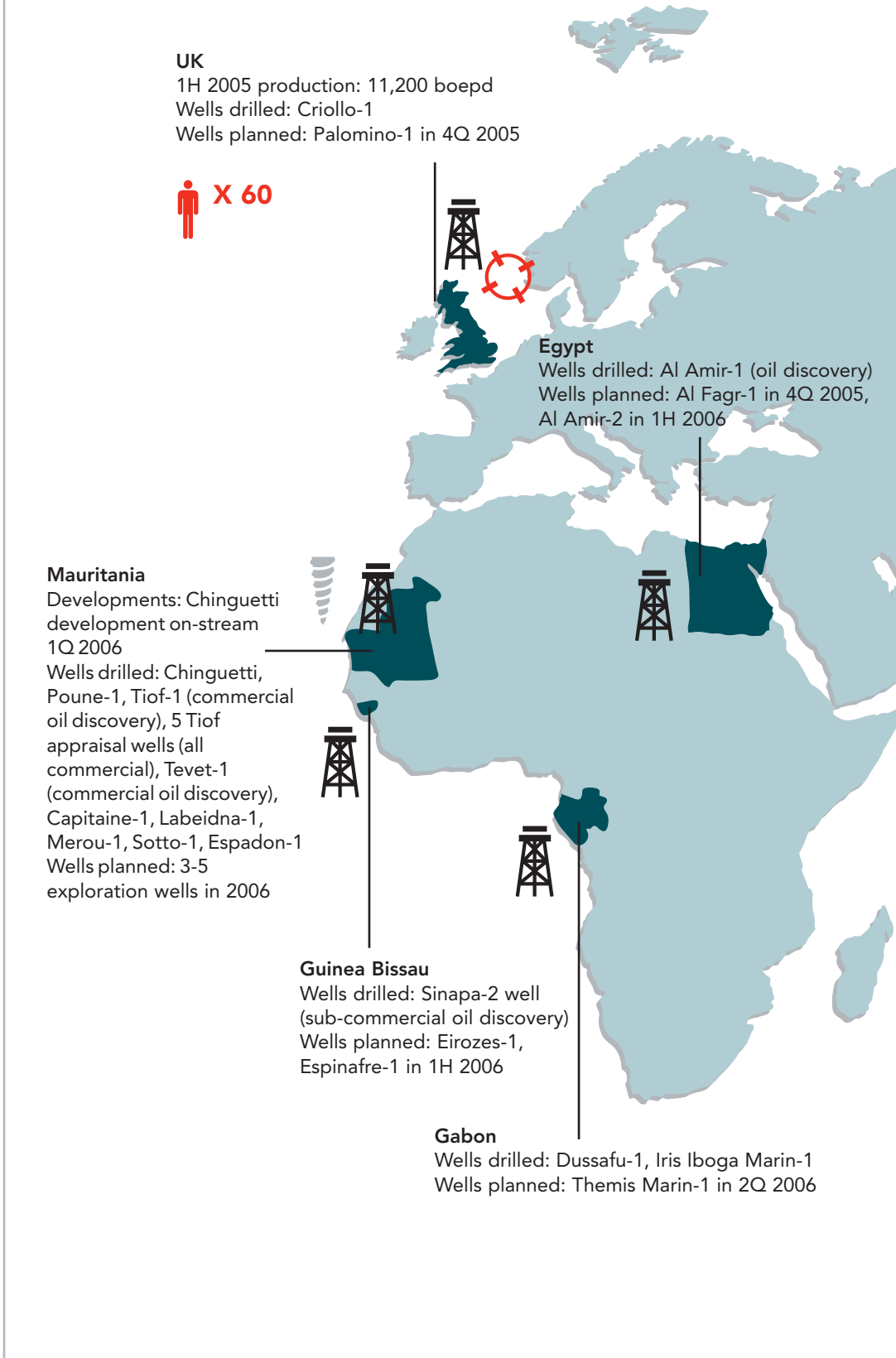
The policies that we have adopted at Premier place the interests of our shareholders at the centre of our activities and are designed to enable the board to be accountable for the direction of the Company in its central aim of creating long-term shareholder value whilst recognising that we have stakeholders.

Good governance practices, which incorporate the principle of conducting our business with integrity and transparency, have the wholehearted support of the board.

**Premier’s CSR strategy and its effects on our business**

A crucial element of being a successful global company today is an understanding of, and commitment to, Corporate Social Responsibility (CSR) and the realisation that this is a key part of business. Premier’s first five years of following a strategy that also embraces CSR have coincided with improved economic performance and increased shareholder ▶ *Continued on page 8*

# PREMIER’S GLOBAL ACTIVITY (2003 – 2005)

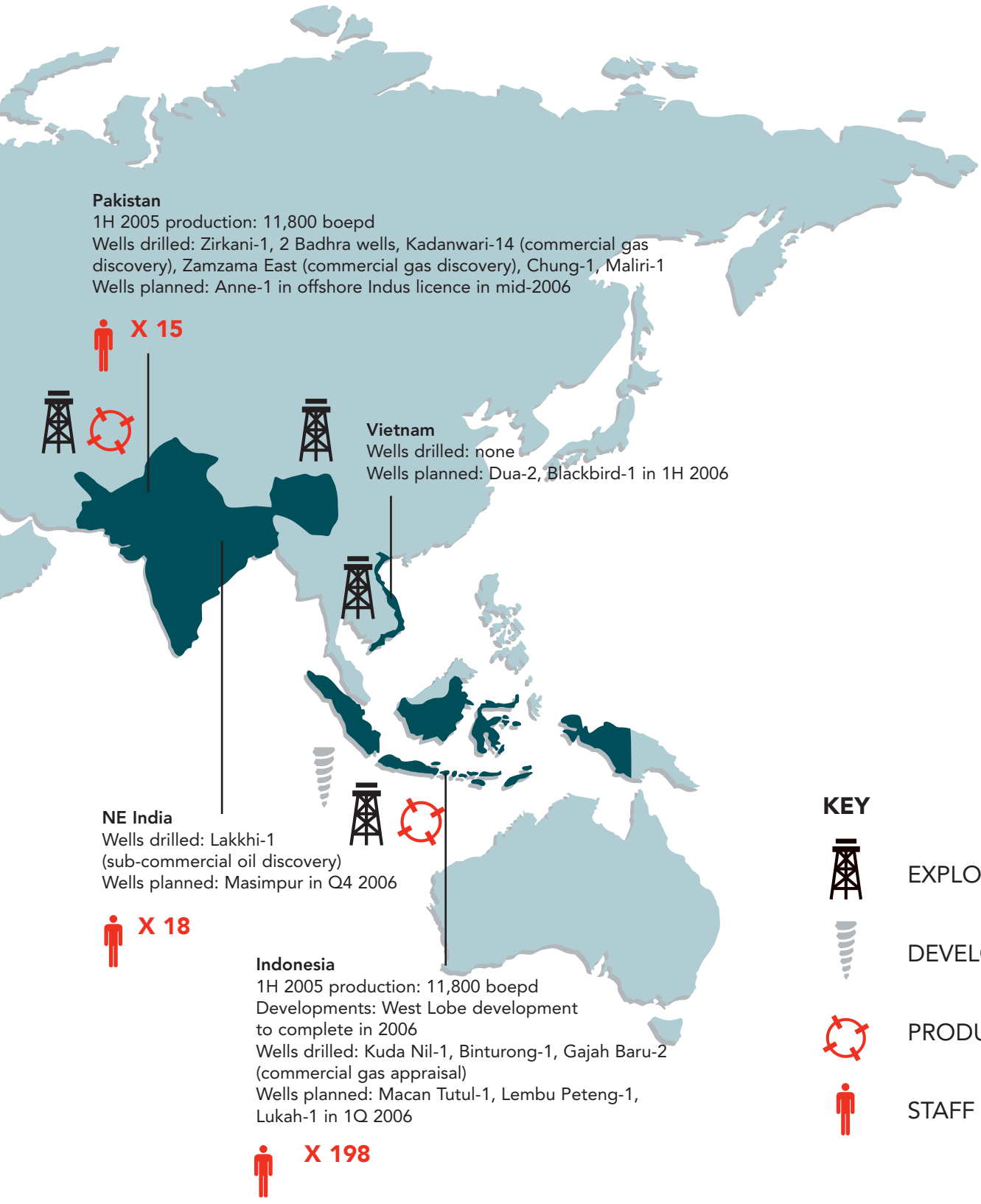




**Overall Drilling Performance**

Commercial success rate on exploration: 23%

Commercial success rate on exploration and appraisal: 41%



“With forethought and planning around CSR issues, the investment is recouped many times over, through reduced management of controversial issues and smoother running operations.”

Our board of directors, at 30 September 2005, was made up as follows:

- Three executive directors (including the Chief Executive)
- Six non-executive directors (including the Chairman)

Detailed information relating to the board's responsibilities, board committees, re-election of directors, the expertise of the board and our systems of risk management and internal control, can be found on our website ([www.premier-oil.com](http://www.premier-oil.com)).

► value. CSR has become embedded in how we do business, but it doesn't detract from our primary business imperative of adding value through exploration and commercial deals.

We believe that with forethought and planning around CSR and related issues, the

investment in time and money is recouped many times over through reduced management of potentially controversial issues and smoother running operations, as witnessed during the seismic operations and drilling in the Dumbar National Park in Pakistan.

In the future, sustainability management and reporting will allow Premier to continue to operate in difficult areas of the world, creating competitive advantage and, at the same time, maintaining our reputation for managing environmental and social issues.

## FIVE-YEAR SUMMARY

Financials		2004	2003	2002	2001	2000
Turnover	(\$ million)	251.8	420.1	394.7	307.9	175.9
Profit before tax	(\$ million)	87.2	132.2	108.9	71.4	25.8
Net profit for the period after tax	(\$ million)	43.8	66.5	33.9	29.2	9.3
Cash flow after interest and tax	(\$ million)	70.5	152.7	128.1	84.1	12.3
Net cash/(debt)	(\$ million)	16.8	7.8	(290.6)	(397.7)	(481.1)
Per share statistics						
Earnings per share – diluted	(cents/share)	52.1	48.1	21.3	18.4	5.9
Cash flow per share	(cents/share)	85.2	112.3	80.8	53.1	7.8
Reserves per share – year-end	(boe/share)	2.13	2.15	2.90	2.90	3.10
Operations						
Production (working interest basis)	(mboepd)	34.7	53.6	53.6	40.9	27.5
Proved and probable reserves (working interest basis)	(mmboe)	176.8	175.4	449.5	469.1	488.4
Employees – UK	(number)	56	59	57	52	48
– Overseas	(number)	198	373	421	436	397

# THE UNITED NATIONS GLOBAL COMPACT

The Global Compact began as an idea proposed by the United Nations' Secretary-General, Kofi Annan, at the World Economic Forum in Davos in 1999.

It is an international initiative that brings together companies, UN agencies, labour organisations and civil society in support of 10 principles covering human

rights, labour, the environment and corruption.

The 10 principles are based on the Universal Declaration of Human Rights; the International Labour Organisation's Declaration of the Fundamental Principles and Rights at Work; and the Rio Declaration on Environment and Development.

Premier Oil became a signatory to the UNGC in 2003 and we have actively worked to align our business policies in accordance with the 10 principles. ●

For further information on the UNGC visit [www.globalcompact.org](http://www.globalcompact.org)

Global Compact principles	Reference	Page
1 Businesses should support and respect the protection of international proclaimed human rights within their sphere of influence.	People make the difference – policy and implementation	18
2 Businesses should make sure that they are not complicit in human rights abuses.	People make the difference – policy and implementation	18
3 Businesses should uphold the freedom of association and the effective recognition to the right to collective bargaining.	People make the difference – policy	18
4 Businesses should uphold the elimination of all forms of forced and compulsory labour.	People make the difference – policy	18
5 Businesses should uphold the effective abolition of child labour.	People make the difference – policy	18
6 Businesses should eliminate discrimination in respect of employment and occupation.	People make the difference – policy and implementation	18
7 Businesses should support a precautionary approach to environmental challenges.	Health, safety, environment and security – policy and implementation	22
8 Businesses should undertake initiatives to promote greater environmental responsibility.	Health, safety, environment and security – policy and implementation	22
9 Businesses should encourage the development and diffusion of environmentally friendly technologies.	Health, safety, environment and security	22
10 Businesses should work against all forms of corruption, including extortion and bribery.	Reaping the rewards Humanity in business – policy and implementation	4 10

# Humanity in business

– CSR in action



Richard Jones, CSR Manager, talks about why Corporate Social Responsibility is a key driver in business for today's Premier Oil.

**C**orporate Social Responsibility (CSR) has both practical and ethical dimensions for Premier. It is about doing the right thing as well as managing risk and protecting our reputation. It's about investing in the community. About creating an environment where people feel good about working.

Since the inception of our CSR programme in 1997, CSR has been a key business driver that informs why and how we engage with our stakeholders on community development initiatives, transparency, human rights, as well as helping us to identify potential social risks, and related issues. And it is this approach that makes us a business and community partner of choice in the countries in which we operate.

By taking the time to really understand CSR and how it relates to our business and by putting processes around managing our corporate social responsibilities, CSR is now one of the very foundations for how we undertake our business. CSR has become an integral and vital part of how we do

business, and one to which we have a long-term commitment. We remain at the forefront of our industry in the area of sustainable development.

**"CSR has enabled and empowered us to implement not only our CSR strategy but also our corporate strategy."**

#### Implementing our CSR strategy

In 2004 and 2005 we actively participated in two key initiatives: the UK Forum of the Global Compact and the Business in the Community Corporate Responsibility Index.

The Global Compact was born out of UN Secretary-General Kofi Annan's challenge to business leaders to bring companies together with UN agencies, labour and civil society to support 10 principles in the areas of human rights, governance, labour and the environment. Premier's commitment to the Global Compact's 10 principles illustrates our belief that, by participating in the rapidly growing movement to underpin global markets with universal principles, we can help to realise the vision of a more sustainable and inclusive global economy.

Business in the Community's Corporate Responsibility Index, which was founded in 2002, has quickly established itself as the authoritative voluntary benchmark of responsible business practice and acts as a business management tool to help support companies in improving their impact on society and the environment. By participating in the Index we are able to assess the extent to which our strategy can be translated into responsible practice in all our activities, and is especially important in managing the following areas –



**“We were named by the Business and Human Rights Resource Centre as one of the top 20 global companies for recognising and dealing with human rights issues.”**

Community, Environment, Marketplace and Workplace.

#### Independent validation

In a measure of how seriously CSR issues are now taken generally, a number of independent bodies have created awards to acknowledge achievement and transparency in reporting, and we are proud to have been recognised in these.

The Global Reporters 2004 Survey of Corporate Sustainability Reporting listed Premier's 2002/3 Sustainability Report as coming from one of '2004's Top 50 Companies'. In addition, we retained our listing on the 2005 FTSE4Good Index, which is designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and facilitate investment in them.

We were named by the Business and Human Rights Resource Centre as one of the top 20 global companies for recognising and dealing with human rights issues.

#### Delivering net positive social and environmental impacts

As proud as we are of our achievements today, we are not complacent. We continue to plan and deliver net positive social and environmental impacts. In order to manage this process we use Premier's Social Performance Management System. We have engaged and continue to enter into proactive dialogue with stakeholders in all the countries where we operate.

We have also commissioned rigorous environmental impact assessments for seismic and drilling activity and are delighted to have been awarded ISO 14001 and OHSAS 18001 certification for our drilling operations.

However, there is always more that can be done and our partnerships will enable us to achieve this. To this end, we have agreed a partnership with Plan UK, an international humanitarian organisation to deliver a developmental programme in rural Guinea Bissau. This programme will bring water and sanitation and infrastructure to schools.

In India, we have established a new partnership with Leadership for Environment and Development (LEAD), to support our activities in the region. This partnership follows on from our continuing collaboration with LEAD Pakistan on the Proteus project, Premier's biodiversity collaboration with the United Nations Environment Programme – World Conservation Monitoring Center's (UNEP-WCMC) to pilot a biodiversity data gathering exercise in Pakistan. This information will be fed into the Proteus database, but it is also hoped that it will provide valuable lessons for other such exercises in other countries.

With respect to human rights, we continued our support of the development of human rights management tools for companies – an area in which we were working with Melbourne's Monash University's Castan Centre for Human Rights Law.

#### Promoting transparency in the oil and gas industry

Stakeholders are not, however, interested only in how we screen our activities or how we behave vis-à-vis communities and the environment. They are now increasingly interested in transparency and its related issues in the oil and gas industry. Revenues from oil and gas and mining companies, in the form of taxes, royalties, signature bonuses and other payments, can be an important engine for economic growth and social development in developing countries. In contrast, some stakeholders are concerned that the lack of accountability and transparency in these revenues in developing countries can exacerbate poor governance and may lead to corruption, conflict and poverty.

#### Premier Oil's CSR strategy

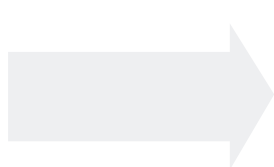
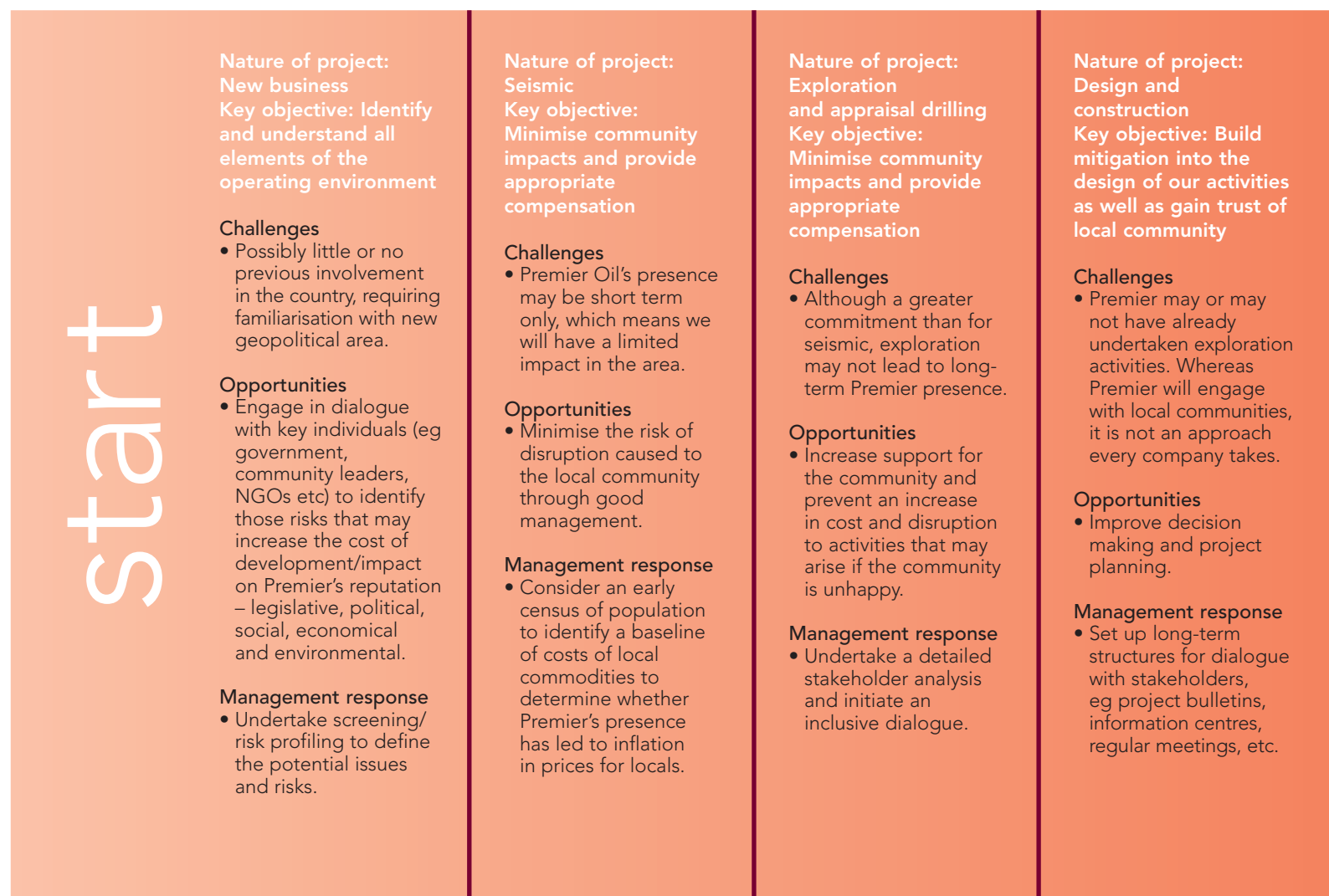
- To remain an industry leader in the CSR arena
- To continue to plan, and deliver, net positive social and environmental impacts
- To continue working in partnerships in order to multiply these positive impacts


To begin to address this concern, the Extractive Industries Transparency Initiative (EITI) was launched at the World Summit on Sustainable Development in Johannesburg, in September 2002. The EITI 'aims to increase transparency in transactions between governments and companies within extractive industries'.

At Premier, we have looked closely at the development of the EITI initiative and its principles, and have further engaged with the UK government's Department for International Development (DfID) and our peer group to understand how we can contribute. Our position is that we recognise and support the EITI initiative and principles and we stand ready to support those governments with whom we do business to agree how greater transparency can be brought about. ●

# Working in communities

Below is a graphic representation of our structured approach and some of the activities we routinely undertake when investing and working in communities.





**Nature of project:**  
Pipeline construction  
**Key objective:** Ensure efficient and secure pipeline construction

**Challenges**

- Involves large geographical area in which a large number of people comprising different cultural and ethnic groups can be affected directly and indirectly.

**Opportunities**

- Socio-economic issues (security, local mobility patterns, community severance, etc) will inform the selection of pipeline route and the design (above/below ground, access routes etc) and mode of construction.

**Management response**

- Obtain the consent of all landowners/ land users for pipeline construction and long-term access (particularly at block valves etc).

**Nature of project:**  
Take over ongoing operation  
**Key objective:** Define liability, identify and manage critical issues

**Challenges**

- Potential history of previous environmental and social problems that Premier will assume (communities are unlikely to differentiate between different E&P companies).

**Opportunities**

- Can define limits of liability and minimise risk of future claims.

**Management response**

- Undertake a social audit (in conjunction with environmental audit) prior to involvement, where possible.

**Nature of project:**  
Long-term operation  
**Key objective:** Develop partnerships with local communities, NGOs and other stakeholders

**Challenges**

- Involves long-term operation and commitment of as much as 10 and 20 years, and all the allied considerations.

**Opportunities**

- Optimise operation through local sourcing of supplies and manpower.

**Management response**

- Continue information provision and dialogue and aim to build partnerships.



**Nature of project:**  
Termination of activities  
**Key objective:** Fulfil commitments and secure Premier's reputation

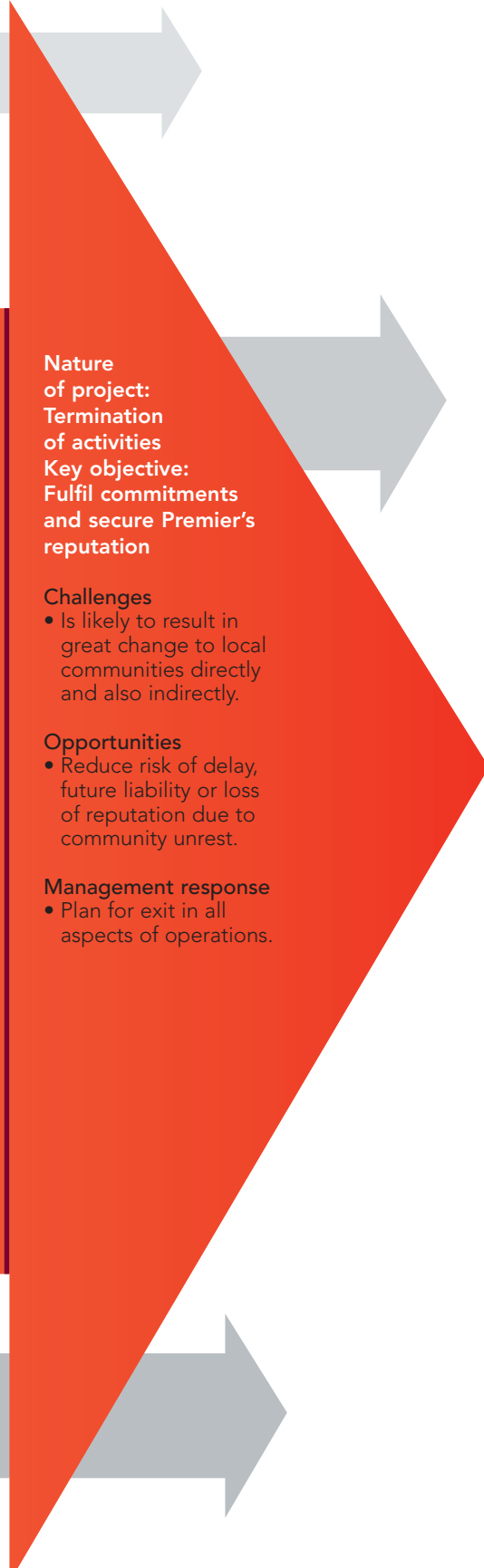
**Challenges**

- Is likely to result in great change to local communities directly and also indirectly.

**Opportunities**

- Reduce risk of delay, future liability or loss of reputation due to community unrest.

**Management response**

- Plan for exit in all aspects of operations.
- 
- 







# Case study: Active in the community



### A snapshot of Premier's sustainable community projects

Premier is involved in a wide range of community projects comprising public health, education, environmental, public facility, and community relations-based programmes. In all of these, our involvement is not simply to provide funds, but to actively work with the community; to build trust and ensure that both the community's needs and those of Premier are considered when any projects are planned.

From the outset of these programmes, we have actively engaged each affected community and their local governments in their implementation, and have ensured that there is an appropriate exit strategy that focuses on each programme's long-term survival once our involvement has ceased.

### GUINEA BISSAU

#### The Simon Mendes Hospital

During 2003, 2004 and 2005, as an integral part of Premier Oil's offshore exploration activities in Guinea Bissau, we agreed – with government officials and Petroguin (the state oil company) – to renovate and improve both the maternity and children's wards at the Simon Mendes Hospital in the capital Bissau. It is the only hospital in Bissau, and also serves as a referral centre for the rest of the country. Premier's intervention is providing a better environment for patients and staff alike, and in the words of the Minister for Health, Premier's donations, 'have already improved the quality of care'.

#### Voluntary Services Overseas (VSO)

Premier started collaborating with the VSO in Guinea Bissau in early 2004. This partnership, which has continued in 2005, focused on supporting VSO's work in the education sector, specifically bringing water and sanitation to rural schools.

### INDONESIA

#### Jakarta

Premier Oil Indonesia is funding and participating in an initiative, which is implemented by Save the Children USA, in collaboration with local NGOs. The programme is designed to:

- provide constructive activities for street children that could result in viable alternatives to living and working on the streets;

**“to build trust and ensure that both the community's needs and those of Premier are considered”**

- facilitate - through improved partnerships and networks of educational institutions, NGOs and the corporate sector – a means for peer education of the children, which imparts valuable learning and results in improved opportunities and options for their future;
- strengthen civil society's capacity, through the formation of viable partnerships and alliances, to develop locally supported, sustainable initiatives to address the needs of street children.

#### Matak Island

Matak Island is one of the islands in Indonesia's Natuna Sea and is home to the operations base for Premier's offshore activities. Matak has a population of more than 4,000, and we have been involved in the local community since 1998 in a sustained development programme that comprises public health and education. In these, Premier's involvement is not simply to provide funds, but to actively work within the community to ensure that the needs both of the community and of Premier are addressed.

#### Payalaman Medical Centre, Matak Island

Limited local facilities meant that most local villagers used the medical clinic at Matak base, which was planned initially to cater for Company employees. The nearest alternatives were clinics on the other islands, with the closest two hours away by boat. Although local communities use traditional medicine to cure minor ailments, their need to have access to a medical facility – together with the limited capacity of the Company's clinic – led to discussions between Premier, the local community leader, the Health Division of Kecamatan Palmatak, and the local government. It was agreed that, after the villagers of Payalaman selected the location for a local clinic, Premier would build the

facility. The local government would then take on the responsibility of managing and staffing it.

The facility was opened in August 2004, when Premier Oil handed over the building to the local government to maintain and manage. ●

For further information on these and other Premier Community projects, visit [www.premier-oil.com](http://www.premier-oil.com)



**PEOPLE  
MAKE THE  
DIFFERENCE**

*Stephen Huddle,*  
Company Secretary, explains  
how Premier's people make  
the difference in business.



**A**t Premier, we work hard to create a high-performance team culture that provides a collaborative and supportive work environment for employees to reach their full potential. We believe it is people who make the difference in business.

Following the restructuring of our

business in September 2003, Premier embarked on a Group-wide review of our organisation, business processes and structures. The result of this, principally, inward-looking process was a streamlining of our organisation, with clearer accountabilities and shorter reporting lines.

We also took this opportunity to revisit all the policies that guide and inform our employees. These policies and procedures have now been re-issued in the 2005 Premier Employee Handbook.

The internal policies are outlined in the table below.

Areas	Summary
Business Conduct	The Company recognises the need for employees to conduct themselves in a way that is appropriate and in a manner which avoids any conflict of interest and allegation of bribery or compromise.
Business Ethics	It is the Company's policy to comply with all applicable laws in the countries in which it operates and to conduct its business in an ethical way.
Company Share Dealing/Confidentiality	Freedom for employees/directors of the Company to deal in Company shares is restricted by statute, common law and the Listing Rules Model Code requirements to ensure employees do not abuse, or place themselves under suspicion of abusing, price-sensitive information.
Data Protection	The rights of employees to access any personal data held by their employer has been enforced by the Data Protection Act 1998. This policy informs employees which information may be accessed.
Disciplinary Procedure	The Company has a clear and defined procedure which is followed in all disciplinary cases.
Drug, Alcohol and Substance Abuse	Under its Health and Safety policy, the Company has the commitment to provide a safe and healthy workplace and expects employees to be efficient and productive in performing their job assignments. Consistent with this policy the Company prohibits the use, purchase, supply and sale of any illegal drugs or unlawful substances.
Educational Assistance	The Company is committed to the continual development of its employees to help them achieve maximum potential and will offer financial assistance and support to those employees pursuing formal training related to their job.
Email and Internet Use	Guidance is given regarding information stored on computer equipment for business use to prevent improper use.
Equal Opportunities	The Company is committed to the principle of equal opportunity in employment and to the establishment of a fair and non-discriminatory work environment.
Family and Parental Leave	The Company recognises that employees may have family responsibilities in addition to their Company responsibilities and at times it may be difficult to balance those demands. It therefore offers benefits which exceed the statutory requirements to assist employees in such situations.
Flexible Working	The Company recognises that employees may sometimes require flexibility in order to manage home and work life and will make every attempt to accommodate requests for flexible working, providing business needs are still met.
Grievance Procedure	From time to time employees may wish to seek redress for grievances relating to their employment. This policy sets out guidelines and procedure to be adhered to in such instances.
Harassment	The Company aims to provide a workplace free of all forms of harassment. Any harassment will be treated as a serious matter and dealt with accordingly.

Areas	Summary
Health, Safety, Environment and Security	The Company believes that effective health, safety, environment and security management is a priority. The policy sets out how it intends to achieve this.
Internal Communications	The purpose of this policy is to ensure that employees are informed of relevant developments within the Company.
Maternity	The Company's maternity policy allows employees time off from work to receive ante-natal care and maternity leave. The policy allows benefits which exceed statutory requirements.
Performance Management	The Company recognises the importance of developing its employees. The Performance Management System allows targets to be set and performance to be measured against those targets. Team performance contracts and individual performance contracts are set in line with Company objectives.
Recruitment Selection and Employment	The Company aims through its approach to recruitment and employment to attract and retain individuals who will perform to a high standard and will make a significant contribution to the Company.
Whistleblowing	The purpose of the whistleblowing policy is to provide a procedure for employees to freely disclose any information relating to a possible wrongdoing within the Company, which is in the public interest, without fear of reprisals, including victimisation and dismissal. Additionally, it ensures that the Company's procedures relating to disclosure of information avoids any conflict of interest or breach of obligation between employee and the Company.
Sabbatical Leave	This policy is aimed at employees who wish to take extended time off for reasons such as formal study or research, to achieve a personal self-development goal or for rest and recuperation.

**Our values**

In 2004, following the corporate restructuring, Premier's management team worked with advisers to consult internally and externally on the Premier characteristics – our values – in order to articulate what we are, what got us to where we are and what would continuously guide us, going forward. We believe that our values (creativity, professionalism, respect, dynamism and tenacity) are in essence what we will draw on as we move forward, whilst recognising our strengths which have got us where we are today.



As a result of the consultative process, we have started building these values into every aspect of our business. The values have been incorporated in a number of areas such as recruitment, induction and employee appraisals. When recruiting individuals it is important that they understand how they can demonstrate the values in terms of their own achievements, such as being creative and dynamic and embracing new ideas and challenges. The company's performance management system also ensures employees understand the values and how they can demonstrate them in their day-to-day responsibilities.

Focus on training and development of employees will ensure that individuals have the opportunity to reach their full potential and grow within their role. Premier takes a proactive approach to employee development and also encourages employees to take ownership for their own development where possible. Discussion between employee and manager is part of the performance management process and allows for identification of any training and development requirements.

A formal method of evaluating roles

has been introduced and this links to a defined grading structure from which salary bands are set. This ensures employees' pay is set according to their job grade. As individuals take on new responsibilities there will be an opportunity to move up the grading structure and receive pay and benefits commensurate with any change. This ensures a fair and equitable system of pay and benefits.

**Internal communication**

In 2005 we conducted our third Company-wide employee consultation exercise to measure the extent to which our internal CSR was perceived and to gauge how successfully the new Premier values were communicated throughout the Group. The methodology for consulting the employees was based on the Internal CSR Tools (Employee Survey and Human Resource Manager Survey, both part of the Premier Oil Social Performance Management System). We worked with a specialist company to change these tools into interactive, electronic solutions that allowed easier aggregation and dissemination of the results.



The 2005 Employee Handbook also contains an Internal Communication policy. The purpose of this policy is to ensure all employees are informed of any relevant developments within the Company. Specifically the aim is for employees to feel engaged in the Company's strategy and values and to contribute views where appropriate to influence decision making. Management seek to promote internal gatherings, either formal or informal, to update employees of information relevant to them. Managers have a responsibility for the motivation and performance of their staff, which includes being aware of their communication needs and regularly talking to them individually and as a team. ●

### Translation of the values into policy and practice



# HEALTH, SAFETY, ENVIRONMENT AND SECURITY

– setting standards for  
excellence at Premier



**Paul Dennis, Group Health, Safety, Environmental and Security Manager**

The role of the Health, Safety, Environment and Security (HSES) function at Premier is to advise, support and monitor our business units and functions, in these matters. Our focus is the protection of people working for our Company through our health, safety and security policies. Equally important is protection of the environment, and the human and animal life that it sustains, through our environmental policies. Success in these areas inherently protects our assets, our revenue streams and our reputation.

As a Company, we are very proud of our achievements, particularly over the last two years. It has been a period during which there were no fatalities in over 10 million man-hours worked and no significant environmental incidents or spills in our exploration, drilling and production activities both onshore and offshore conducted in seven countries of operation. Furthermore, in 2004, our Global Drilling function achieved certification to ISO 14001 and OHSAS 18001 standards, and the data collected during the certification process has enabled us to assess our environmental performance in detail.

Notwithstanding our successes so far,

we continue to work hard to make further improvements in line with our HSES policies. Following the restructure in 2003, when Premier underwent its dramatic change to focus on exploration and drilling rather than production, we too shifted our focus significantly, to address the different types of risk associated with drilling and seismic operations. However, regardless of this shift,

**“equally important  
is protection of  
the environment”**

we continue to apply the same high standards we always have and to involve ourselves in areas where we feel we can help drive improvement.

We are members of many industry associations including the United Kingdom Offshore Operators Association (UKOOA) and the association of Oil and Gas Producers (OGP). Through these associations we firstly debate, and sign up to, various new initiatives. For example, we signed up

to the Energy Biodiversity Initiative (EBI) recommendations, which seek to integrate biodiversity conservation into oil and gas development. Within each of these industry associations there exists a peer group network of like-minded HSES professionals through which Premier actively contributes to the internal debates, closely follows emerging issues and benchmarks performance against other member companies.

In line with the Company's commitment to carrying out dialogue with our stakeholders, at the end of 2004, we sent out our first HSES Questionnaire 'Behaviour, Integrity and Compliance' to some 120 employees working for our production department both onshore and offshore in Indonesia. We were delighted with the return rate of 50% and the results are now being analysed. We expect the results to be available next year.

#### **Management systems**

The HSES management systems embedded throughout Premier Oil play a core role in meeting the Company's commitment to continuous improvement in the management of our operational risks. As



Fig. 1 Global operations – Location of drilling and production activities in 2004

Name	Activity	Country	Dates	Well type	Total depth	Result
Criollo	Exploration Drilling	UK	16/03/04 to 14/04/04	Offshore	3019m	Abandoned
Chung	Exploration Drilling	Pakistan	18/11/03 to 13/07/04	Onshore	2025m	Abandoned
Sinapa 2	Exploration Drilling	Guinea Bissau	13/02/04 to 24/04/04	Offshore	3657m	Abandoned
Gajah Baru	Appraisal Drilling	Indonesia	17/09/04 to 16/11/04	Offshore	2770m	Successful
Anoa Wells	Workover	Indonesia	04/08/04 to 04/11/04	Offshore	2712m	Successful
Anoa	Production Operations	Indonesia	Continuous Production	Offshore	This is a fixed production platform and FPSO	Production continues

part of the process of obtaining certification to ISO 14001 and OHSAS 18001, a review of these policies and management systems was carried out by our certifying body Environmental Resource Management – Certification and Verification Services (ERM CVS). Certification requires independent audit by an accredited body. We selected ERM CVS for this process as they are accredited by the UK Accreditation Service (UKAS) and have the appropriate experience in the oil and gas sector. Following a review of the feedback, the policies and procedures were updated and the management system is now being rolled out to all country, asset and functional managers.

#### Global operations

The shift in the Company's focus has meant that the management of HSES issues now covers multiple activities in many areas. These currently comprise:

#### Exploration and appraisal drilling (Fig. 1)

With the emphasis of Premier Oil's new business operations now on exploration and drilling, in 2004 the Company drilled four wells, three of which were exploration

and one appraisal. We also conducted two workovers in the Anoa Field in Indonesia. Key environmental data was recorded for all these activities.

**“achieved certification to ISO 14001 and OHSAS 18001 standards”**

#### Production operations in Indonesia

Following the sale of operations in Myanmar and the Company restructure in 2003, Premier's current operated production facilities are all located in Indonesia. These are well established, but require ongoing monitoring and auditing to identify trends and opportunities for continual improvement. In 2005 we are aiming to achieve ISO 14001 and OHSAS 18001 for this business unit and at the time of writing have just been awarded certification to ISO 14001.

#### Our HSES approach

With comprehensive HSES data capture systems now in place across all production and drilling sites, and data analysed every six months, the trends identified enable issues to be dealt with as they arise.

For example, analysis of 2003 data showed that the most frequently reported incidents, as in most oil and gas companies, were road traffic accidents. As a result, action was taken to introduce a road transport risk assessment process that identifies hazards and matches road specifications to local vehicles. This has reduced road accident rates dramatically in Pakistan where in 2003 we had seven road tanker roll-overs and none in 2004. Our analysis also revealed that animal bites – from monkeys, camels, scorpions and snakes, as well as the more usual leeches and mosquitoes – were a major issue. We therefore erected snake fences, increased lighting levels around all camps and included the advice to wear boots at all times when walking through the area and to shake out the boots before putting them on.

In 2004, we found lifting and rigging incidents dominated and we have taken steps to rectify this by introducing ▶

Fig. 2a

Combined LTI+RWDC frequency

(No. of lost-time injuries and restricted work-day cases per million man-hours worked)

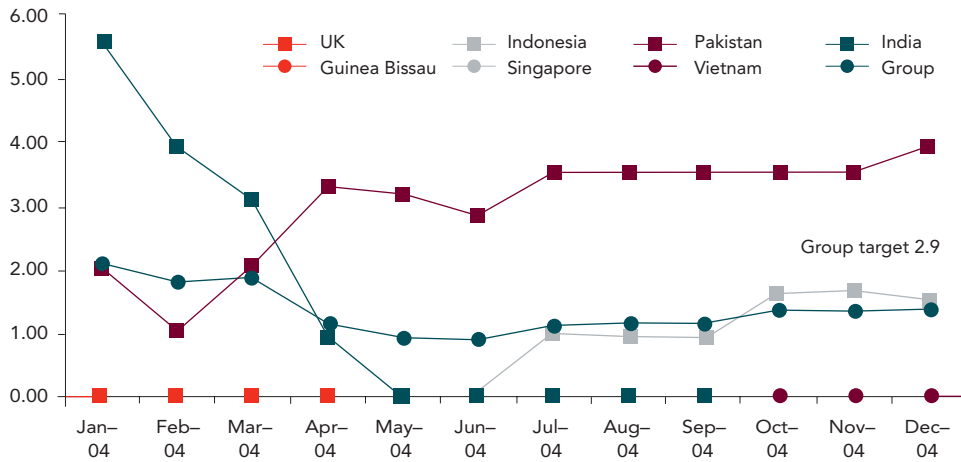
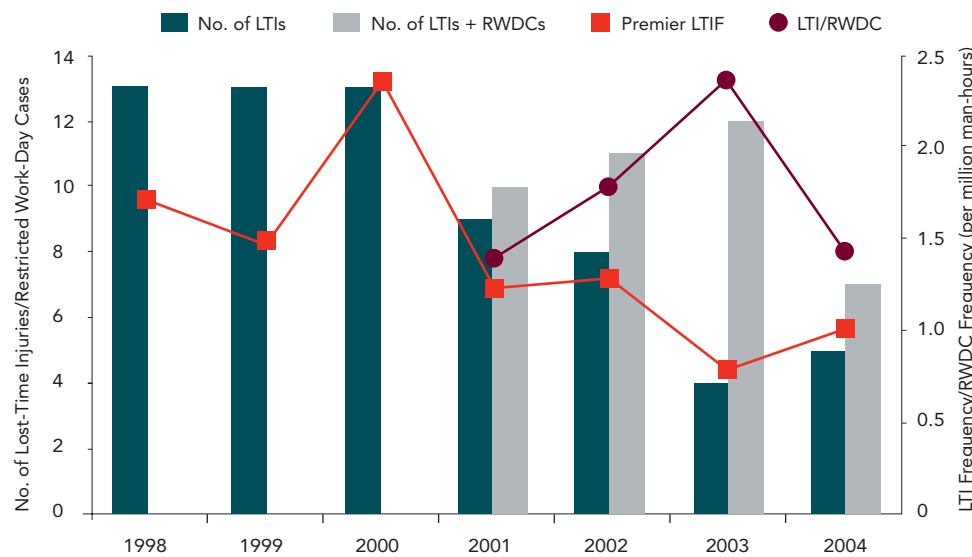


Fig. 2b



► crane inspections and by improving the competency of the personnel at any new ports used by our projects. The ongoing work of the HSES function and in particular the risk assessment process was perhaps best illustrated by the drilling of the Lakkhi well in the Jaipur area of Assam in North-East India.

Our health and safety risk assessment showed that road traffic accidents would be a major concern. As a result, we took proactive action in fitting seat belts in crew buses and improved driver behaviour by implementing a defensive driver training programme.

Health

We have an ongoing commitment to improving health throughout the Company's operations. In London, in 2004, we introduced a health awareness programme for office staff to encourage them to take advantage of free medicals and the subsidised health and fitness club membership available to them.

Company-wide, we also introduced a heat management programme for workers working in high ambient temperature, in line with the OGP recommendations. This has already come into effect in Pakistan where employees working in temperatures over 36°C must take a 20 minute rest in the shade for every two hours worked.

All employees working offshore or in remote locations are now required to have medicals. To support this we are in the process of strengthening our system for Offshore Visit Authorisation (OVA) to ensure that all employees have proof of medical fitness before going offshore.

In Indonesia we are piloting a health awareness campaign focused on healthy eating, staying fit and stopping smoking. As part of this campaign, the Company is changing the catering company and improving fitness facilities for employees.

In Guinea Bissau, when working with locally hired staff, we implemented the OGP Guidelines for control of HIV and Hepatitis B and C in the workplace without seeking HIV tests. We fully appreciated the risks from potential HIV carriers in some jobs eg kitchen staff, and allocated jobs accordingly.

At present there are no quantitative targets for health performance.

Safety

The key performance indicators for safety performance are the number of Lost-Time Injuries (LTIs) and Restricted Work-Day Cases (RWDCs), which are measured per million man-hours. (Fig 2a) We also closely monitor the close-out of corrective actions identified in incident reports.

Since 1999, efforts have been made to continually improve the reporting culture within Premier, and this success appears as a rise in LTIF figures in 2000. In 2001 we introduced an Electronic Accident Reporting System (EARS), which allowed us to analyse trends and take appropriate corrective actions, this led to a 48% reduction in the accident rate by the end of 2002. Further analysis of data and trends resulted in new initiatives being undertaken in 2002-2003, and we are delighted to report that our number of LTIs dropped from 13 in 2000 to just four in 2003.

Following the restructure of the Company in 2003, and the new emphasis on exploration and drilling, which takes our employees into more frontier locations, we recognised that it would be difficult to maintain the already low LTI rate. We therefore decided to concentrate on reducing the overall number of combined significant injuries (LTIs + RWDCs). In 2004, a total of 4,915 million man-hours were worked, with no fatalities. We did unfortunately incur five LTIs and two RWDCs. However, the combined LTI/RWDC frequency has continued to show a downward trend from 1.77 in 2002 to 1.43 in 2004, an improvement of 39%. (Fig. 2b)

Fig. 2c

**Safety targets**

We have set ourselves new KPI targets for 2005. These seek a 10% reduction on the 2004 LTI/RWDC frequency target across the Company and, for our Indonesian production facilities, the introduction of a verification scheme to confirm that maintenance is carried out to agreed formal performance standards, and achievement of OHSAS 18001 certification.

**Environment**

The HSES management system requires that Environmental Impact Assessments (EIAs) are carried out for all new projects. The statutory requirement for EIAs varies greatly between different countries of operation. Whilst the requirements in the UK are necessarily comprehensive, those in other countries may often be less onerous. To achieve a common approach, Premier prepares supplemental appendices to EIAs for internal management control. These go beyond the basic detail required for licence approvals. To this end, the Company has introduced a pro-forma EIA content list against which we aim to set targets for EIA performance predictions in the future.

In India our strategy in preparing the Lakkhi EIA was to approach the Department of Chemistry at Gauhati University, and prepare a draft EIA to best utilise their knowledge of the local environment. This was subsequently reviewed by our EIA experts who then worked with the university to enhance their knowledge of drilling practices and impacts. This ensured a robust EIA to meet our standards while using a combination of skills.

The EIA raised a number of issues and suggestions. Within the Environmental Monitoring and Management Plan (EMMP) for this jungle location it suggested mitigating measures be taken to reduce background noise from the rig to avoid disturbing local monkey mating calls. This was achieved by erecting bamboo noise screens.

In a previous seismic survey in the Cachar area of Assam, we used local elephants as a means of transporting equipment into the jungle. (Fig. 2c)

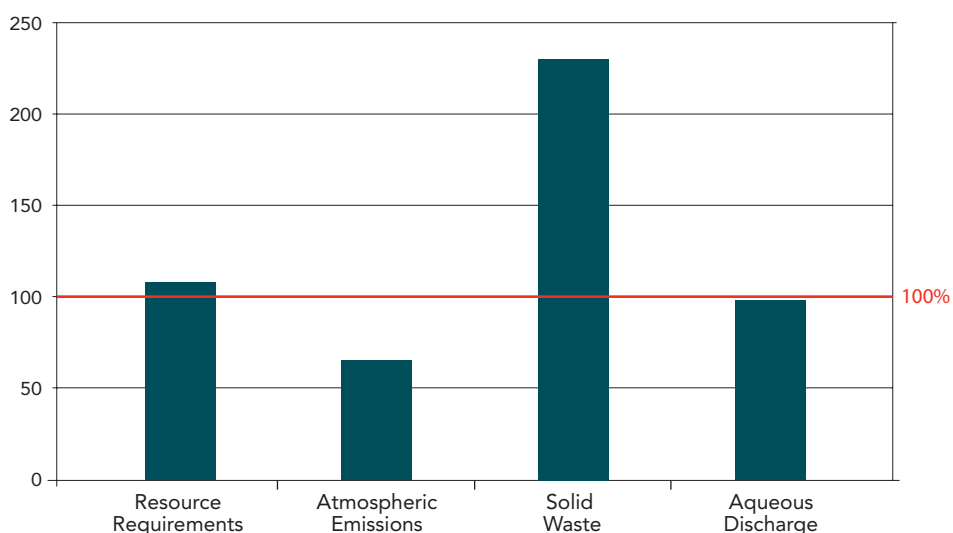
In line with the target set in our 2003 report, environmental data has now been gathered for all production and drilling sites, and the results are outlined in Fig. 2d.

At present the data collected to satisfy the global reporting initiative (GRI) is normally shown as total figures ▶



Resource use, emissions and discharges as a % of EIA estimates

Fig. 2d



LTIF performance of industry

Fig. 2e

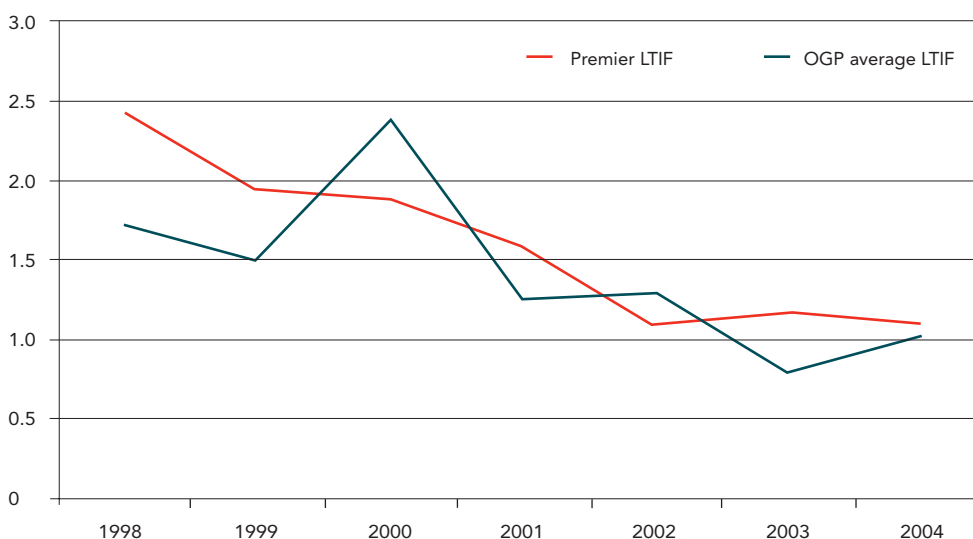


Fig. 3 Key performance indicators

	2002	2003	2004
Million man-hours worked		5.071	4.915
Number of fatalities	0	0	0
Lost-time injury frequency (LTIF)	1.29	0.79	1.02
Number of restrictive work-day cases	3	8	2
Combined lost-time injury and restricted work-day case frequency (LTI/RWDC frequency)	1.77	2.37	1.43
Total number of incident reports	305	220	135
Close-out of corrective actions	93%	94%	96%

\*For detailed country breakdowns, please visit [www.premier-oil.com/breakdowns](http://www.premier-oil.com/breakdowns)

► of physical presence, resource use, emissions, solid wastes, discharges, spills and costs. It has not been possible for us to plot these against the standard industry indicator of barrels of oil equivalent per day (boepd) as, whilst this is relevant and has been used for production sites, it is not particularly meaningful for drilling activities. We believe that a more meaningful indicator for the performance of drilling sites is the accuracy of and compliance with the EIAs as shown.

#### Environmental performance

The nature of our newly focused business means that we are now operating in more and more frontier locations where we must ensure that our drilling operations are run in accordance with the recommendations in EIAs to prevent significant impacts on the environment. We are also committed to continuous improvements in our performance at our established long-term production facilities in Indonesia.

Following our success in achieving ISO 14001 for all drilling operations in 2004, we began a one-year programme of training for both onshore and offshore staff in environmental awareness and waste management, as part of our move to

ISO 14001 compliance in the Indonesian production operations. We also fulfilled the promise made in our 2003 report to collect environmental data for production and drilling facilities, and a comprehensive set of data is now in place\*.

#### Environmental targets

We have set ourselves a number of wide-ranging environmental targets, which include:

- Introducing the use of pro forma for EIA contents for all new operations for all new wells in 2005
- Achieving ISO 14001 for production facilities (Indonesia) by the end of 2005
- Producing a worldwide register of environmental aspects at the end of 2005
- Introducing quantified environmental targets for 2006
- Making all current EIAs available for public reference

#### Environmental aspects:

##### Biodiversity

As previously outlined, the biodiversity of the areas where we work is carefully assessed through our EIA process and we manage biodiversity issues in accordance with international standards set by the World Bank Guidelines, Equator Principles and recommendations from the Energy Biodiversity Initiative (EBI). (Fig. 4)

##### Materials

Materials use at production sites mainly consists of raw materials used for initial construction, which usually have a useful life of about 20 years. Materials in use at drilling facilities include casing, piping, mud, cement, concrete, chemicals, fuel, water and lubes and their use has been carefully monitored at our five wells over the last year. As part of the EIA process, we assess all suppliers of chemicals and attempt to find low-toxicity replacements where possible. Whilst it is unusual for us to have the opportunity to buy and re-use materials, we are endeavouring to buy some unused materials and equipment from a joint venture company that is in the process of being wound up.

##### Energy use

Premier is committed to minimising product loss during the full cycle of its business activities, and we endeavour to minimise venting and flaring as far as reasonably practicable. Fuel used in production is a combination of liquid and gas and, where possible, we use the hydrocarbons produced to power our own operations. The EIAs capture some information on the environmental impacts of transportation, where a significant amount of fuel is used in the movement of rigs around the world.

##### Water

In onshore drilling operations, local water is used as part of the operational and safety systems. Drilling cuttings are cleaned, dried over time, and returned to the local landscape. Aqueous discharges including sewage are also monitored\*.

##### Reclaimable products

Our products are oil and gas, which are consumed in the generation of power and heat by the purchasers of our products and then converted into CO<sub>2</sub> emitted into the atmosphere. We do not have any products which can be reclaimed for re-use.

### Atmospheric emissions

We have carefully monitored hydrocarbon production and associated emissions from our production and drilling facilities, and these include CO<sub>2</sub>, CO, N<sub>2</sub>O, CH<sub>4</sub>, VOCs, NO<sub>x</sub> and SO<sub>x</sub>\*. The only instance of ozone depleting substances being used or emitted was at the Chung well in Pakistan, where R12/R22 CFCs were used in rather elderly local air-conditioning equipment. We also have a stock of halon to be used for fire fighting purposes in Indonesia. We intend to replace this by 2007 in accordance with local government regulations.

### Solid waste

The amount of solid waste generated has also been carefully monitored over the last year\*. The data separates waste by type, but does not yet capture the type of disposal method used in all cases. In most cases, solid waste generated at well sites was greater than expected. We will set performance indicators on the amount of waste to be recycled for 2006. There was no production, transport, import or export of waste categorised as hazardous under the Basel Convention.

### Aqueous discharge

Our production facilities in Indonesia produce water from the well fluid and discharge it back into the sea. After careful treatment, this water contains a certain amount of oil (average 25 to 35 ppm), the level of which is monitored regularly and kept within the local permissible limit of 75 ppm. However, as oil reservoirs get older, they inevitably produce more water, which accounts for the increases seen in water produced in Indonesia – from 663,229m<sup>3</sup> in 2002 to 674,574m<sup>3</sup> in 2004.

### Accidental emissions

There were no major accidental emissions during 2004 and all the spills listed opposite were small amounts with negligible impact on the environment. (Fig. 5)

### Reputation and costs

Premier is developing an environmental cost programme, which covers EIAs, monitoring costs and base-line surveys. Whilst we cannot report accurate total costs at present, we are capturing base data and will report these in 2006. There have been no incidents of fines for non-compliance with international treaties over the last two years. ▶

Fig. 4 Biodiversity

Country	Operation	Biodiversity issues	Actions taken to limit possible impacts	Additional actions to benefit biodiversity
UK North Sea	Criollo well	Auks on the sea surface during breeding periods	Conducted drilling operations during a period of low seabird activity	
Guinea Bissau	Sinapa 2 well	Leather backed turtles	Prepared detailed oilspill response plan to ensure that no credible oil spill could reach the nesting grounds	
Indonesia	Annoa production operations	Coral reef near island shore base and airport, 200 km from production operations	No overboard dumping, oil spillage plan, discharges carefully monitored and within government limitations operations	Co-operated with the Ministry of Marine Resources to develop a coral reef rehabilitation program
Pakistan	Exploration and drilling in Kirthar National Park	Ibex, urial and other wildlife species	No operations during breeding or rutting seasons of key wildlife species, minimized work in core wildlife areas	Funded preparation of scientific baseline study, national park management plan, and capacity building of Sindh Wildlife Department. Refurbished park visitor centre and constructed watering points for wildlife

Fig. 5 Accidental emissions

Emission	Date	Country	Location	Details	Result
Spill	2004	Offshore UK North Sea	Criollo well	1 minor hydraulic oil spill	No significant environmental impact
Leak	2004	Onshore Pakistan	Chung well	5 minor engine oil leaks	No significant environmental impact
Discharge	2004	Offshore Guinea Bissau	Sinapa 2 well	1 cement discharge	No significant environmental impact
Spill	2004	Offshore Guinea Bissau	Sinapa 2 well	1 water-based mud spill	No significant environmental impact
Spill	2004	Albania	Pato Marinza production operations	1 minor oil spill	No significant environmental impact
Spill	2004	Offshore Indonesia	Anoa production operations	2 minor oil/condensate spills	No significant environmental impact

## Security

Security risk assessments are carried out for every business unit. There have been no significant security incidents over the last two years. Close attention has been paid to the war in Iraq, and ongoing security threat assessments are carried out as part of our business continuity plans.

As a result of increased terrorist threats, ports should now comply with the International Standard for Port Security (ISPS). Premier Oil's FPSO (floating production, storage and offloading) vessel in Indonesia is deemed to be a port, and has been compliant with the ISPS since the end of 2004. Following the Australian Embassy bombing in 2004, Indonesian security measures were reviewed and improved at our office building in Jakarta. These improvements included robust vehicles checks and metal detector screening of all entering personnel and baggage.

A pilot travel advisory service was introduced in London in 2004. This is currently available to every Head Office business traveller and gives an assessment of the political and health and security risks of the destination. First aid kits, GPS position locating equipment and satellite phones are also offered to persons travelling to remote locations.

## Summary

In summary we have achieved the commitments we made in the 2003 Sustainability Report and 2004/2005 was another excellent year for Premier Oil's Health, Safety, Environment and Security performance. Our LTIF performance is better than the industry average (Fig. 2e) and we have been independently monitored through the ISO 14001 and OHSAS 18001 certification process. Our management systems are robust and our surveillance survey programme should ensure they remain so. ●

\* A full breakdown of the following information can be found at [www.premier-oil.com/addresses](http://www.premier-oil.com/addresses)

- The HSES policies and a more detailed description of the HSES management systems
- Country breakdowns of safety indicators
- Country breakdowns of environmental indicators – emissions, discharges etc
- EIA links
- Breakdown of materials used at five drilling sites

## Frequently asked questions

### Q: What is Premier Oil's biodiversity policy?

**A:** Our policy is to evaluate each potential new opportunity individually through the application of our strict HSES system, and then to make a decision based on the results of available data, baseline studies and environmental impact assessments, oil spill plans, etc. If we do operate in a sensitive area our footprint is generally extremely small and we manage our operations very tightly and make sure that any disruption is minimal.

### Q: Does Premier Oil consider biodiversity issues when selecting sites for operations?

**A:** Premier generally evaluates a number of locations before deciding on a well site. In sensitive areas, environmental considerations, including biodiversity issues, often significantly influence the selection of sites. The site selection process is described in all EIAs.

### Q: Does Premier Oil have a policy on biodiversity offset?

**A:** Where our operations have significant impacts on the local environment, we consider ways to offset the impacts through conservation interventions. All EIAs are location specific, and where a biodiversity offset is both beneficial and practicable, we will take appropriate measures. Examples of this include replanting Juniper trees to enable road access to the Zarghun South drilling site in Pakistan, and implementing a Range Management Plan to relieve the feeding burden of livestock, and thereby increase availability of natural vegetation to protected wildlife species (such as urial sheep) around the Dureji-1 well site, also in Pakistan.

### Q: How does Premier make sure that all staff are aware of its environmental practices?

**A:** We publish codes of environment practice as part of our integrated health, safety, environment and security management system and embed it into project teams through dedicated induction briefings.

### Q: How is the information contained in the EIAs disseminated to field staff?

**A:** A common induction process is being introduced so that staff working locally are aware of the requirements of the EIA. The induction is given to all field staff when joining the project, but focuses on the site supervisors at well sites, to ensure that they are aware of specific local risks, implement risk reduction measures and carefully monitor their subordinates' compliance.

It is important to us that all materials used in the production of this report are environmentally sustainable.

This report has been printed by Empress Litho who are accredited with the ISO 14001 environmental management system (UKAS ISO 14001: 4284/04E). It has been produced entirely on one site using vegetable based inks which contain environmentally replenishable vegetable oils. On average 89% of all waste associated with the production of this report is recycled. The paper used is made from 80% de inked post consumer waste and 20% mill broke.

When you have finished with this report please pass it on to other interested parties or dispose of it in your recycled paper waste.

Premier Oil plc  
23 Lower Belgrave Street  
London SW1W 0NR  
Telephone: +44 (0)20 7730 1111  
Fax: +44 (0)20 7730 4696  
[www.premier-oil.com](http://www.premier-oil.com)

Prepared by Dr Richard Jones  
Designed and produced by Philosophy  
Photography by Mike Abrahams  
Printed by Empress Litho