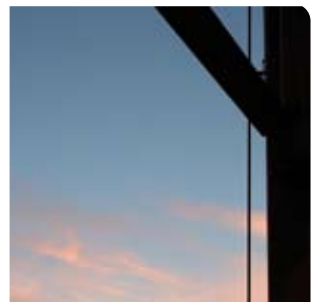
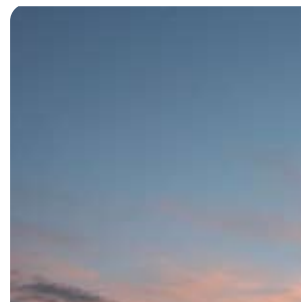




**Health, safety
& environment.
We're all responsible.**

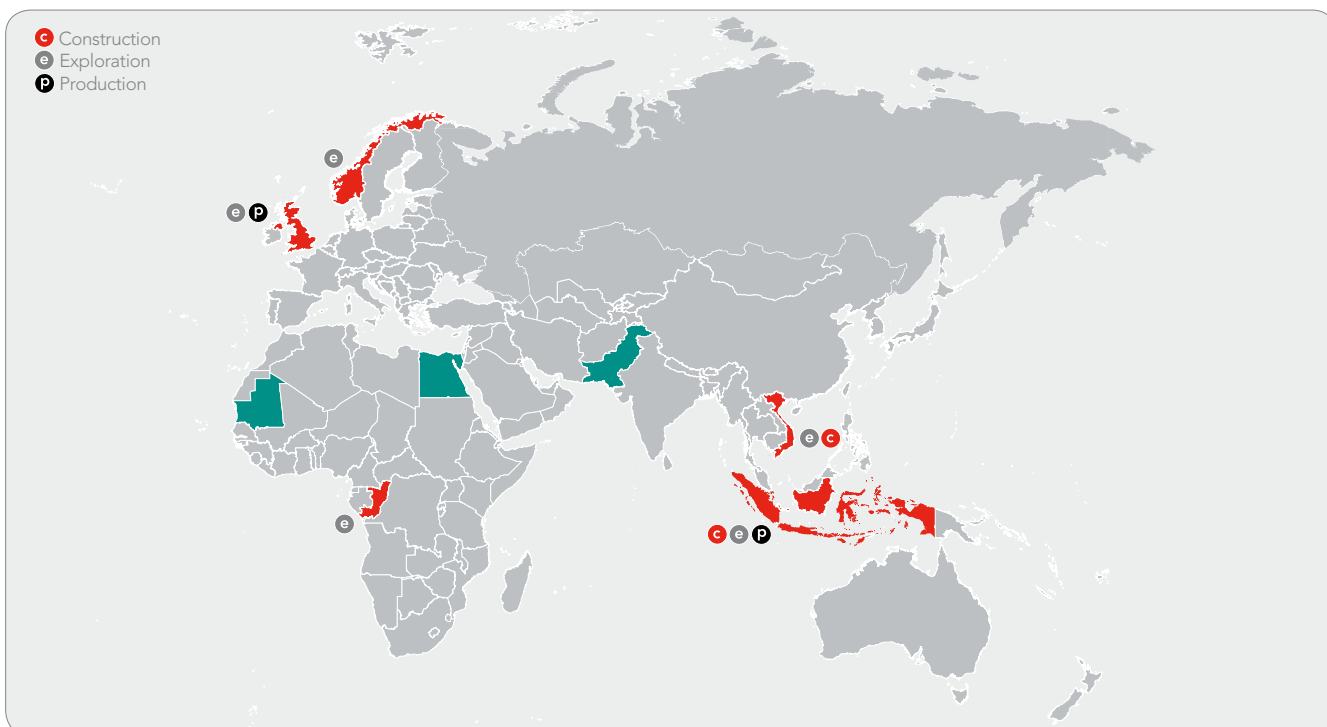
No short cuts.
No exceptions.
No incidents.



Company profile

Premier Oil plc (Premier) is a leading FTSE 250 independent exploration and production company with interests in eight countries around the world. These include operated and non-operated production in the United Kingdom (UK) North Sea, Indonesia, Pakistan and Mauritania and development projects in Vietnam, Indonesia and the UK. The company plans to drill around 20 exploration and appraisal wells in 2011, including wells in Egypt, Indonesia, Norway, Pakistan, Vietnam and the UK. Our strategy is to add significant value through exploration and appraisal success, astute commercial deals and optimal asset management. The company is headquartered in London with approximately 570 permanent employees worldwide, the majority being located in the United Kingdom and Asia (p18). Our current production is split approximately 60% gas and 40% oil.

www.premier-oil.com



Note: Red shading on map indicates countries where we operate. This includes our exploration activities in Indonesia, UK North Sea, Norway and Vietnam. Green shading indicates countries where we have equity in joint ventures under another oil and gas company (as at end 2010). A detailed list of these joint ventures and our equity ownership is located in the Annual Report 2010 and on www.premier-oil.com

Licences	Field	Equity
Congo		
Marine IX *		31.50%
Egypt		
South Darag ‡		100.00%
Indonesia		
Natuna Sea Block A	Anoa	28.67%
Tuna		65.00%
Norway		
PL406		40.00%
PL567		60.00%
United Kingdom		
P087	Nelson ††	46.50%
P110	Mallory	27.24%
P110	Huntington East	25.04%
P119	Ptarmigan	60.00%
P201	Balmoral ††, Stirling §§	85.00%
P201	& Glamis	100.00%
P213	Brenda (Above 7500ft)	100.00%
P233	Caledonia	70.00%
P344	Nicol	55.00%
P344	Balmoral †† & Stirling §§	44.20%
P354		30.00%
P1042	Brenda	100.00%
P1157	Brenda	100.00%

Licences	Field	Equity
United Kingdom		
P1181		57.50%
P1260	Shelley	100.00%
P1420		72.73%
P1431		100.00% §§§
P1466		100.00% ****
P1559		100.00%
P1577		100.00%
P1620		50.00%
P1772		50.00%
P1784		70.00%
Vietnam		
Block 12W	Chim Sao	28.125%
Block 07/03	Cá Rồng Đỏ	30.00%
Block 104-109/5		50.00%

* Notice has been served to withdraw from this licence
 † This farm-in deal has been signed and completion is now subject to government approval
 ‡ This government concession has been signed and is awaiting ratification
 § Formerly named North Sumatra Block A, this block will be renamed Block A Aceh, with effect from September 2011, ** Unitised share of 1.31404 per cent
 †† Unitised share of 0.348750 per cent, ††† Unitised share of 78.11542 per cent
 §§ Unitised share of 68.68 per cent, *** Unitised share of 21.83 per cent
 †††† Unitised share of 01.58677 per cent, ††††† Unitised share of 12.38 per cent
 §§§ This licence will be relinquished once government approval has been given
 **** Subject to contract, and an earn-in agreement to transfer a 40% interest to Canadian Overseas Petroleum (UK) Limited, Premier's new interest will be 60%

Section 1: INTRODUCTION

- 2 Message from the CEO
- 4 Our approach to reporting

Section 2: SOCIAL RESPONSIBILITY

- 6 **Community and society**
- 6 Community investment
- 16 **Human resources**
- 16 Employment
- 22 Business ethics

Section 3: HEALTH, SAFETY AND ENVIRONMENT

- 24 **Our policy framework**
- 24 Leadership and communication
- 26 HSE management system
- 27 Targets and continuous improvement
- 27 Management, audit and assurance
- 28 **Health and safety**
- 28 Occupational health and safety
- 31 Process safety
- 32 Emergency preparedness
- 33 Security
- 34 **Environment**
- 34 Environmental performance
- 36 Climate change and greenhouse gas emissions
- 38 Pollution prevention

Section 4: FINANCE

Section 5: ASSURANCE

Section 6: COMPLIANCE TABLES

We have a responsibility to ensure our operations cause no harm to people or the environment. This remains a priority equal to our other key business objectives.

Simon Lockett, Chief Executive Officer, Premier Oil plc

Message from the CEO



Simon Lockett, Chief Executive Officer, Premier Oil plc

Continued growth through commitment

Premier continues its programme of growth and expansion; bringing on board new operations and expanding into new geographies. The most notable of these are the Gajah Baru and Chim São development projects in Indonesia and Vietnam, both of which are in the construction/installation stage. Significant work on these projects increased our man-hours from 3.8 million in 2009 to 8.8 million in 2010. Employee numbers increased around 15% to over 570 permanent employees by the end of 2010. This last year also marks the first full year of production at our recently acquired North Sea operations as well as exploration success in Norway and new activity in Egypt. This increase in activity brings with it an increase in risk exposure. We remain committed to managing this growth and subsequent exposures both effectively and responsibly.

The BP Deepwater Horizon explosion and oil spill in the Gulf of Mexico has resulted in increased scrutiny and caution towards the entire energy industry. Proactive companies need to address these concerns directly to allay concerns and regain the confidence of regulators, investors and other key stakeholders. This report, together with our Annual Report 2010, presents a clear, systematic and transparent account of our continued ability to manage all aspects of our business.

Aligning with best practice

Premier carries out independent audits of its policies and management systems to ensure continued compliance with the requirements of regulatory bodies wherever we operate. We also align our social performance reporting with standards produced by the following bodies: the Global Reporting Initiative (GRI); the International Petroleum Industry Environmental Conservation Association (IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting; the Carbon Disclosure Project (CDP); FTSE4Good and the United Nations Global Compact (UNGC) of which Premier is a signatory. This report also functions as our Communication on Progress to the UNGC.

Our last report identified areas for improvement relating to policy statements on political donations, a global pay and benefits framework as well as certain aspects of community engagement. Steps were taken in 2010 to strengthen many of these policies and underlying management systems as well as our alignment with global standards. These steps are detailed throughout this report with a summary of progress to date presented in Figure 2 (p5). Further details on our policies and procedures are available on our website. This includes our Human Rights Policy and position statements on issues such as indigenous peoples, development rights and stakeholder dialogue.

“ Our Carbon Disclosure Project score increased from 45 in 2009 to 74 in 2010, making Premier the second best performing energy sector company in the United Kingdom.

Preparing for the Bribery Act

Integrity, honesty and fairness remain fundamental to the way we conduct our business. In support of the introduction of the Bribery Act in the United Kingdom, we reintroduced our global Code of Conduct which applies to all employees, at every level in the business and all those associated with Premier. The Code covers issues relating to anti-bribery, gifts and hospitality, charitable and political donations, intermediaries as well as facilitation payments. Training workshops on the Code and its requirements are being given to managers at all Premier operations worldwide in 2011. A further online training facility has been developed and will be implemented during the course of 2011.

Reinvigorating health and safety

In 2010, Premier implemented and communicated a new Health, Safety and Environment (HSE) Policy at all operations worldwide. This new policy was developed as part of our planned review and continuous improvement process. This last year also saw a net reduction in high potential incidents per million man-hours from 2.10 to 1.59 (Figure 10).

There was however one fatality amongst our contracted workforce at the Chim Sáo drilling operations in Vietnam. The causes of this fatality were thoroughly investigated by Premier, the contracting companies as well as the relevant authorities. All actions to prevent reoccurrence are being tracked by our HSE departments with ongoing reporting on progress to our Executive Committee and the Board.

All of our current production and global drilling operations are OHSAS 18001 and ISO 14001 certified. In 2010, we completed a number of OHSAS 18001 and ISO 14001 surveillance audits. Our Gajah Baru and Chim Sáo construction projects in Indonesia and Vietnam completed pre-assessment audits with a view to being compliant when they start operating in 2011 and 2012 respectively.

Looking to the future

Premier will face increasingly stringent regulation as well as new health, safety, environmental and social challenges as it continues to grow in new geographies over the next few years. Meeting these challenges and addressing the concerns of our investors, partners and stakeholders will require significant continued effort from us all. We remain committed to the challenge of improving our standards each year.



Top Construction of our new production facilities in Asia
Bottom Turret shaft at our Chim Sáo drilling operations, Vietnam

Our approach to reporting

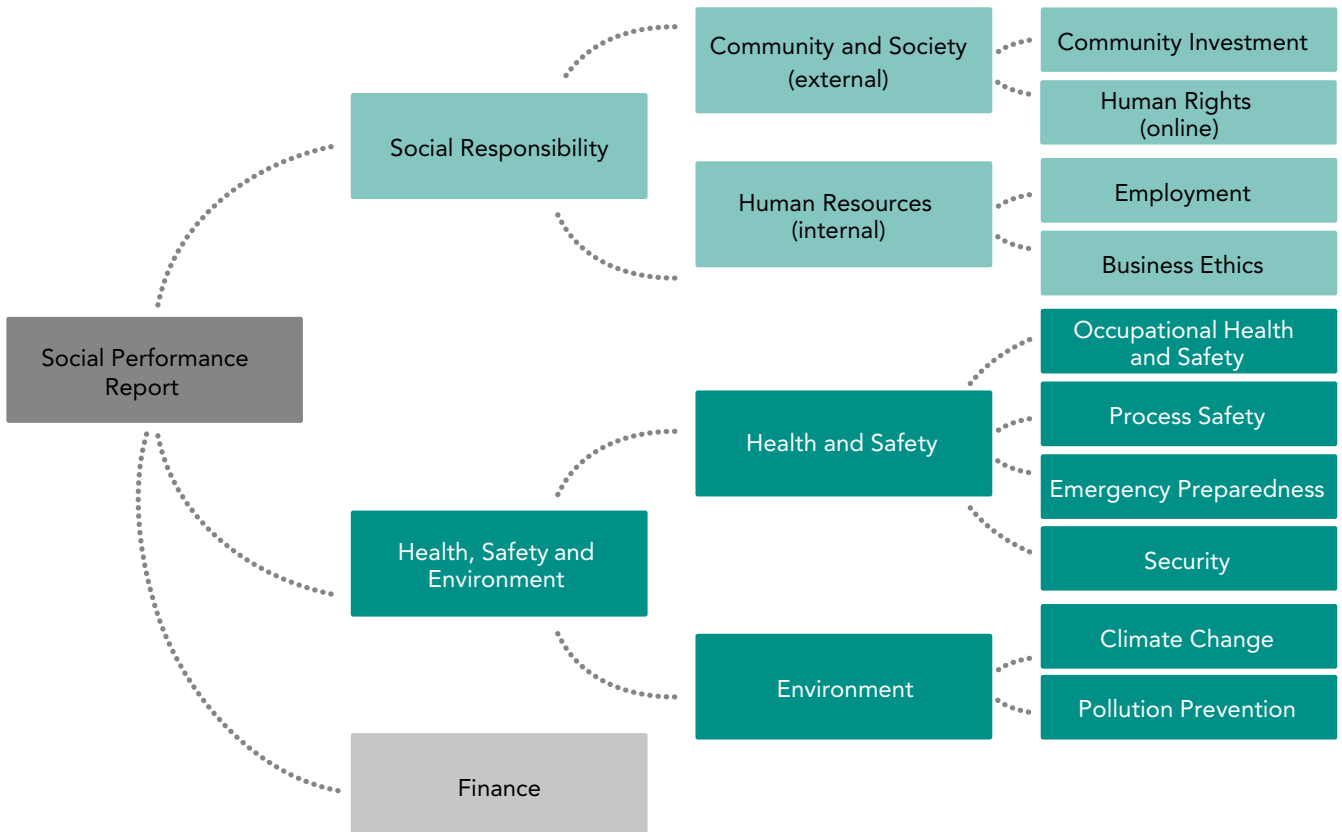
This Social Performance Report aims to demonstrate how we have applied and delivered on our stated policies and commitments in 2010. This report covers our own operations and does not include non-operated joint ventures except where specified.

Premier carries out independent audits of its policies to ensure compliance with the requirements of the following bodies: the Global Reporting Initiative (GRI); the International Petroleum Industry Environmental Conservation Association (IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010; the Carbon Disclosure Project; FTSE4Good and the United Nations Global Compact.

Our last report identified areas for improvement relating to policy statements on political donations, a global pay and benefits framework, security services and human rights, as well as aspects of community engagement including prior and informed consultation and the existence of appropriate grievance mechanisms. Steps were taken in 2010 to strengthen existing policies and underlying management systems as well as our alignment with global standards. Disclosure of our performance in this area and for all of the commitments made in 2009 is presented throughout this report and summarised in Figure 2. Further details on our policies and procedures are available on our website. This includes our Human Rights Policy and position statements on issues such as indigenous peoples, development rights and stakeholder dialogue.

With regard to reporting against the GRI Sustainability Reporting Guidelines, we are currently striving to achieve a B+ and as such report against sufficient core areas to achieve that rating. This report is our annual Communication on Progress to the United Nations Global Compact.

Figure 1: The scope of our social performance reporting¹



¹ Policy statements for all areas are presented online at www.premier-oil.com

“ Premier retained its inclusion within the FTSE4Good Index for the 8th year in a row.

Tony Durrant, Finance Director, Premier Oil plc

Figure 2: Delivering on our commitments

Report section	Our commitment in 2010	Actions taken over the last year	Page
Our approach to reporting	Steps to strengthen existing policies and management systems to further align with global standards	Development of new Code of Conduct and updated HSE Policy. Management systems evolve each year to support our continuous improvement goals	22, 24
Community investment	Testing of procedures to identify relevant local initiatives (for investment)	Tool kit implemented in Vietnam, Indonesia and Pakistan with coherent community investment strategies in place for all three countries	7
Employment	Review human resources policies and Employee Handbooks to ensure alignment with national requirements	Handbooks updated as part of our ongoing review process at corporate and business unit level. This includes alignment with relevant local legislation and statutory requirements such as the Bribery Act	16
	Employee satisfaction survey	The last survey was implemented in 2008. A follow up survey will be implemented in 2011 that also allows employees to feedback on the revised handbooks and new e-learning tools	16
	Global pay and benefits framework	A review of employee grading, pay and benefits schemes has driven consistency across all operations. Premier continues to ensure banding, salary and benefits packages remain globally competitive	18, 19
	Succession management in place for senior managers	Potential successors were identified for all key positions and will be progressively rolled out as required for other areas of the business	20
Business ethics	Revised Business Ethics and Conduct Policy compliant with the Bribery Act	The new Code of Conduct is compliant with the Bribery Act in the United Kingdom and applies to all employees, at every level in the business and all those associated with Premier	22
Health, safety and environment	Certify Balmoral production facilities to OHSAS 18001 and ISO 14001	Balmoral operations certified to OHSAS 18001 and ISO 14001 and construction operations including Chim Sáo and Gajah Baru have completed pre-assessment audits with a view to being compliant when they start operating	27
	Process safety, safety cases, performance standards and Independent Verification Body (IVB) for Gajah Baru and Chim Sao	“Safety cases” are in place at Anoa in Indonesia and Balmoral in the North Sea as well as our assets still in the construction and installation stage i.e. Gajah Baru in Indonesia and Chim Sáo in Vietnam	31-32
	Oil spill response review for enhanced emergency preparedness at Anoa	An independent organisation found the Anoa facility to have a relatively low risk of oil spills. All of our oil spill response plans are approved by local authorities	32-33

Community and society

Community investment

Social responsibility is primarily about how we engage, assess and manage our community and societal issues and risks. Our Corporate Social Responsibility (CSR) and Human Rights Policies are applicable to all Premier operated entities and may be adapted to address local priorities. Our Code of Conduct, Business Ethics and Conduct Policy (p22) and Employment Policy (p16) are managed through the Legal and Human Resources functions respectively. All policies are compliant with relevant legislation and take due account of appropriate initiatives and standards, industry guidance and relevant best practice.

We recognise that we have responsibilities to a diverse group of stakeholders including shareholders, customers, employees, business partners, local communities and society at large, including special interest groups that represent public interest concerns, such as Non-Governmental Organisations (NGOs). Our investment decisions take account of economic, environmental and social impacts and their management.

In all its operations, Premier will always comply with local laws and regulatory requirements as a minimum, and make representations to the relevant authorities if we believe that policies and practices of host governments undermine our policies. We complete environmental and social impact assessments prior to undertaking any new investment and evaluate these impacts regularly to ensure that they are responsibly managed on an ongoing basis. We expect our contractors, suppliers, joint venture and alliance partners to respect our policies. Their adherence to the principles upheld by our policies is an important factor in our decision to form or remain in a relationship with them.

Our policy

It is our policy to support social investment that contributes to the sustainable development goals of the communities and countries where we operate. This means working in partnership with professional social development organisations, government agencies and local NGOs to ensure our investment addresses relevant and material issues in a rigorous manner with positive impacts on society. Our investment focuses mainly on the delivery of local infrastructures, disaster relief and the well-being of local communities.

There were no reported non-compliances with this policy in the review period.

Our investment in 2010

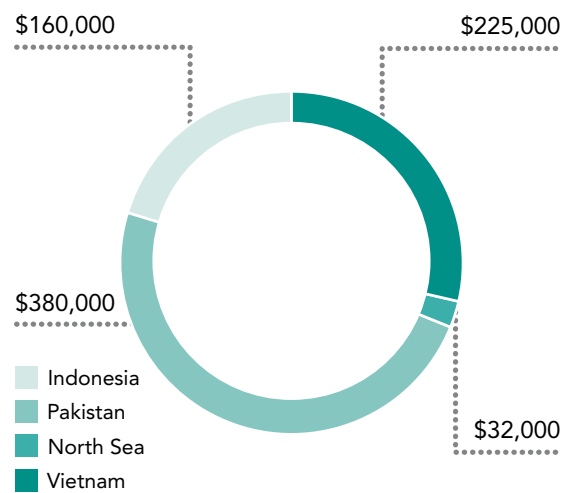
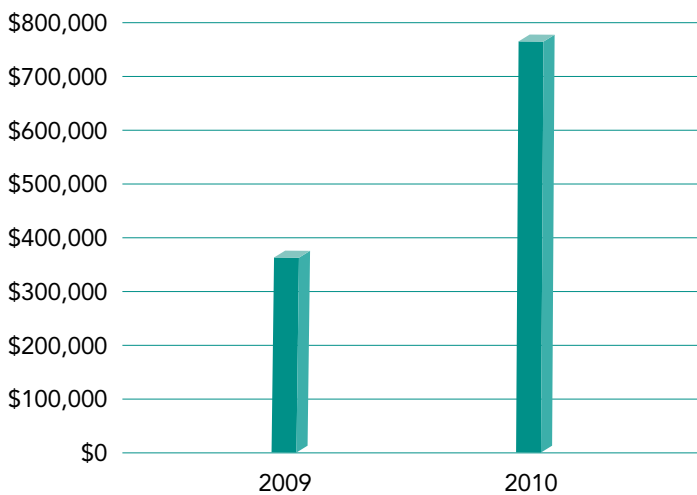
In 2009, we initiated a review of our CSR management system including the identification, management, evaluation and budgeting of social investment disbursements. The draft set of procedures in this management system was used by local business units in 2010 to build country-specific community investment strategies and identify appropriate local initiatives and partners to deliver on the above policy commitments.

Premier spent a total of US\$800,000 on community investment in 2010. A total of 48% of this spend (US\$380,000) was disbursed in Pakistan, as part of our disaster relief following the floods which inundated large parts of the country. This included significant donations to the Pakistan Red Crescent Society (PRCS) and Edhi Foundation. The remainder was disbursed in Indonesia, Vietnam and the United Kingdom and is reflective of our increased presence in each geography. This represents a total of 0.8% of pre-tax profits compared to the international benchmark of 1% (2009: 0.5%).

Below Binh An shelter for rescued children, Vietnam



Figure 3: Our community investment profile (US\$)²



² As a shareholder in four non-operated production operations (Bhit, Kadanwari, Zamzama and Qadirpur), Premier Pakistan financially supports community projects undertaken by our joint venture partners and also collaborates with the Pakistan Petroleum Exploration and Production Companies Association (PPEPCA). During the 2010 reporting period, Premier also instigated a number of additional community investment initiatives. This report includes only these additional initiatives funded by Premier.

Community investment (continued)

Our community investment in Indonesia

Premier Oil Indonesia completed numerous community development projects in 2010. The positive impact of our investment helped us earn the Green Award for PROPER 2010 (on environmental and social performance) from the Government of the Republic of Indonesia for the second successive year.³ These projects focused on economic agriculture, education, social infrastructure and environment in the Anambas region near our offshore Anoa Field production operations.

Community investment in Indonesia totalled US\$225,000 in 2010 (2009: US\$250,000).

Agriculture

During the year, Premier initiated the development of an economic agriculture programme. The programme was identified after an independent study and consultation with government, which has prioritised the development of agriculture in the Anambas region. It enables local communities to produce their own crops and reduces dependence on expensive imports from other regions. This organic farming programme has been piloted in two fertile locations identified as high potential for crop yields: Langir Village in the Palmatak sub-district and Rintis Village in Siantan. It involves 100 farmers divided into five groups covering different commodities such as rice, vegetables and fruits including bananas and oranges.

Programme implementation and training for local farmers is carried out by an experienced technical consultant supported by two "hands-on" technical mentors. Each mentor lives in one of the villages to support farmers as they develop the skills needed to independently implement the environment-friendly farming techniques. The programme also provides support in the form of three compost milling machines, seedling assistance, the provision of individual agribusiness capital, and a mentoring programme for farmers to enable knowledge sharing and improve the effectiveness of training initiatives. The programme, which was initiated by Premier, has received full support from the local Anambas government.

³ PROPER is an acronym for Programme Penilaian Peringkat Kinerja Penataan dalam Pengelolaan Lingkungan (the Company Environmental Performance Rating Programme) which includes community development as part of its assessment criteria.

Focus on education

Our engagement in Indonesian education initiatives started with the construction of a kindergarten in the Anambas region in 1999. Premier has now built a total of six kindergartens. Premier also supports tertiary education in the form of scholarships to university students at three universities: North Sumatra University, Tanjung Pura University in West Kalimantan and Haluolelo University in South East Sulawesi.

Our programme of work for 2010 included the awarding of 30 further university-level scholarships for agriculture-related studies. This forms part of our goal to develop local agricultural capability and will help ensure the organic farming initiatives in Langir Village and Rintis Village are sustainable. The scholarships cover tuition fees, accommodation and living costs for four years during the Bachelor of Science study period; and were assembled together with the local government of Anambas Islands as part of a sharing initiative developed by Institut Pertanian (Agriculture Institute) located in Yogyakarta, Indonesia.

Infrastructure

Premier has developed several infrastructure projects at the request of the Anambas local government. In the past this included the construction of public health centres, libraries and school class rooms. In 2010, Premier enlarged and altered two multi functioned buildings.

The first building is located in Tarempa, the capital of Anambas Islands district. The GOR (sports hall), was built using Premier funds. It plays a central role in the Tarempa community and is used for all official meetings of the local government as well as by the community. Events held in this facility include official inaugurations, regional development planning meetings, national holiday ceremonies as well as art and cultural performances. It is also used on a daily basis for badminton practice as well as "sepak takraw" (similar to football) which are the favourite local sports.

The second building is located in Rintis village, a new village located in the hills 5km from Tarempa. Rintis village is located in a fertile environment and is considered a fast growing area of Anambas near to the capital Tarempa (a busy coastal port but with limited land area). Premier is funding the construction of a multi-functional education and community development centre that will enable social education activities in the region. The programme was first intended as a school facility of the Kurnia Kindergarten but has since progressed to accommodate the needs of various groups including social community meetings and women's economic empowerment activities such as sewing. The rear area will be used as a plantation testing and training environment for crops including chilli, cabbage, spinach and more. The building is planned for completion in early 2011.

Environment – turtle habitat rehabilitation

In 2009, Premier supported a pilot project on turtle habitat preservation on Durai Island, the largest turtle nesting area in the Anambas region. In 2010, the programme successfully protected 915 turtles to securely nest on the island. The season for nesting took place between May to August with its peak month in July. From the eggs that were nested, it was estimated that around 61,000 hatchlings returned to the sea naturally.

The work that Premier sponsored on Durai Island has received an excellent response from local and central government including the Ministry of Marine and Fisheries (DKP). The DKP is also planning a new national reserve area for sea conservation in the Anambas Islands that will include the area of our turtle preservation programme in Durai Island. Premier is working together with DKP on both the turtle preservation programme in Durai Island and to prepare the island as a centre for future biodiversity and ecotourism activities, which will help provide sustainable livelihoods for local communities.

Planned activities for 2011

In 2011, Premier Indonesia plans to continue the existing agriculture and education programmes; the latter will include school facilities support, scholarships, school building, a books programme and an enhanced manpower support programme. We also plan to continue the turtle preservation work in Durai Island as well as a programme of coral reef preservation. In addition, Premier Indonesia plans to implement the Bright and Green Programme led by BPMIGAS (the Indonesian Upstream Oil and Gas Executive Agency) and including other companies such as ConocoPhillips, Star Energy, and PT PAN. Its work in 2011 will involve the installation of electricity for the village road in Payalaman, Matak Island; the nearest village to our Matak base. We hope these initiatives as well our health and safety performance will help us maintain the Green PROPER Award for 2011.

www.bpmigas.com

www.dkp.go.id



Top Turtle habitat preservation and monitoring, Indonesia

Bottom Student recipients of educational scholarships, Indonesia

Community investment (continued)



Our community investment in the North Sea

Since the purchase of our North Sea operations in 2009, Premier has progressively implemented a community investment action plan that includes enhanced support for key local groups as part of our goal to add value to host nations and communities.

Community investment around our North Sea operations totalled US\$32,000 in 2010.

Supporting local community priorities

During the year, Premier continued its engagement with the Scottish Fishermen's Federation (SFF) including on the industry-wide "fish safe" initiative. In 2010, the initiative provided fishermen with new radios as well as data on the location of sub-sea oil and gas infrastructures. This will help reduce the risk of damage to both fishing vessels as well as oil and gas infrastructures. We also support local charities selected by our Aberdeen staff and in alignment with our group Corporate Social Responsibility (CSR) Policy and Human Rights Policy. Key engagements in 2010 included those with Archway and Barnado's.



Archway (Respite Care and Housing) Limited

Archway is an independent Aberdeen based charity delivering innovative community based services to improve the opportunities and quality of life for people with learning disabilities. It provides respite care for around 200 children and adults at three care units in the vicinity of Aberdeen: Westburn Road, Two Mile Cross and Dyce.

Archway relies entirely on donations for any projects beyond general running costs. In July 2010, Premier donated US\$12,000 to refurbish the activity room at Two Mile Cross and for the installation of a bath hoist to assist users with physical disabilities. In December 2010, Premier donated a further US\$8,000 to Archway as an alternative to sending company Christmas cards. Most of this money will be used to support activities for permanent residents as local council funding cuts have led to the closure of day-user services. This includes schooling, leisure and crafts activities as well as outings to local events and educational resources; which are vital to personal development and social integration.

Top Archway charity for learning disabilities, Aberdeen
Bottom Premier employees at our North Sea operations

Barnardo's Scotland

Barnardo's Scotland engages the most disadvantaged children, young people, families and communities to ensure every young person is able to reach their full potential, whatever their circumstances in life. It operates more than 70 community-based projects across Scotland.

In July 2010, Premier donated US\$12,000 to the local Aberdeen branch of Barnardo's Scotland to support its 4Change service. This service provides support to young people in the Aberdeen area who go missing from home or "looked after" accommodation. It helps them understand the risks of running away and address personal and family difficulties.

Planned activities for 2011

Premier is currently exploring a project with Aberdeen Cyrenians to refurbish its training suite. The Cyrenians work to meet the needs of people who are homeless and vulnerable in the community through prevention and resettlement services that make a real difference to the lives of individuals.

Our community investment in Pakistan

As a shareholder in four non-operated production operations (Bhit, Kadanwari, Zamzama and Qadirpur; see Annual Report), Premier Pakistan financially supports community projects undertaken by our joint venture partners and also collaborates with the Pakistan Petroleum Exploration and Production Companies Association (PPEPCA). During the 2010 reporting period, Premier also instigated a number of additional community investment initiatives. This report includes only these additional initiatives funded by Premier.

Community investment in Pakistan totalled US\$380,000 in 2010 (2009: US\$40,000).

- www.sff.co.uk
- www.archway.org.uk
- www.barnardos.org.uk
- www.oilandgasuk.co.uk
- www.aberdeen-cyrenians.org

Floods

Pakistan was struck by floods in 2010 which inundated large parts of the country, causing unprecedented destruction and the displacement of millions of people. Apart from sharing the disaster relief costs incurred by the operators of our joint ventures, Premier implemented its own independent measures to assist and rehabilitate those affected through the provision of cash and in-kind donations. This included the supply of basic survival packages (containing food items, drinking water, medicines and quilts) to around 550 families. All of these were funded through company and employee contributions and distributed by air to areas inaccessible by road.

Premier also donated a further US\$100,000 to the Pakistan Red Crescent Society (PRCS) and US\$150,000 to the Edhi Foundation. The PRCS used our funding as part of their programme to provide a food packages for one month to displaced families. Edhi Foundation used the donation as part of their rehabilitation programmes, including the provision of seed, fertilizer, material for house reconstruction and the disbursement of a subsistence allowance to each of the affected families. Edhi Foundation is a non-profit organisation that specialises in the provision of social services such as medical care, emergency services, air ambulances, burial services, child welfare services and training facilities for the disadvantaged.

Environment

In 2010, Premier initiated two long-term environmental projects in conjunction with the Islamabad Capital Development Authority (CDA) and two established NGOs: Himalayan Wildlife Foundation (HWF) and the Rotary Club Islamabad Green City (RCIGC). Both projects are in the vicinity of our Islamabad office and were identified for their contribution to social development and the local economy, in addition to environmental conservation. They also contribute to CDA goals for Islamabad. Both projects are ongoing and will continue in 2011.

Community investment (continued)

Islamabad natural stream restoration project

Drinking water in large parts of Islamabad has become increasingly polluted following significant population growth upstream of the Fatima Jinnah Park. The natural stream restoration project involves the completion of a comprehensive survey of the main stream to identify sources of pollution and the development of a plan for the biological treatment and restoration of water courses. It also includes the landscaping of riverine banks to encourage tourist-related activities. Pre- and post-monsoon surveys were undertaken in 2010 in conjunction with the Environment Department of the International Islamic University in Islamabad.

Environmental management at the Margalla Hills National Park

The Margalla Hills National Park is inhabited by over 40,000 people. Many of these communities rely on the park resources for their livelihood e.g. animal grazing, use of trees for fuel and coal etc. This leads to ecosystem disruption as well as the pollution of land and streams including those that flow into Islamabad.

This project aims to engage local communities in improved management of the Margalla Hills National Park. A comprehensive plan has also been initiated in conjunction with the CDA and HWF for the resettlement of communities that live in the park to an adjacent territory. This will provide villagers with key amenities such as drinking water, electricity, gas, education and health care facilities and will also help minimise the use of park resources. The location and size of land allocations as well as compensation eligibility was determined following a collaborative socio-economic survey conducted by the National Rural Support Programme (NRSP); an independent not for profit organisation. HWF and the NRSP also benchmarked all intended activities against the Universal Declaration of Human Rights, International Labour Organisation covenants as well as relevant national legislation and the resettlement policies of international financial institutions.

In addition to the social and infrastructural uplift of local communities, several training sessions were held for CDA environmental departments to further enhance their own park management capacity. The project also plans to set up an information centre and other tourist facilities in partnership with the CDA and HWF.



Top Right Students at the Margalla Hills National Park, Pakistan

Bottom Right Flood relief services, Pakistan

Our annual CSR programmes:

Premier Oil Pakistan also supports the following organisations through our regular annual donations:

- **Academic Chair:** Premier funds an academic chair in the Department of Petroleum and Gas Engineering at the University of Engineering and Technology in Lahore. This is a leading national institution, with a particular focus on petroleum engineering.
- **Care for Special Persons:** Premier Pakistan provides monthly donations to Care for Special Persons Foundation (CSPF). CSPF is a local charity that provides education, training and psychotherapy to the mental and physically handicapped.

In addition to the above independently funded initiatives, Premier Oil Pakistan also contributes its share of the CSR costs for projects undertaken by the operators of our four joint ventures in the respective local communities.

Engagements and plans for 2011

All of the above projects will continue in 2011. This includes our engagement with the CDA, HWF and RCIGC on stream restoration and in the Margalla Hills National Park. In 2011, the CDA and HWF will progressively move from community engagement activities and development of the resettlement framework and plan, to town planning and development of the new town. The shifting of households is not expected until 2013, allowing sufficient time for communities and households to plan for the transition.

- <http://hwf.org.pk>
- <http://nrsp.org.pk>
- www.cda.gov.pk
- www.edhifoundation.com
- www.ppepca.com
- www.prcs.org.pk
- www.rotary3270.org

Our community investment in Vietnam

Our community investment programme in Vietnam is guided by the national socio-economic plan. This includes goals and programmes related to economic growth, poverty reduction, job creation, education and vocational skills development. Our work to date has brought benefits to many people as a result of bridge and school building in remote areas, the provision of scholarships and transport to assist poor children in school attendance, micro-credit and other initiatives.

In 2010, we developed a medium-term Corporate Social Responsibility (CSR) strategy and implementation plan for our Vietnam operations covering the period of 2011-2013. This included engagement with Premier Vietnam employees to identify the following as our key focus areas: development of young people, helping poor communities and the protection of environment. The delivery of sustained and effective programmes in each of these areas relies heavily on our continued engagement of reliable partner organisations.

Community investment in Vietnam totalled US\$160,000 in 2010 (2009: US\$90,000).

Education of disadvantaged children

Premier Oil Vietnam has a long-term partnership with Friends For Street Children (FFSC) in Ho Chi Minh City. FFSC provides educational, vocational training and health care to disadvantaged children of poor families aged from 4 to 17. This allows younger children to integrate into junior public high schools and older children to find meaningful employment. Our work in the past has included the provision of enhanced health care programmes as well as the organisation of educational development classes.

Recognition

In 2010, Premier Oil Vietnam received two awards:

- The Saigon Times Top 40s Award 2009, Vietnam (for Environmental Excellence and CSR programmes)⁴
- The Global CSR Award 2010, Singapore (Silver Award for Environmental Excellence)

⁴ Recognises the "top 40" companies in Vietnam for environmental and proactive CSR programmes.

Community investment (continued)

In 2010, we delivered on our commitment to providing adolescents supported by FFSC with enhanced vocational training and "soft skills". This included the funding of education and healthcare for 550 children at the FFSC Binh Tho and Binh Trieu development centres. The Premier country manager also delivered workshops to older (and ex-) street children addressing personal financial management and life planning. This was supplemented with funding for personal development programmes and a leadership workshop to enhance FFSC organisational competence. Premier also covered the cost of insurance for 65 FFSC staff, provided equipment for the new Binh An development centre which opened in 2010, and funded the rebuilding and legal registration of the Le Minh Xuan Development Centre. The total investment by Premier Oil in FFSC was US\$68,000.

"Your kind and generous support is very meaningful for our children who previously lacked the chances to get access to social resources, and through your support is also a motivation and encouragement for us to serve the disadvantaged children. We know that we are not alone in achieving our mission, which is to bring a better life to disadvantaged children and poor people." Sr. Marie Le Thi Thao, FFSC, Executive Director

"Our investments in FFSC have been highly effective enabling children to gain self-confidence and life skills. For many this is about not only studying but also overcoming poverty, trauma and (if living in a warm shelter or disabled) stigma." Phil MacLaurin, Premier Oil Country Manager, Vietnam

Premier also supports the Saigon Children's Charity (SCC) by providing scholarships for 34 pupils in Can Gio District of Ho Chi Minh City. Each child receives 10kg of rice, uniforms, books, notebooks and pens for a school year. During the 2010 calendar year we opened two new classrooms built by SCC in partnership with Premier Oil at a school in Tay Ninh; this included the planting of trees and installation of playing equipment to improve the learning environment for pupils.

www.ffschcm.org
www.saigonchildren.com

Capacity and skills development

Premier Oil Vietnam also works to enhance the capacity of Vietnamese organisations and nationals. In 2010, we sponsored two representatives from the Nghe An Department of Agriculture and Rural Development to participate in our seismic and drilling campaigns. This included the funding of each delegate to obtain offshore safety and health certificates so that they could be offshore observing the seismic survey. In addition to building individual and local government capability relating to safety, project appraisal and licensing, the engagement also helped demonstrate the Premier commitment to health safety and environment.

Employee volunteering

Each of these charities and events are also supported by Premier employees, contractors and spouses in their personal capacity. Examples include sponsoring children via FFSC or SCC and volunteering at both organisations, for example as English language teachers, helping at the annual trip to the water park for 1,800 disadvantaged children, and assisting at a Premier-funded circus show for disabled and street children. Premier employees participated in a raffle to fund education access for disadvantaged children in Ba Ria Vung Tau as part of the Swindell Fund project, which was actively supported by consultants to Premier who were managing the Chim Sao facilities project.

Emergency relief: flooding

Following the flooding in Ninh Thuan Province in November 2010, Premier employees again demonstrated their individual concern. A call to support four flood affected communities in this central province of Vietnam resulted in more than US\$2,500 being donated from personal contributions. This was matched by the company with total donations of US\$5,000 passed to local communities by the local Bao Hoa Charity and a Premier employee. This donation forms part of our continued commitment to emergency relief, infrastructure and bridge development where rivers isolate many of the poorest communities. We have now invested in the construction of six new bridges. Bao Hoa Charity assists with the implementation of our investments by engaging reputable contractors, ensuring ethical payment practices and local labour as well as liaising with local populations and authorities.

Planned activities for 2011

Our work in 2011 will continue to focus on the development of young people in Vietnam. This includes working with both FFSC and SCC. It will also include work on environmental coastal protection to enhance the natural ecology of inter-tidal zones and improve the livelihoods of coastal populations.



Both Students at the Binh Trieu development project, Vietnam

Human resources

Employment

Our policy

We aim to provide our staff with safe working conditions as well as just and competitive terms of employment. This means respect for the individual regardless of ethnic origin, creed, age or gender. We are an equal opportunities employer. We aim to recruit, train and promote from within the country of operation. We respect the right of individual employees to join a legitimate trade union. Through training and appraisal, we encourage staff to develop their own professional skills to the mutual advantage of both the individual and company.

Premier is committed to upholding the principles of the United Nations Global Compact. Its labour standards Principles are derived from the International Labour Organization (ILO) Fundamental Principles and Rights at Work. This report provides evidence of our commitment to these principles.

There were no reported violations of our Employment Policy in 2010. There were also no reported incidents of discrimination or formal grievance procedures reported in 2010.

www.premier-oil.com

Policy and handbook reviews

Premier aims to expand its operations globally in three distinct areas of geography: Asia, the Middle East and the North Sea. This, in accordance with corporate targets, includes significantly more exploration and production than in previous years. The continued evolution of our business requires ongoing, annual review of our Employment Policy and the associated human resources guidelines contained in our employee handbooks. These handbooks continue to be updated as part of our ongoing review process both at corporate level as well as for each of the business units. This includes ensuring alignment of country specific handbooks with relevant local legislation and statutory requirements such as the new Bribery Act in the United Kingdom (p22).

Upgrading our e-learning tools

In 2010, Premier also implemented a group-wide human resources information system that covers all operations worldwide as well as directly employed contractors. This allows consistent reporting, accounting and monitoring of employee metrics and statistics for the first time. We also designed and developed an e-learning system that will be rolled out to all employees during 2011. This will include mandatory training against the employee handbooks and other relevant human resources policies, human rights as well as our new Code of Conduct and related content on anti-corruption, fraud and whistle blowing. Training modules will be implemented throughout 2011 and assessed to ensure participants have understood each work module.

Employee engagement

Premier engaged workers in a survey on their satisfaction with company employment practices in 2008. A follow up survey will be carried out 2011; now also allowing employees to feedback on the revised handbooks, centralised database and reporting tools as well as the effectiveness and relevance of our new training modules. This is in addition to the informal and ongoing engagement between employees and their line managers as well as with local human resources functions. Further engagements are expected annually.

Our policy is to encourage free communication between employees and their managers to ensure that questions and problems arising during the course of employment can be aired and where possible resolved quickly and to the satisfaction of all concerned. A formal, confidential grievance procedure is available where employees feel uncomfortable raising concerns through informal discussion and the normal management channels; and will not prejudice the aggrieved employee's current employment or future career prospects. Our external whistle blowing hotline (p23) further ensures employees are able to raise such issues without any fear of recrimination.

Employee numbers

At the end of 2010, Premier had 573 (2009: 499) permanent employees with the majority located in the United Kingdom and Asia. This represents an increase of 15% compared to 2009, due mainly to the expansion of our operations in Indonesia, the North Sea and Vietnam. This includes an increased number of skilled employees across various disciplines such as drilling, engineering, geoscience and other specialist support functions. This last year also saw a significant increase in contractors at our Indonesian operations (from 49 to 121) and in the North Sea (from 5 to 64). This reflects the significant increase in our exploration, drilling and project development activities. The total number of contractors at Premier operations grew from 149 to 242, increasing the number of personnel at our offices and operations to over 800 by the end of 2010.

Below Gajah Baru facility, Indonesia



Employment (continued)

Figure 4: Employees by core country

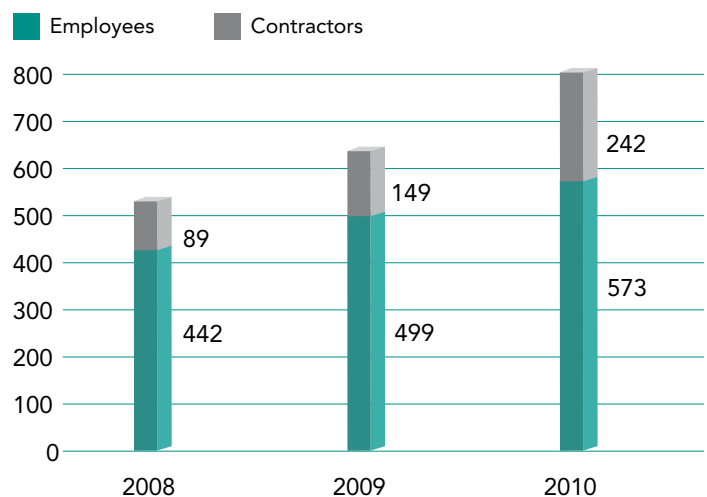
Location	2008	Turnover	2009	Turnover	2010	Turnover
Indonesia	316	(11)	304	(23)	327	(35)
Norway	15	(2)	14	(2)	23	(8)
Pakistan	14	(1)	17	(2)	15	(1)
Vietnam	41	(0)	50	(0)	62	(2)
United Kingdom	56	(2)	114	(3)	132	(8)
Singapore	n/a	(n/a)	n/a	(n/a)	14	(1)
Total	442	(16)	499	(30)	573	(1)

Pay and benefits

Our strategy is to provide a superior remuneration package in return for superior demonstrated performance. All employees earn more than their respective country's minimum wage, with wage agreements agreed with relevant unions where applicable (p20). All contracts of employment include information on roles and responsibilities, hours of work, conditions of employment, intellectual property stipulations and non-disclosure and confidentiality obligations. The terms of employment are explained to all new employees during the offer of employment process, and on the first day of work during the induction process.

A performance management and appraisal system is in place for all employees, including regular review against performance targets set at the beginning of each calendar year and is monitored through regular dialogue and feedback from managers. The appraisal system enables an individual performance rating that is normalised and calibrated against group-wide data to inform salary and bonus recommendations. At the end of the year, performance against those targets is assessed and a recommendation on performance made by the line manager. At the end of 2010, all of our employees received annual reviews.

Figure 5: Numbers of employees and contractors⁵



⁵ The term "contractors" relates to individuals employed directly by Premier but on a fixed term contract often related to project delivery. It does not include contractors hired by suppliers such as those involved in the construction of rigs in Indonesia or Vietnam or cleaning services. Note: all of the above groups are included in our health and safety statistics.

Review of banding and salaries

This last year saw a significant review of our employee grading, pay and benefits schemes. These are now consistent across all operations, geographies and business units. Premier is working with an independent organisation to confirm banding, salary and benefits packages are competitive both locally and globally, to ensure we attract and retain the right skills for our growing operational and value chain footprint. Any new bandings and grading will be communicated to employees during 2011. We continue to pay top-quartile base salaries in each country of operation where this is supported by individual performance.

Premier provides a set of core benefits including bonuses and pensions to all permanent employees. The precise manner in how these and further benefits are implemented may differ in each country depending on national employment legislation and local circumstances. Benefits provided to employees could include:

- Leave
- Sick leave
- Maternity, paternity and adoption leave
- Medical and dental insurance
- Annual medical assessments
- Medical and emergency assistance
- Pension plans
- Life insurance
- Permanent health insurance
- Business travel insurance
- Personal accident insurance
- Long service awards

Individual and family medical benefits are managed through each individual operation. Benefits are available to both full and part time employees on a pro rata basis.

Bonus and Long Term Incentive (LTI) schemes

Premier recognises outstanding performance through employee reward programmes. Annual non-pensionable and discretionary bonuses may be paid to all employees on the achievement of a challenging range of corporate and individual targets that are set by the Remuneration Committee each year. The company also offers employees eligibility into various discretionary LTI schemes including a Long Term Incentive Plan (LTIP), a Share Incentive Plan (SIP), a Save As You Earn Scheme (SAYE) for employees based in the United Kingdom and expatriate employees only and a historical Asset and Equity Plan (AEP). The Remuneration Committee also has discretion to grant Conditional Share Awards to new employees. Further details on bonus and performance related pay schemes are contained in the remuneration section of the Annual Report.

Local employment

Premier's strategy is to employ nationals wherever they are suitably qualified, and to invest in the development of their skills, knowledge and experience to enhance their effectiveness at all levels within the organisation. Nationals regularly occupy senior roles including those of chief accountant, human resource manager, HSE manager, senior drilling engineer, as well as senior geoscientists and project engineers. Premier is also looking to progressively transfer expatriate manager roles (those employed on overseas contracts) to nationals. This last year also saw significant recruitment of nationals in all countries especially Indonesia and Vietnam; leading to an eight percentage point increase in the group-wide percentage of local employees (Figure 6). This process is now also being formally tracked as part of our overall recruitment programme and ongoing commitment to the nationalisation of various roles within the business units.

Employment (continued)

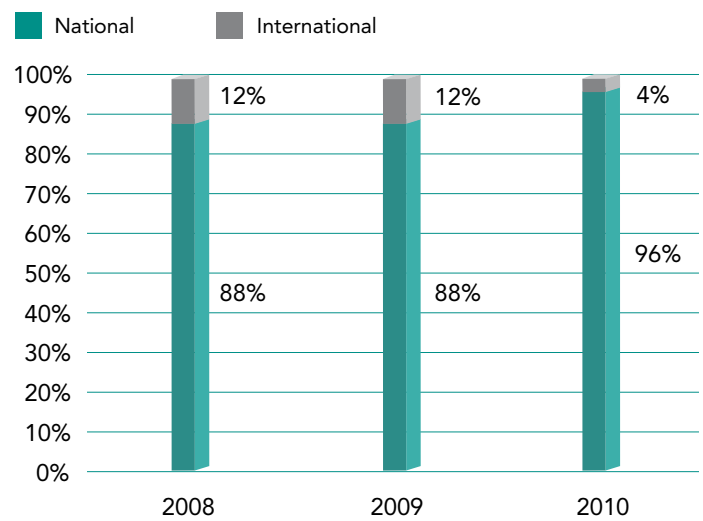
Succession planning

In 2010, Premier also committed to the implementation of a succession management programme for senior managers, including both national and international staff. This included the identification of potential successors for all key positions. Individuals from across the group were invited to submit their views on who might be their best replacement in the next three to five years. This same group of senior managers also completed a 360° appraisal process. This included interaction with a third party to obtain insight into personal work experiences, development goals and objectives. The results have been collated and communicated to our CEO, ExCo and the Board Nominations Committee. The human resources function is now working together with ExCo to devise an implementation plan including tailored capacity building, experiential learning and individual development plans for future leaders. An equivalent process for succession management will be rolled out for each business unit in 2011.

Freedom of association and collective bargaining

Premier employees tend to occupy either administrative office-based or highly technical roles and are paid significantly more than the minimum wage. We comply with all local legislation regarding collective bargaining with only Indonesia currently having a formal Collective Labour Agreement (2008-2010) between the local labour union and the company. The agreement regulates all employee terms and conditions specific to Indonesia including wage scales, working hours, overtime, shift work, national holidays and annual leave, health, safety, medical treatment and training. Indonesia's 327 employees represent 57% of the total Premier permanent workforce. There is limited unionisation in the North Sea region given the extensive use of third party contractor firms. Premier provides its employees and their elected representatives (where relevant) with one month's notice regarding any significant operational changes that might affect them.

Figure 6: National (local) vs. international (expatriate) employee profile (percentage workforce)



Forced labour and child labour

Our commitment to the United Nations Global Compact recognises the need to eliminate all forms of forced and compulsory labour. No incidents of such labour were recorded at our operations in 2010. The United Nations Global Compact also promotes the abolition of child labour. No incidents of child labour were recorded in any of our operations in 2010. None of our operations have been identified as posing potential child labour risks.

Recruiting, developing and retaining talent

Premier provides support to all employees in their personal development to enable them to be more productive contributors to the business. This includes mentoring and coaching processes, e-learning, as well as part-time and full-time training courses depending on the need in each location (Figure 7 and Figure 8). We monitor the training provided to employees around a set of individual development objectives. Training may include structured internal and external training programmes, short courses, professional qualifications such as MSc and MBA credentials.

Further opportunities may include specifically tailored leadership and development programmes for those transitioning to general management roles. These are now aligned with our succession management plan. Premier is also implementing a group-wide competency framework with the specific aim of enhancing individual skills and core competencies. Specialist human resources teams have been hired in Indonesia and at our North Sea operations to focus on learning competency and training of key employees as we continue to explore, develop and operate new oil and gas fields.

There was a slight increase in the average number of training hours per employee in 2010; with comparatively higher amounts of training at our Vietnam and North Sea (Aberdeen and Norway) operations. This reflects both the increased project pipeline in these geographies as well as the stringent regulatory requirements in the North Sea region. Our target is to achieve an average of 40 hours training per person per calendar year.

Figure 7: Average hours of training per year (per employee)⁶

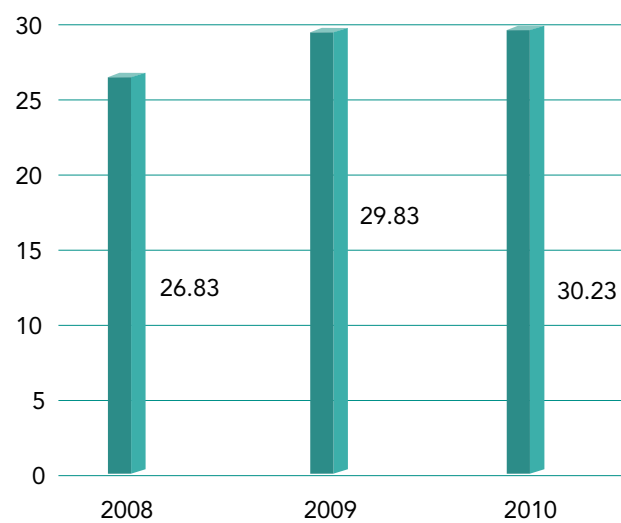
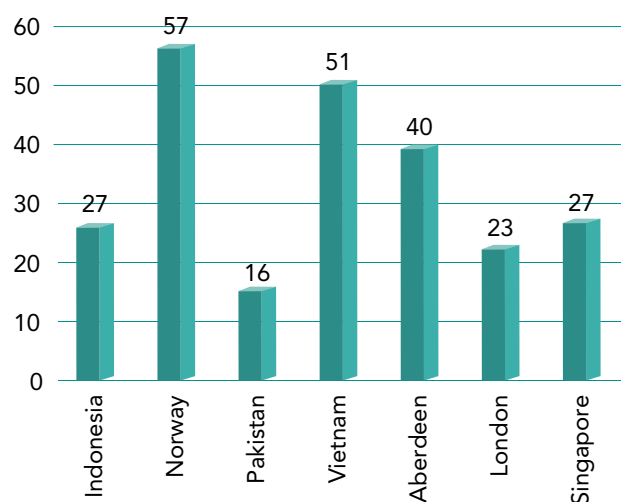


Figure 8: Average hours of training per year (per employee)



⁶ Excludes training hour information from the United Kingdom for 2009 and 2008 figures. Our United Kingdom operations did however spend £120,000 on training in 2009 (2008: £186,000) at an average of £2,263 per head (2008: £3,313).

Business ethics

Integrity, honesty and fairness are fundamental to the way we conduct our business. We are committed to transparency in all our dealings. As part of this commitment, we will not engage in any activities that undermine the legitimate business environment, including bribery or corruption in any form.

Our global Code of Conduct

Premier has developed a global Code of Conduct that supports the existing Business Ethics and Conduct Policy. The new Code continues to be informed by and is compliant with the Bribery Act 2010 and its evolving guidance in the United Kingdom. It applies to all employees, at every level in the business and all those associated with Premier; all of whom are required to behave ethically and with personal integrity. This includes adhering to laws in the countries where we operate, performing our duties in accordance with the Code, and disclosing all potential and actual conflicts between personal interests and those of Premier.

The Code covers the following key issue areas:

- Anti-bribery
- Gifts and hospitality
- Charitable and political donations
- Intermediaries
- Facilitation payments

The Code of Conduct includes policies for each of the above areas with which each individual must comply. Any breach of this Code will result in disciplinary action, and in extreme cases may result in instant dismissal. The Audit and Risk Committee review effectiveness of the Code and consider any amendments at least once a year.

🌐 www.justice.gov.uk/publications/bribery-bill.htm

Ensuring local relevance

The Code and underlying policies will be translated into the national language of each country in which Premier operates. Where differences in content exist as a result of local customs, laws or regulations, the global requirement is applied unless local requirements set a higher standard.

Dissemination and training

Our General Counsel will deliver training workshops on the Code and its requirements to senior managers at all Premier operations worldwide in 2011. These will be supplemented by similar workshops to relevant functional areas including the legal, contracts, procurement, logistics and human resources functions. A further online training facility has been developed and will be implemented with all existing employees during the course of 2011. All new employees are expected to complete the ethics training programme within one month of joining the company. Training will be repeated annually and monitored by the human resources department (p16). A briefing on the content of the Code is also included in the induction programme for all new employees and consultants.

Anti-corruption

Premier prohibits bribery and corruption in any form by all employees and those working for and/or connected with the business. This includes facilitation payments. Premier avoids accepting hospitality or gifts that might place it under an obligation. All business transactions must be properly recorded and accounted for. We expect the same ethical standards to be applied in all our business relationships in all areas of operation and we promote our Code of Conduct and associated Anti-Bribery Policy with all our business associates. Employees are expected to report bribery or attempted bribery to their direct managers, even if only suspected or attempted.

No incidents of corruption were identified in 2010.

“ The Code should be read and followed by every employee and every party who represents Premier. It, and the more detailed policies and procedures it refers to, form part of Premier’s conduct of business policies and will be rigorously enforced.

Simon Lockett, Chief Executive Officer, Premier Oil plc

Ongoing risk assessment

Our Code and its supporting policies apply equally in all countries and for all areas of the business. All of our business units are analysed for risks relating to corruption. Some are more exposed than others, with higher levels of exposure in Indonesia, Mauritania, Pakistan and Vietnam. The different levels and areas of risk in each country help inform our training requirements. All Premier business units are also subject to audit to monitor compliance with our policy.

Intermediaries and joint ventures

Premier sometimes uses intermediaries, agents or other independent parties in its engagements with government, government agencies, other oil and gas companies or third party service providers. These individuals are appointed according to our Intermediaries Policy including due diligence screening procedures relating to anti-corruption and other business ethics issues. This may include third party references, company searches and further investigations when required. Such intermediaries are also formally obliged to adhere to our Code of Conduct and its associated requirements as part of our standard contract clauses, and they will, if appropriate, receive training on the obligations of the policy.

Suppliers and contractors

Premier’s suppliers and contractors play a critical role in our business. We make decisions about the purchase of goods and services not only on the basis of price, quality, delivery, service and reputation, but also on the business ethics, environmental, safety and human rights record of suppliers. Those who work on the selection of suppliers and contractors are required to always make their recommendation on contract award to the appropriate internal body based on merit. They are also required to avoid conflicts of interest, such as personal relationships, inappropriate gifts and entertainment, or any other kind of favouritism that might compromise selection. Our tender process requires those that act as suppliers or contractors to document their compliance with and commitment to our Code of Conduct.

We understand that local, social, political and cultural conditions may present challenges for our business partners to conform to our standards immediately. In such circumstances we will look for evidence of their commitment to work towards such standards, and will withdraw from relationships where no positive progress is made over time.

Public policy and government relations

Premier is transparent in its dealings with government, communities and civil society organisations. This increases trust and leads to the development of enduring, open relationships. Premier does not and has not made any political donations or contributions during the reporting period.

Premier is a member of a number of local industry bodies, some of which participate in lobbying activities. Examples include the Association of Oil and Gas Producers (OGP), Oil and Gas UK Limited and the Pakistan Petroleum Exploration and Production Companies Association.

Compliance

Premier has not been subject to any fines or non-monetary sanctions for legal non-compliance, or for any legal actions relating to business ethics or anti-competitive behaviour during the 2010 calendar year.

Culture of transparency

Premier encourages employees, contractors and agency workers to voice their concerns to line managers if they feel the company or anyone working on behalf of the company has not acted in accordance with our Code of Conduct and associated policies.

Individuals are able to report potential breaches of policy without fear of recrimination; and can do so in the knowledge their report will be promptly and properly investigated. Due regard will be given throughout the investigation to the maintenance of confidentiality.

Confidential third party hotline

We recognise that in certain circumstances employees might not feel comfortable talking to their line manager, and for these instances Premier provides a confidential and well-publicised third party reporting hotline that is available 24 hours a day, seven days a week. No reports were made through this service in 2010 or at any point over the last three years.

Health, Safety and Environment

Our policy framework

Health, Safety and Environment Policy

Premier Oil is committed to operating responsibly and will never knowingly compromise our health, safety or environmental standards to meet our operational objectives.

Our goals are to ensure the safety of everyone involved with our operations and to protect the environment.

To achieve this we will:

- Encourage open and honest communication
- Seek ways to continually improve our performance
- Assess and manage risks
- Provide appropriate resources
- Maintain clean, safe and healthy workplaces
- Investigate and learn from any incidents
- Plan and prepare for potential emergencies
- Maintain high quality documented systems and processes
- Seek external certification of key management systems
- Meet or surpass statutory requirements

It is the responsibility of everybody involved in Premier to comply with our Policies and to assist the Company in their implementation.

Message from our CEO to employees

“ One of my duties is to ensure we all remain committed to behaving responsibly in every part of our business. Our goals to protect the environment and to continually improve the safety of everyone involved with our operations reflect how seriously I take this responsibility. Achieving these goals goes beyond legal compliance; it demands that we all commit to excellence and at the very least adopt industry best practice.

I believe that our performance comes from the behaviours and actions of our people. We are all responsible for Health, Safety and Environment and I expect everyone to follow procedures, seek to improve procedures where this would lead to improved HSE management, intervene when you see unsafe acts and report all hazards and incidents. This is the right thing to do and a fundamental part of everyone's job. It underpins the respect that we are all required to show to our colleagues, partners, neighbours and the environment.

Simon Lockett, Chief Executive Officer, Premier Oil plc

In 2010, Premier implemented and communicated a new Health, Safety and Environment (HSE) Policy at all operations worldwide. This new policy was developed as part of our planned review and continuous improvement process. The review simplified our policy, enabling it to be more clearly communicated across the company through a set of posters, messaging and our new HSE slogan. Revising this HSE Policy represents the first step in a thorough review of our entire HSE management system, which will be undertaken in 2011.

Leadership and communication

The Chairman, Chief Executive Officer and Board are personally committed to achieving excellence in HSE performance and fully support the HSE Policy and implementation of its associated management system. Our Chief Executive Officer personally presented and introduced the new policy to employees; using this as an opportunity to renew and drive a step change in our commitment to HSE, calling on everybody involved in Premier to be visible champions of HSE and to do our level best to improve performance. This is further supported by an e-learning module that will be implemented in 2011 (p16). The release of this new policy also enabled us to address a decline in safety performance in the last quarter of 2010.

Dedicated HSE teams coordinate implementation of the policy, develop and maintain the associated management systems and ensure there is clear line accountability. This includes the identification of a group-wide senior manager responsible for addressing HSE issues in all activities. The group HSE manager is further supported by senior level individuals in each of our key operations including in the North Sea and Asia.

Team performance contracts are prepared for each operational function and asset team and individual performance contracts are set for individuals whose leadership and commitment is required to influence HSE performance. At an operational level, senior managers and supervisors are tasked with ensuring HSE matters maintain a high profile and that their personal commitment is visible to the workforce. These key people are members of our HSE forum and are supported by regular communication on HSE issues such as company-wide Safety Alerts after each high potential incident.

All of our production operations have established joint health and safety committees. Our drilling and construction operations have HSE advisors supported by national safety officers. They conduct regular safety meetings to discuss health and safety issues with employees. We also require our employees and contractors working offshore to undertake a medical assessment every two years in accordance with Oil and Gas UK Guidelines for Medical Aspects of Fitness for Offshore Work. Together these measures ensure we are continuously reviewing our processes, procedures and practices and are aligned with best practice.



Top Drilling at Chim Sáo facility, Vietnam

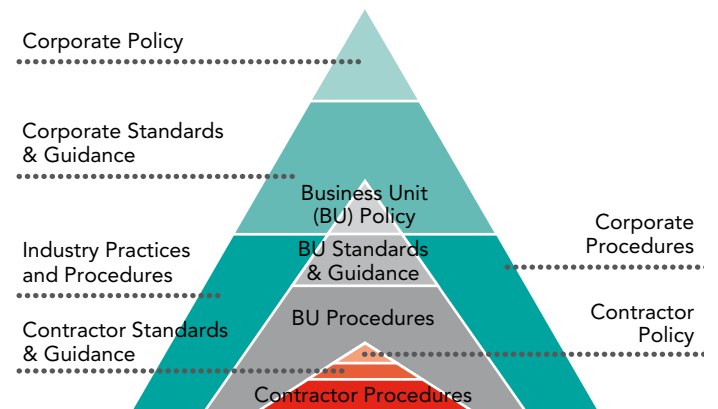
Bottom Members of our group HSE team, London

Our policy framework (continued)



Above Balmoral platform, North Sea

Figure 9: Tiered hierarchy of our HSE management system



HSE management system

Our HSE management system ensures clear assignment of responsibilities, sound risk management and decision making, efficient and cost effective planning, as well as legal compliance at all operations. The system is designed to ensure that every employee, contractor and individual on our operations understands company rules and expectations, and to facilitate continuous improvement in our performance.

The system is based on the industry model prepared by the International Association of Oil and Gas Producers (OGP). Our corporate policy is supported by a number of standards. A total of 20 Premier HSE Standards are aligned with the seven OGP categories including leadership and commitment, policy and strategic objectives, organisation and resources, evaluation and risk management, planning, implementation and monitoring as well as audit and review. Each area of our business (e.g. drilling, project execution, production, exploration and office facilities) embeds these HSE standards within its core business management system.

These are further enhanced by regular engagement and sharing of best practice with industry bodies such as OGP, Oil and Gas UK, Step Change as well as the Health and Safety Executive in the United Kingdom.

HSE targets and continuous improvement

Our HSE management system ensures resources are available to deliver performance at all operations and that performance is subject to regular review. It also requires the annual review of performance and the setting of targets for the following year. The management system prescribes how these targets will be monitored and measured across our global operations. These targets also apply to major contractors working for or on behalf of Premier.

A suite of corporate procedures are set by the HSE department to further facilitate the implementation of policy and monitoring of performance. These include project safety review, safety case, incident reporting as well as emergency response etc. In addition to an updated policy, our HSE management system was further updated in 2010 to include corporate procedures for conducting project safety reviews, preparing safety cases, establishing verification schemes and conducting environmental ALARP assessments. These assessments look to reduce our impacts to As Low As Reasonably Practicable (ALARP).

This last year has also seen the upgrading of our Electronic Accident and Incident Reporting System (EARS) including enhanced monitoring and reporting relating to action close-outs. In 2010, Premier also developed a new action tracking system that logs proactive actions arising from inspections, audits and the ongoing identification of risks and events. This Proactive Actions Tracking System (PATS) has already been rolled out to the North Sea area and will be progressively implemented across all our operations in 2011.

Premier does not sell oil or gas products to the general public. We sell oil to the market and gas to defined users. Material Safety Data Sheets are prepared for our crude oil, and gas products, where relevant.

Management, audit and assurance

As part of the HSE management system, Premier implements an ongoing process of both internal and external review and audit. This includes external audits and certifications to OHSAS 18001 (on health and safety management) and ISO 14001 (on environmental management) for production and drilling.

Premier has been certified to OHSAS 18001 and ISO 14001 since 2004 for global drilling and since 2006 for our Indonesian production operations. In 2010, we completed a number of OHSAS 18001 and ISO 14001 surveillance and certification audits on our production and drilling operations. Global drilling and Indonesia production retained their certifications. Balmoral retained ISO 14001 and gained OHSAS 18001. Our future production operations in Indonesia (Gajah Baru) and Vietnam (Chim Sáo) have completed pre-operational pre-assessment audits with a view to being OHSAS 18001 and ISO 14001 compliant when they start producing in 2011 and 2012 respectively.

www.ogp.org.uk

www.oilandgasuk.co.uk

www.hse.gov.uk

Health and safety

Occupational health and safety

Each year we benchmark our operations against OGP's annual safety performance averages in order to inform the identification of group-wide and function-specific safety targets for the following year. The Board agrees our annual targets and these form part of any employee bonus award. Targets are monitored and measured monthly, reviewed quarterly by the Executive Committee and reported to the Board. For the last seven years we set a 10% year-on-year improvement goal, relating to Lost Time Injuries (LTIs) and Restricted Work Day Cases (RWDCs), as well as a stretch target of a further 10% improvement. All of our safety performance data includes both Premier employees and (directly and indirectly employed) contractors on our operations.

In 2007, we began to look more closely at incidents that had High Potential (HIPO).⁷ Building on this work, in 2008 we set our first Key Performance Indicator (KPI) for their frequency. This new High Potential Incident Frequency (HIPOF) target is now measured monthly. In 2009, we also began to focus on our Total Recordable Injury Frequency (TRIF) history. This measure captures all LTI, RWDC and less significant Medical Treatment Cases (MTC) per million man-hours. It thus helps benchmark our performance against a more rigorous assessment of performance independent of injury severity. We also monitor all incidents of occupational illness and none were reported in 2010.

From 2011, TRIF will be our main KPI in addition to HIPOF. This decision is partly to align with the industry wide trend of improved safety performance but also to enable ongoing comparison with other OGP companies. Premier will also implement a new health and safety target framework for 2011; with our main target being to align with the OGP median and our stretch target to align with the top 25% of companies. Our new TRIF target for 2011 is less than 2.0 injuries per million man-hours.

Our performance in 2010

In 2010, we worked 8.8 million man-hours (0.7 million in drilling). This represents a 130% increase on the previous year (2009: 3.8 million man-hours of which 0.3 million were in drilling) and is mainly due to the ongoing construction of our Gajah Baru and Chim São operations in Indonesia and Vietnam respectively. Most of these man hours (7.7 million) were worked by contractors on our operations.

High potential incidents

This last year saw a net reduction in high potential incidents per million man-hours from 2.10 to 1.59 (Figure 10). The reduction in frequency, despite a small increase in the number of incidents, was largely due to the additional man-hours accrued in the construction of our Gajah Baru and Chim São operations. Our assessment of each incident found the current HIPO matrix and classification structure to include those without the potential to cause significant harm, which led to the restructuring of our matrix (Figure 11). Our HIPO Frequency target for 2011 is 3.40 (2010: 3.77).

Total recordable injuries

As a group we have consistently out-performed our annual LTI and RWDC frequency targets. In 2010, for the first time in seven years, we under-performed against these targets. This was largely due to an increased number of relatively minor restricted workday cases many of which were hand injuries. Premier has since introduced a "hands off loads" initiative on all of its contracted drilling rigs that prohibits lifting and rigging crews from handling suspended loads without the use of "push pull" sticks or tag lines at all times. Armoured gloves designed to protect hands from crush injuries were also introduced on all drilling operations.

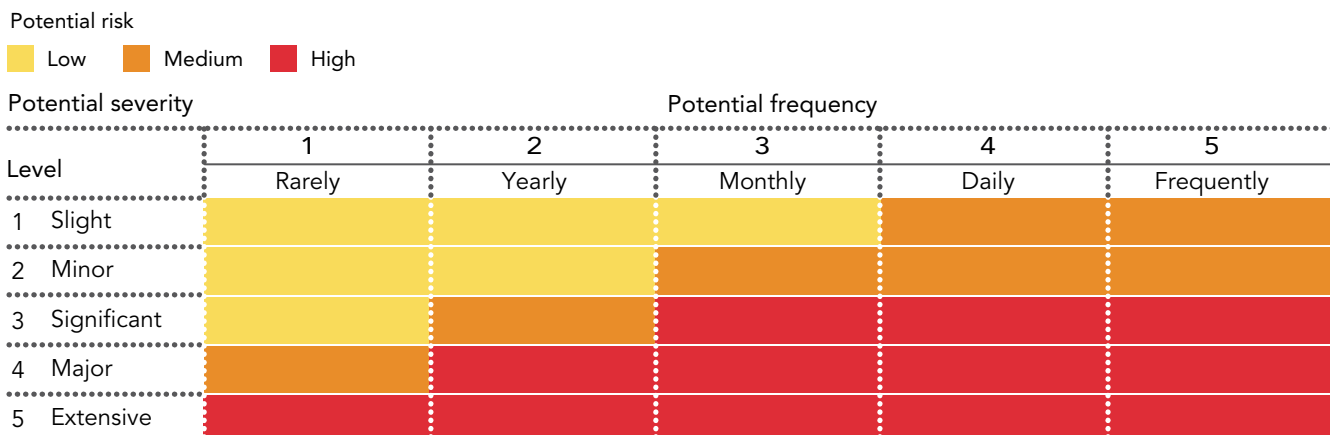
This last year also saw one very unfortunate fatality amongst our contracted workforce at the Chim São drilling operations in Vietnam. This represents a totally unacceptable lapse in performance; and we extend our most sincere condolences to family, friends and colleagues of the deceased. The fatality was thoroughly investigated by Premier, the contracting companies as well as the relevant authorities; and analysed to establish both cause and remedy. A joint safety alert was issued to the International Association of Drilling Contractors (IADC). Thirty-eight mitigating actions in 13 specific areas were identified. All actions are being tracked by local and group HSE departments with ongoing reporting on progress to our Executive Committee and the Board. Our fatal accident/incident rate for 2010 was 0.11.

⁷ A HIPO includes any event that might lead to significant injuries, environmental damage, property damage or security breaches.

Figure 10: Key safety parameters and indicators

Parameter	2006	2007	2008	2009	2010
Man-hours	3,159,678	3,841,305	2,528,806	3,803,876	8,817,234
Fatalities	1	1	0	0	1
Lost Time Injuries (LTI)	3	2	1	2	5
Restricted Work Day Cases (RWDC)	0	4	0	0	9
Medical Treatment Cases (MTC)	4	9	2	3	10
High Potential Incidents (HIPO)	11	21	7	8	14
Key Performance Indicators (KPIs)					
Target LTI/RWDC Frequency (per million man-hours)	2.10	1.90	1.72	1.55	1.40
Actual LTI/RWDC Frequency (per million man-hours)	1.27	1.86	0.40	0.55	1.70
Target High Potential Incident (HIPO) Frequency (per million man-hours)	N/A	N/A	4.58	4.15	3.77
Actual High Potential Incident (HIPO) Frequency (per million man-hours)	3.50	5.50	2.00	2.10	1.59
Total Recordable Injuries Frequency (TRIF) (per million man-hours)	2.50	3.40	0.80	1.10	2.84

Note: All safety statistics include both Premier employees and contractors. Premier uses the same definition for LTI, RWDC and MTC as the OGP where LTIs are identified as "a fatality or lost workday case and the number of LTIs is the sum of fatalities and lost workday cases." OGP defines RWDCs as "any work-related injury other than a fatality or lost work day case which results in a person being unfit for full performance of the regular job on any day after the occupational injury" and where individuals might be assigned to other work or perform a restricted set of duties. MTCs are "cases that are not severe enough to be reported as fatalities or lost work day cases or restricted work day cases but are more severe than requiring simple first aid treatment."

Figure 11: Incident potential risk matrix

Health and safety (continued)



Above Review of our safety cases at the Anoa platform, Indonesia

Figure 12: Lost Time Injury (LTI) and Restricted Workday (RW) frequency benchmarking⁸

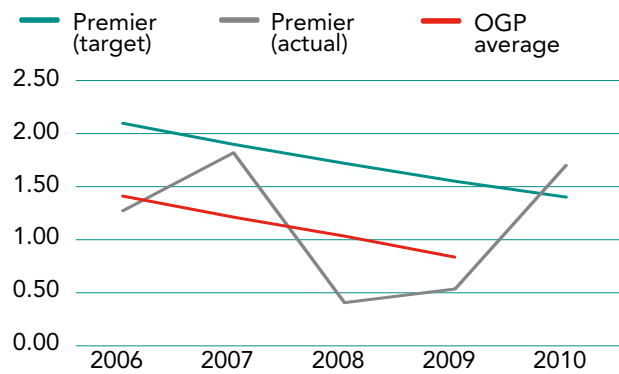


Figure 13: Total Recordable Injury (TRI) frequency benchmarking

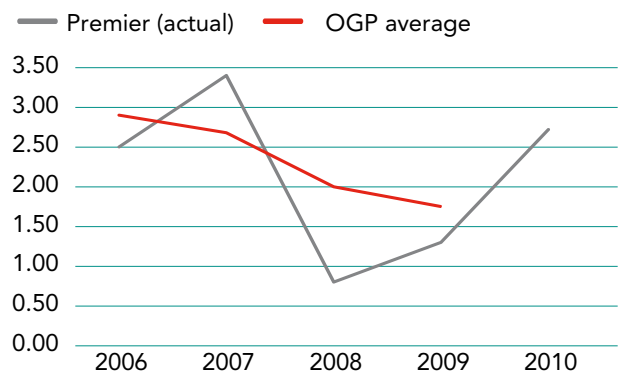
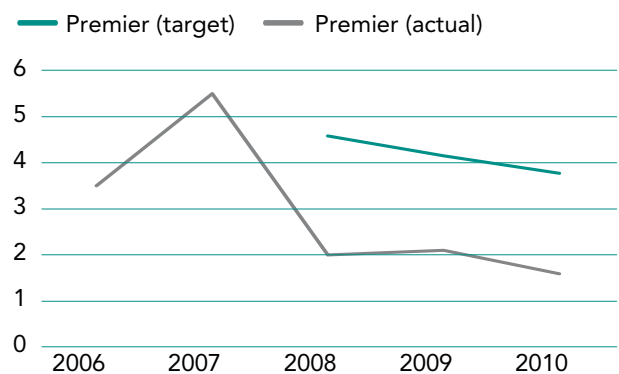


Figure 14: High Potential Incident (HIPO) Frequency



⁸ OGP averages for 2010 are calculated in May of each following year and subsequent to the production of this report.

“ All of our oil spill response plans are approved by local authorities. They are regularly tested and periodically audited by external organisations.

Paul Dennis, Group HSE and Security Manager, Premier Oil plc

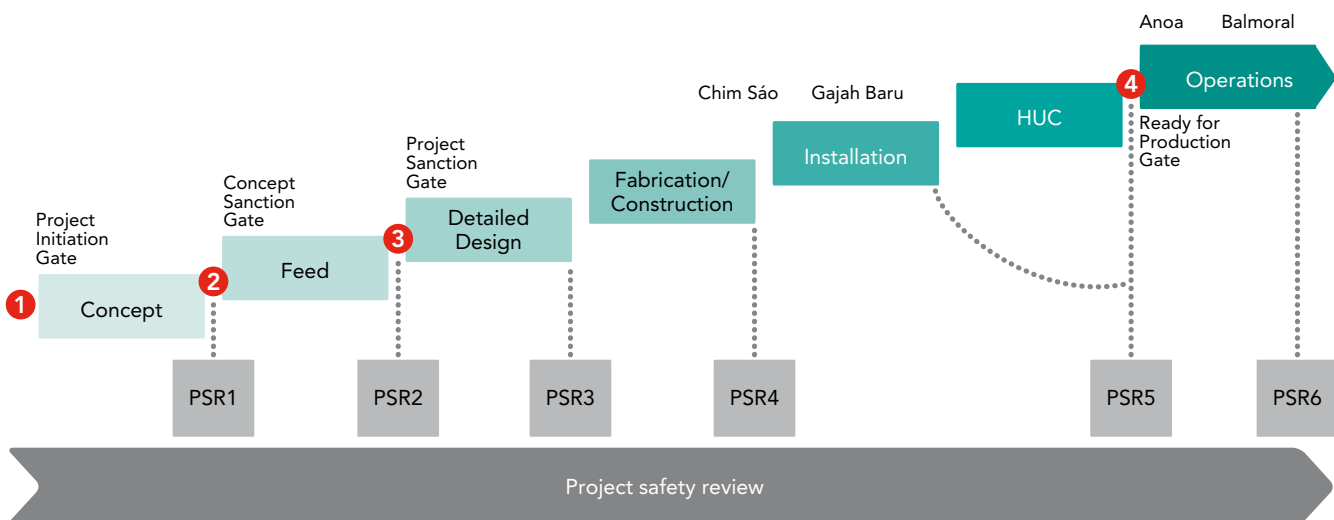
Process safety

Process safety is different from occupational health and safety that relates largely to the management of personal safety. It focuses instead on the design and engineering of facilities to prevent fires, explosions or accidental chemical releases, as well as on maintenance and operation. This includes the prevention of leaks, oil spills, equipment malfunction, over-pressures, over-temperatures, corrosion, metal fatigue and other similar conditions.

Project Safety Reviews

Premier integrates process safety protocols into the Project Safety Reviews (PSRs) of all its projects. These reviews provide assurance that material HSE issues have been identified and are being effectively managed throughout the project lifecycle. A typical project lifecycle will require six strategic reviews as a project moves from concept to construction and to operation (Figure 15). These PSRs align closely with our project approval gates, at which time strategic decisions are made to either progress a project further towards the “operations” stage or to delay or divest. Achieving the PSR requirement is a critical part of any sanction gate decision-making. PSR3, PSR4 and PSR5 are the most significant as they mark key financial milestones in the project lifecycle.

Figure 15: Project safety reviews continue at all stages of the project pipeline



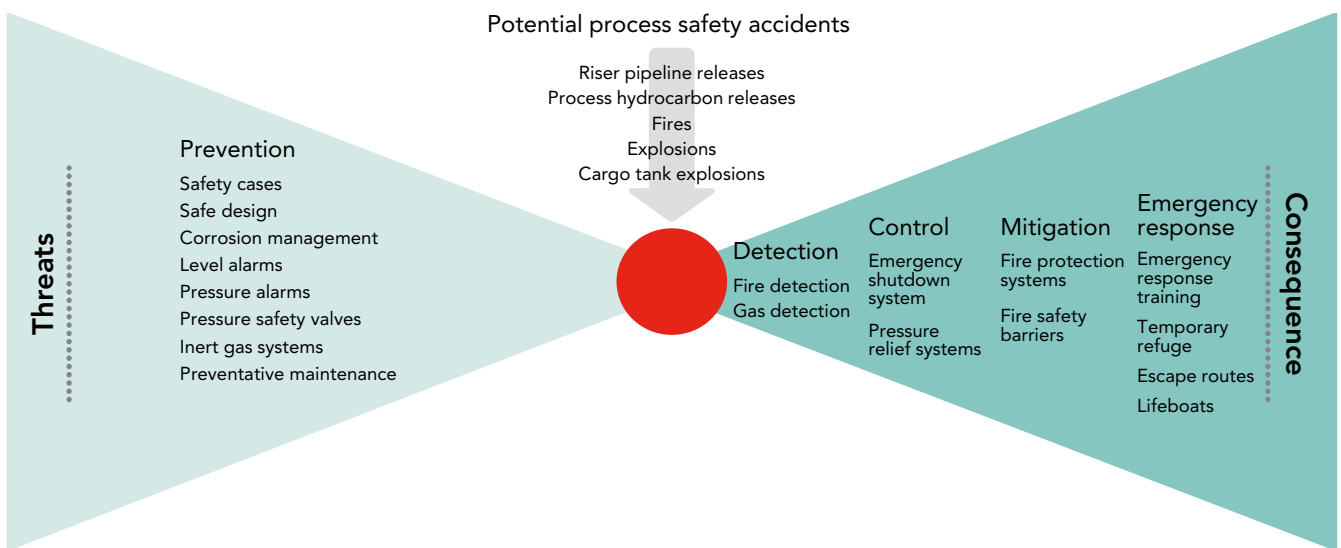
Note: FEED = Front End Engineering Design. IHUC = Installation Hook Up and Commissioning.

Safety cases and asset integrity

Safety cases are in place at Anoa in Indonesia and Balmoral in the North Sea as well as at our assets still in the construction and installation stage i.e. Gajah Baru and Chim Sáo. This safety case regime is aligned with the regulated standards in the United Kingdom. We believe this represents best practice, and it is our policy to have United Kingdom style safety cases in place for all our operated production facilities worldwide, even when they are not required by the local regulatory regime. Safety cases are developed during the project and become increasingly detailed as a project nears the operation stage. Safety cases must be in place before production commences.

Health and safety (continued)

Figure 16: Barriers to prevent and measures to recover from major accidents



Each case includes a review and impact assessment of the relevant process safety risks, the requirement to meet established safety benchmarks and the adoption of further steps to reduce risks as far as is reasonably practical (the ALARP principle). For the Gajah Baru and Chim São developments, we are using our established project safety review process to ensure appropriate criteria and safety standards are achieved throughout the project lifecycle. For our operating assets these are reviewed every five years to ensure continued compliance with the United Kingdom statutory requirement. These safety cases are reviewed by both the local regulatory author and a competent independent verification body to assure the appropriateness of the Performance Standards and the critical function testing regime.

We are striving to ensure drilling contractors adopt the International Association of Drilling Contractors (IADC) HSE Case for all drilling operations, although this is not always possible in some of the regions in which we operate. In all cases, we ensure the integrity of our contracted drilling rigs at three stages before drilling commences. Initially we conduct a high level review during the bidding stage to ensure the rig technical specifications meet our requirements. After selecting a rig we conduct a pre-hire audit. Before commencing drilling we conduct a Drilling Preparedness Review, which includes a more in-depth assessment of crew competence, maintenance management systems and the integrity of safety (e.g. blow-out preventer) and environmental critical equipment.

Premier is also working to ensure all producing operations worldwide comply with the Asset Integrity Toolkit standard produced by the United Kingdom Offshore Operators Association (UKOOA).

Process safety performance

During 2010, there were no reported Loss of Primary Containment (LOPC) events of "greater consequence" (as defined in IPIECA 2011). Such incidents are characterised as unintended process safety events with severe consequences. These can include multiple fatalities, widespread environmental impacts and/or significant property damage. There were 18 LOPC events of "lesser consequence" reported, which includes five gas leaks and the 13 spills described in the Environment section (p38).

Emergency preparedness

All of our operations have emergency response plans which are continually reviewed. In 2010, we conducted a number of exercises to test their effectiveness. These included emergency response exercises at Anoa and Balmoral and for each well drilled last year. We also conducted a business continuity exercise at our corporate office in London.

In May 2010, Oil Spill Response Limited (OSRL) conducted a thorough on-site review of our capacity to respond to a major oil spill incident in the Anoa platform in Indonesia. The review found our facilities to have a relatively low risk of oil spills but recommended further understanding of the Anoa crude weathering and dispersability as well as more training for spill and emergency response equipment and improved dispersant spray systems. All of our oil spill response plans are approved by local authorities.

Premier also supports work currently being undertaken by the Oil Spill Prevention and Response Advisory Group (OSPRAG); that is reviewing industry practice in the United Kingdom in advance of conclusions from the Gulf of Mexico incident. OSPRAG provides direction and support to four specialist review groups whose remit is to focus on: technical issues including first response for the protection of personnel; oil spill response capability and remediation including national emergency response measures and well capping systems; indemnity and insurance requirements; pan-North Sea regulations and response mechanisms.

Security

All of our current exploration, drilling and production activity occurs offshore and away from local communities. Whilst our security services are not formally trained in our human rights policies or procedures, all such providers (including employees and contractors) are explicitly required to uphold our own Human Rights Policy as well as our Code of Conduct. Training modules will be implemented for all relevant personnel in 2011 via our induction process and online training tools (p16). Further human rights requirements are also included in invitations to tender issued to all eligible external providers. Security audits were conducted at our Jakarta and Islamabad offices in 2010.



Top Our online Corporate Risks Register (CRR) enables the recording and management of business, health and safety as well as other “social” risks

Bottom PATs logs proactive safety actions arising from inspections, audits and the identification of risks and events

Environment



Above Anoa Natuna Floating Production Storage and Offloading (FPSO) vessel, Indonesia

Environmental performance

Environmental assessment, management and reporting forms a major part of Premier's HSE risk management process. We conduct baseline surveys and Environmental and Social Impact Assessments (ESIAs) for each new operated activity. This involves an assessment of the physical, socio-economic and biological environments including biodiversity⁹. We measure and review each impact in turn and gauge both its significance and how it can be reduced to as low as reasonably practicable by adopting Best Available Techniques (BAT), in line with our internal environmental ALARP process. Potential actions to improve environmental performance are screened based on cost, duration and impact to determine which are reasonably practicable for implementation. We periodically review these environmental impacts and actions for our existing facilities to ensure we comply with our policy of continuous improvement.

Using best available techniques

Results of ESIAs and BAT assessments are integrated into facility specific management and monitoring plans. The implementation of these plans is externally reviewed as part of our ongoing ISO 14001 certification process. We have applied this process to our Anoa production operations in Indonesia as well as our Chim São project in Vietnam and Gajah Baru in Indonesia. This strategy led to replacement of halon at Anoa with FM-200; an ozone-friendly waterless fire suppression gas. Further such studies are undertaken to identify and reduce environmental impact for all new projects as well as for existing facilities where there is significant organisational or process changes.

⁹ Whilst included in previous Social Performance Reports, the current document excludes detailed reporting on biodiversity. Baseline surveys and ESIAs have found none of our existing operations to have significant impacts on the biological environment.

Environmental indicators and targets

We report our environmental performance in line with the International Petroleum Industry Environmental Conservation Association (IPIECA) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting 2010 (published in 2011). We then benchmark our performance by contributing data to an industry database compiled and published by the OGP. As an oil company with production facilities in the North Sea, we also participate in the European Union Emissions Trading Scheme (ETS) and submit an annual, externally verified report on our emissions profile to the Department of Energy and Climate Change (DECC). In 2010, our Carbon Disclosure Project (CDP) score increased from 45 to 74 making Premier the second best reporting energy sector company in the United Kingdom.

Our ambition is to reduce our impact year on year in line with our stated policy of continuous improvement to as low as reasonably practicable. We conduct periodic reviews of our operations' performance and identify where improvements can be made. Energy use on offshore production facilities and drilling rigs is generally driven by the original design of the facilities. New facilities are designed with the best technology available at the time. As a field matures, production decreases and fluid handling increases due to an increase in produced water leading to an inevitable rise in the intensity of emissions and discharges. Given a changing mix in age of facilities as we invest in both new developments and acquisition of older facilities we do not set a corporate environmental intensity improvement target year on year.

Figure 17: Key environmental parameters and indicators

Parameter	2006	2007	2008	2009	2010
CO ₂ (tonnes)	259,970	201,463	207,791	271,435	327,607
CO (tonnes)	684	446	485	714	995
N ₂ O (tonnes)	14	12	13	17	21
CH ₄ (tonnes)	1696	988	866	1,219	1,086
VOCs (tonnes)	736	426	379	542	513
NO _x (tonnes)	929	667	908	1,427	2,563
SO _x (tonnes)	70	42	68	121	247
GHG (tonnes)	297,008	222,082	225,978	300,440	350,421
GHG (tonnes per 1,000 tonnes production)	232	171	167	171	185

Environment (continued)

Figure 18: Total operated greenhouse gas emissions (1,000 tonnes)

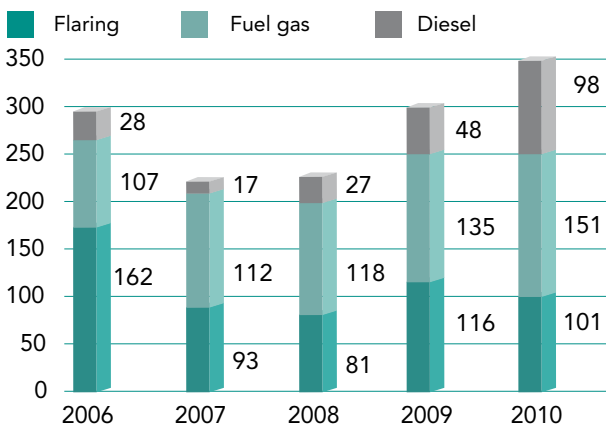
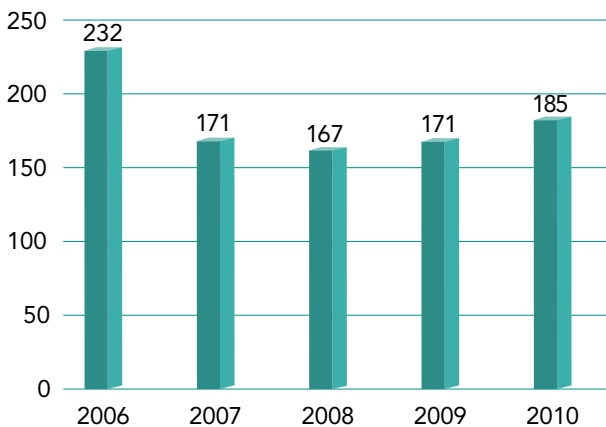


Figure 19: Greenhouse gas emissions per unit of production (tonnes per 1,000 tonnes)



Climate change and greenhouse gas emissions

We manage our operations in accordance with our policy of reducing our impact (including greenhouse gas emissions from transport, power generation, flaring and venting) to as low as reasonably practicable. This includes a focus on effective design (including the adoption of new technologies where practicable), efficient operation, and responsible energy use.

Direct emissions

Greenhouse gas emissions associated with hydrocarbon combustion at our operated assets amounted to 350,421 tonnes in 2010 (2009: 300,000 tonnes). This increase in absolute emissions from 2009 was largely due to the inclusion of our North Sea assets for the first full calendar year. These operations (Balmoral and Shelly) were added in May 2009. Shelly ceased production in mid-July 2010. Our operated emissions intensity increased slightly to 185 tonnes per 1,000 tonnes of production (2009: 171 tonnes per 1,000 tonnes of production).

We calculate our greenhouse gas (CO₂ equivalent or CO₂e) emissions both for operated assets and on an equity basis for production across our global portfolio. Greenhouse gas emissions from flaring and fuel gas combustion associated with our full equity portfolio amounted to 155 tonnes per 1000 tonnes production (2009: 149 tonnes per 1,000 tonnes production).

SO_x (sulphur oxides) emissions amounted to 247 tonnes in 2010 (2009: 121 tonnes). The majority of these emissions resulted from our production facilities and were mainly a consequence of energy use and flaring. NO_x (nitrogen oxides) emissions amounted to 2,563 tonnes in 2010 (2009: 1,427 tonnes). About 60% of these emissions resulted from our production facilities, with the remainder from diesel use during drilling. SO_x and NO_x intensity per unit of production (tonnes per 1,000 tonnes) remained stable.

Indirect emissions

We are continuously making efforts to improve environmental performance at all our offices. At our London Head Office, for example, all electricity is supplied from renewable sources. We try to minimise the volume of "hard copy" company information (including the Annual Report) sent out to shareholders and stakeholders by encouraging them to receive this information electronically. We donate £1 to Climate Care for every shareholder that registers for e-communication. Climate Care is a not-for-profit organisation that funds global sustainable energy and forest restoration projects aimed at reducing greenhouse gases.

Emissions forecasting

Our forecast growth over the next few years is likely to result in increased total emissions as we bring our Gajah Baru and Chim São developments into production. Both projects have engaged in our ALARP assessments; which means efficiency measures will be implemented to ensure emissions are as low as reasonably practicable.

The impacts of climate change on our operations

Premier operates in countries that may be impacted by climate change. We have undertaken a review of the potential impact this might have on our operations. The process considered rising sea levels and the increased frequency of unpredictable weather events. The review found that given our facilities are already designed to withstand once in 50 years and once in 100 years storm cases, a possible increase in the frequency of such storms would not present additional operational risks.

Our offshore fixed facilities also include a contingency for rising sea levels. As these stand on fixed steel legs that are piled into the seabed, any rise in sea level will affect the air gap between the sea and the facility. Floating facilities such as the Balmoral platform rise and fall with the sea, so the risks posed by changing sea levels are limited. Reviews of our operations indicate the likely long-term nature of sea-level rises compared to the relatively short lifetime of these assets of around 10 years means overall risks are limited.



Top Chim São facility, Vietnam

Environment (continued)

Our Project Risk Assessment Process now also takes into account climate change risks including both extreme weather events and sea level changes. For example, this included a study during the design process of the steel legs ("jackets") and moorings for the Chim Sao project in Vietnam. Meteorological and oceanographic studies are also carried out for all new projects. These include hind-casting and analysis of data on wind, currents and wave height over 1,000 years. These studies will now also include forecasting to include anticipated variations brought about by climate change.

Energy consumption

Energy consumption in 2010 was 4,009,750 GJ (2009: 3,064,000 GJ). About 55% of this occurred at the Anoa Field in Indonesia (2009: 70%), mainly in the form of fuel gas combustion, diesel used by the platform and vessels, and helicopter fuel. Our increased use of energy between 2009 and 2010 was mainly due to the inclusion of our North Sea operations for a full calendar year. Energy consumption per unit of production increased from 1.7 GJ per tonne in 2009 to 2.1 GJ per tonne in 2010.

Our ALARP and ISO 14001 processes ensure Premier is constantly working to improve energy efficiency at its operations. Whilst this is difficult for larger items of equipment, we continue to identify small projects that might reduce our carbon footprint. This includes more efficient travel (e.g. ensuring helicopters travel with the maximum number of passengers to reduce flights), energy efficient lighting at our London offices etc. Larger projects such as the selling of excess gas (rather than flaring) are also investigated where appropriate.

Pollution prevention

Planned discharges

The total volume of produced water discharged from our operations in 2010 amounted to 2,900,000 tonnes (2009: 1,800,000 tonnes). This increase was largely due to the first full year of accounting for our North Sea operations.

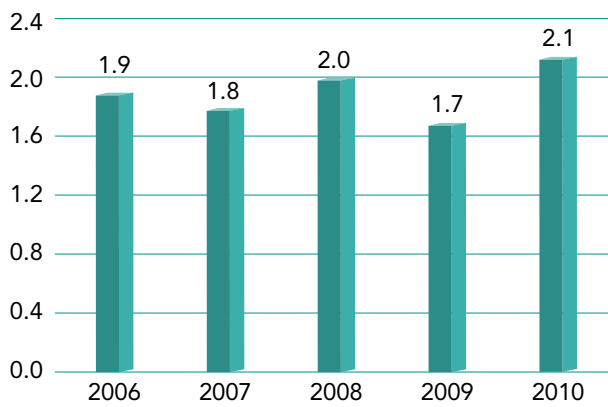
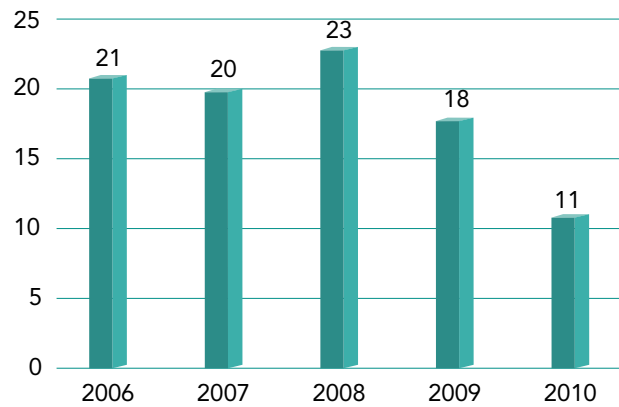
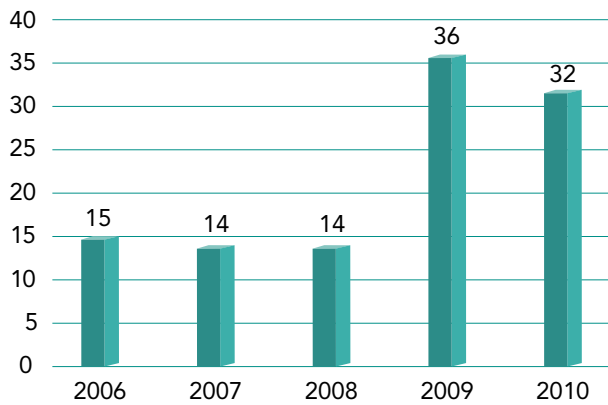
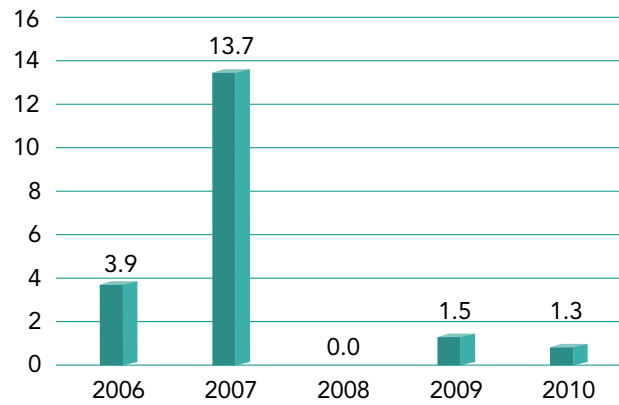
Despite the increase in absolute produced water discharges, the average oil in produced water declined significantly from 19 parts per million weight (ppm-wt) in 2009 to 11 ppm-wt in 2010. This reduction in the oil concentration of produced water can be partly attributed to improvements in the treatment process, which has optimised the performance of the equipment and chemicals used to remove oil from produced water before discharge. The average concentration of oil in produced water discharged by our Anoa facilities was 17.7 ppm-wt. At Balmoral and Voyager it averaged 10.2 ppm-wt and 9.5 ppm-wt respectively. This marks a further improvement on 2009 and the 40 ppm-wt at Balmoral prior to our acquisition of Oilexco.

Unplanned discharges

There were 13 spills (losses of primary containment) in 2010, including seven hydrocarbon spills to the environment (2009: seven). All of these spills were minor in nature with the total volume amounting to 1.3 tonnes (2009: 1.5 tonnes). This reflects the additional steps taken to prevent and respond to oil spills, including regular pollution prevention audits and an independent review of our Anoa oil spill contingency plan. We maintain oil spill contingency plans for each of our operations and have ongoing contracts with oil spill response specialists to provide support in the unlikely event of a major incident. Six other minor chemical spills occurred in 2010 (total 6.9 tonnes) with the majority release (6.6 tonnes) being as calcium chloride (salts) discarded into the sea.

Waste management

In 2010, approximately 1,880 tonnes of waste materials (2009: 1,200 tonnes) were collected from our global drilling and production operations and returned to shore for disposal; 539 tonnes was hazardous waste, 688 tonnes was non-hazardous waste (scrap metal, wood, plastic, etc.) and 653 tonnes was drill cuttings that were shipped to shore and processed through certified waste handling contractors. We attempt to segregate and recycle as much of our waste as possible, although in countries with poor infrastructure this can pose a challenge. In 2010, around 458 tonnes was sent back to shore for recycling.

Figure 20: Energy use (GJ) per tonne of production**Figure 21:** Oil in produced water (ppm-wt)**Figure 22:** Oil in produced water (tonnes)**Figure 23:** Hydrocarbon spills to the environment (tonnes)

Finance

We are a profit-making business and aim for continual financial growth and enhanced company value. We intend to achieve this growth by operating in a sustainable manner, satisfying the needs of stakeholders including our shareholders.

Figure 24: Key financial parameters and indicators

Financials

Accounting basis

Sales revenues

Profit before tax

Net profit for the year after tax

Cash flow from operating activities

Shareholders' funds

Net cash/(debt) including joint ventures

Per share statistics

Revenue per share

Earnings per share – basic

Earnings per share – diluted

Cash flow from operating activities per share

Reserves per share – year-end

Issued Ordinary Shares - average

Operations

Production (working interest basis)

Proved and probable reserves (working interest basis)

Employees – United Kingdom

– Overseas

Key Indices

Realised average oil price

Average exchange rates

Closing exchange rates



Above Chim Sáo facility, Vietnam

	2010	2009	2008	2007	2006
	IFRS	IFRS	IFRS	IFRS	IFRS
(US\$ million)	763.6	621.1	655.2	578.2	402.2
(US\$ million)	100.8	79.9	277.6	147.0	156.6
(US\$ million)	129.8	113.0	98.3	39.0	67.6
(US\$ million)	436.0	347.7	352.3	269.5	244.8
(US\$ million)	1,130.2	971.3	598.9	552.9	449.1
(US\$ million)	(405.7)	(315.6)	117.3	79.0	40.9
(cents/share)	658.3	571.9	659.8 ¹	705.1	491.7
(cents/share)	111.9	104.1	99.0 ¹	47.6	82.6
(cents/share)	103.1	103.9	98.2 ¹	46.9	81.7
(cents/share)	375.9	320.2	354.8 ¹	328.7	299.3
(boe/share)	2.25	2.35	2.29 ¹	2.58	1.86
(million)	116.0	108.6	99.3 ¹	82.0	81.8
(kboepd)	42.8	44.2	36.5	35.8	33.0
(mmboe)	260.8	255.2	227.5	211.5	152.1
(number)	119	110	62	60	60
(number)	442	398	406 ²	300	249
(US\$ per bbl)	79.70	66.30	94.50	72.30	64.90
(US\$/£)	1.55	1.57	1.85	2.00	1.84
(US\$/£)	1.56	1.62	1.46	1.98	1.96

Notes: 1. The average issued Ordinary Shares for 2008 have been adjusted to reflect the bonus element related to the rights issue in 2009. The 2008 'per share statistics' have been restated accordingly. The 'per share statistics' for 2006 and 2007 are as reported.

2. The 2008 overseas employee numbers have been restated to reflect a reclassification of employee categories during 2009 and the inclusion of offshore staff. The numbers for 2006 and 2007 are as reported.

Certain operations presented as discontinuing in 2006 were re-presented as continuing operations in 2007. The numbers for 2006 have been restated accordingly.

Independent Review of Reported Social Performance

Scope and objectives

Maplecroft was commissioned by Premier Oil to:

- Confirm the accuracy of all policy and social performance statements presented in this report.
- Verify the Global Reporting Initiative (GRI) G3 application level claim stated by Premier Oil on p4.

Maplecroft recognises that it is not an independent party due to its role as an advisor to Premier Oil on previous engagements. Maplecroft did not verify any of the data relating to Health, Safety and Environment (HSES) or economic performance. It did however verify the existence of HSE policy statements and actions as well as management systems.

Methodology

Our review of Premier Oil social performance policies and activities involved the following activities over the period of twelve weeks in early 2011, during which we worked together with the company at its London offices:

- **Review of standards:** including the United Nations Global Compact, Global Reporting Initiative (GRI), International Petroleum Industry Environmental Conservation Association (IPIECA), FTSE4Good requirements and Equator Principles. Our work sought to update the existing Premier Oil scope of social responsibility expectations in response to revised/evolving criteria including the new IPIECA reporting guidance and the forthcoming GRI Oil and Gas Sector Supplement.
- **Gap analysis:** this new scope was used to identify and address gaps in existing Premier Oil reporting. It also informed our review of existing and forthcoming policies (e.g. the Code of Conduct) and procedures, the employee handbook, the Premier Oil Business Management System (BMS) as well as further evidentiary documentation including previous annual and sustainability reports and online materials.
- **Social Performance Report:** this report represents a significant advance on the equivalent report from 08/09 in that it (a) reports on progress to address the gaps and commitments made in previous reports and (b) provides enhanced disclosures/transparency on work in progress and is further aligned to evolving reporting standards. Notable examples include the addition of further community investment and human resources data, insight into business ethics and anti-corruption training aligned with the Bribery Act 2010 (United Kingdom). This report includes a set of compliance tables that cross-reference all content in the report to the above best practice standards.

Materiality and completeness

Maplecroft is satisfied that the narrative content presented in this report is an accurate representation of current Premier Oil processes and activities. We also believe the Premier Oil statement that it has applied the GRI G3 guidelines at B+ level is fairly stated. Premier Oil has reported on its management approaches and on more than 20 of the GRI core/additional performance indicators. It has not reported on all core performance indicators, as is required for A+ compliance. We look forward to future reports and insight into Premier Oil's continuous improvements in non-financial reporting.

Recommendations

Premier Oil might consider the following suggestions as it progressively enhances and refines its reporting disclosures:

- Greater alignment between investor engagements and report content. This could be achieved through the ongoing collation of questions received from investors during the year and the clear provision of answers to these questions in the report. We believe this will be especially helpful to investors that are fast recognising the importance of an integrated approach/understanding of risk and responsibility.
- This last year saw the introduction of new reporting criteria from IPIECA as well as significant events in the oil industry e.g. the Macondo Deepwater Horizon explosion in the Gulf of Mexico. This will likely see increased disclosure requirements relating to emergency preparedness, oil spills and related impacts. Premier Oil could further improve the quality of its Social Performance Report by proactively anticipating and responding to emerging expectations in social reporting.

We commend Premier for excellent work in progress and continue to view the company on an upwards trajectory.

Alyson Warhurst
Kevin Franklin

Professor Alyson Warhurst and Dr Kevin Franklin,
29 March 2010

Maplecroft, Bath, BA1 5JZ, United Kingdom
Web: www.maplecroft.com email: info@maplecroft.com



Independent Review of Reported, Health, Safety and Environmental Performance

Scope and objectives

ERM Certification and Verification Services (ERM CVS) was commissioned by Premier Oil Plc (Premier Oil) to review processes in place at corporate level to collate and report on environment, health and safety information (HSE) provided in the 2010 Social Performance Report. The objective of the review was to determine whether processes at a corporate level provided an appropriate basis for reporting information and data on Premier Oil's HSE performance during 2010. Premier Oil reported its HSE performance using the following HSE reporting guidelines:

- International Petroleum Industry Environmental Conservation Association (IPIECA) – Oil & Gas Industry Guidance on Voluntary Sustainability Reporting, January 2011
- Global Reporting Initiative (GRI) – G3

We have not verified data or claims related to social or economic performance and we were not commissioned to provide an opinion on GRI G3 application level claims.

Respective responsibilities and independence

Premier Oil is responsible for preparing the Report and the information contained within it. ERM CVS, a member of the ERM Group, is responsible for reporting to Premier Oil on its conclusions. ERM CVS undertakes 3rd party certification for Premier Oil of the following:

- ISO 14001 and OHSAS 18001 for the global operations of the drilling function for Premier Oil Plc
- ISO 14001 and OHSAS 18001 for the oil and gas production operations associated with Premier Oil Natuna Sea BV based in Indonesia and for all of Premier Oil North Sea's production operations.
- ISO 14001 and OHSAS 18001 pre-operational pre-assessments for the Vietnam Chim-Sao and Gajah Baru production operations

ERM CVS also provides independent verification of emissions reporting for Balmoral and Sevan Voyageur in the UK North Sea under the EU Emissions Trading Scheme.

The work that ERM CVS conducts for clients is restricted to independent assurance activities and training programmes related to auditing techniques and approaches. Our processes are designed to ensure that our work is free from bias and conflict of interest. ERM CVS and the staff that have undertaken work on this assurance exercise provide no other services to Premier Oil in any respect.

Assurance approach and limitations

We based our work on Premier's internal guidance and definitions for the reported metrics. Our approach was developed with reference to the International Standard for Assurance engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Information issued by the International Auditing and Assurance Standards Board (ISAE 3000); as well as principles that ERM CVS has developed and refined for report assurance assessments.

During March 2011 we undertook a review of the HSE data and reporting systems employed by Premier Oil to direct, manage and collate HSE data. This involved interviews with the personnel responsible for collecting, reviewing and interpreting the data and information for representation in the Report. We did not undertake source data verification at any operated facilities.

Conclusions

Based on the review activities undertaken, we conclude that appropriate processes are in place to report Premier Oil's environmental, health and occupational safety performance and are an appropriate presentation of performance during 2010.

Recommendations

As a result of our review our key recommendations are:

- Complete the process of verifying all performance standards contained within the UK style safety case are being fully delivered for each installation
- Consider incorporating the IPIECA process safety and asset integrity leading and lagging indicators into performance monitoring and reporting systems
- Complete the implementation of the Premier Oil Environmental Information Monitoring System in Asia
- Review GHG methodologies to ensure they take account of current best practices such as:
 - Defining uncertainty bounds for key GHG measurement methodologies
 - Direct utilisation of source data where possible
 - Site specific emission factors for GHGs
 - GHG emissions from fuel gas (fully compliant), gas oil (not accounted) and flare (partially compliant) from partner operated assets
- Adopt ISO-14064 as GHG accounting standard, including:
 - Premier Oil Scope 2 emissions
- Formalise requests for partner operated assets data regarding GHGs and Process Safety performance



Leigh Lloyd, Managing Director
25th March 2011

ERM Certification and Verification Services, London
www.ermcvs.com
Email: post@ermcvs.com



Global Reporting Initiative

Global Reporting Initiative: Sustainability reporting guidelines (G3) (core indicators)		Page	Extent
Environmental performance indicators (management)			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations, retained earnings etc.	40-41, Annual Report 2010	Partial
EC2	Financial implications and risks/opportunities to the organisation's activities due to climate change	36-37	Full
EC3	Coverage of the organisation's defined benefit pension plan obligations	18-19	Partial
EC4	Significant financial assistance received from government		Not reported
EC6	Policy, practices and proportion of spending on locally based suppliers at significant locations		Not reported
EC7	Procedures for local hiring and proportion of senior management hired from the local community	20-21	Partial
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	6-15	Full
Environmental performance indicators (management)			
EN1	Materials used by weight or volume	38-39	Partial
EN2	Percentage of materials used that are recycled input materials	38-39	Partial
EN3	Direct energy consumption by primary energy source	35-38	Full
EN4	Indirect energy consumption by primary energy source	35-38	Full
EN8	Total water withdrawal by source		n/a
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		n/a
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	34	Partial
EN16	Total direct and indirect greenhouse gas emissions by weight	35-37	Full
EN17	Other relevant indirect greenhouse gas emissions by weight	35-37	Full
EN19	Emissions of ozone-depleting substances by weight	35-37	Full
EN20	NO, SO, and other significant air emissions by type and weight	35	Full
EN21	Total water discharge by quality and destination	38	Full
EN22	Total weight of waste by type and disposal method	38	Partial
EN23	Total number and volume of significant spills	38	Full
EN26	Initiatives to mitigate environmental impacts of products and services and extent of mitigation	34-35	Full
EN27	Percentage of products sold and their packaging materials that are reclaimed by category		n/a
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	23	Partial

Global Reporting Initiative: Sustainability reporting guidelines (G3) (core indicators)		Page	Extent
Social performance: labour practices indicators (management)			
LA1	Total workforce by employment type, employment contract and region	18	Full
LA2	Total number and rate of employee turnover by age group, gender and region	18	Partial
LA4	Percentage of employees covered by collective bargaining agreements	20	Full
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	20	Partial
LA7	Rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities by region	29	Partial
LA8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases	31-33	Partial
LA10	Average hours of training per year per employee by employee category	21	Partial
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	18, Annual Report 2011	Partial
LA14	Ratio of basic salary of men to women by employee category		Not reported
Social performance: human rights indicators (management)			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	23	Partial
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	23	Partial
HR4	Total number of incidents of discrimination and actions taken	16	Full
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken	20	Partial
HR6	Operations identified as having significant risk for incidents of child labour and measures taken to contribute to the elimination of child labour	20	Full
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to the elimination of forced or compulsory labour	20	Partial
Social performance: society performance indicators (management)			
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	6, 24-27, 31-33	Full
SO2	Percentage and total number of business units analysed for risks related to corruption	22-23	Full
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	22	Full
SO4	Actions taken in response to incidents of corruption	22	Full
SO5	Public policy positions and participation in public policy development and lobbying	23	Full
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	23	Full
Social performance: product responsibility indicators (management)			
PR1	Life cycle stages in which health and safety impacts of products/services are assessed for improvement	31-33	Full
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements		Partial
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications		n/a
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	23	Full

IPIECA

IPIECA: Oil and gas industry guidance on voluntary sustainability reporting (2010)		Page	Status
Environmental indicators			
E1	Greenhouse gas (GHG) emissions	35-37	Reported
E2	Energy use	37-38	Reported
E3	Alternative energy sources	37-38	Reported
E4	Flared gas	36	Reported
E5	Biodiversity and ecosystem services	34	Reported
E6	Fresh water		Not reported
E7	Other air emissions	35-37	Reported
E8	Spills to the environment	38	Reported
E9	Discharges to water	38	Reported
E10	Waste	38	Reported
Health and safety indicators			
HS1	Workforce participation	25-27	Reported
HS2	Workforce health	24-30	Reported
HS3	Occupational injury and illness incidents	28-30	Reported
HS4	Product stewardship		Not reported
HS5	Process safety	31-33	Reported
Social and economic indicators			
SE1	Local community impacts and engagement	6-15, 33	Reported
SE2	Indigenous peoples	3-4	Reported
SE3	Involuntary resettlement		Not reported
SE4	Social investment	6-15	Reported
SE5	Local content practices		Not reported
SE6	Local hiring practices	19-20	Reported
SE7	Local procurement and supplier development	23	Reported
SE8	Human rights due diligence		Not reported
SE9	Human rights and suppliers	23	Reported
SE10	Security and human rights	33	Reported
SE11	Preventing corruption	22-23	Reported
SE12	Preventing corruption involving business partners	22-23	Reported
SE13	Transparency of payments to host governments	23	Reported
SE14	Public advocacy and lobbying	23	Reported
SE15	Workforce diversity and inclusion	16	Reported
SE16	Workforce engagement	16	Reported
SE17	Workforce training and development	16-21	Reported
SE18	Non-retaliation and grievance mechanism	23	Reported

United Nations Global Compact FTSE4Good

United Nations Global Compact: Our Communication on Progress (CoP) against the Ten Principles		Page	Status
Human rights			
Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights	2-6, 16, 23, 33	Communicated
Principle 2	Businesses should make sure they are not complicit in human rights abuses	Online policy	Communicated
Labour			
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	20	Communicated
Principle 4	Businesses should uphold the elimination of all forms of forced and compulsory labour	20	Communicated
Principle 5	Businesses should uphold the effective abolition of child labour	20	Communicated
Principle 6	Businesses should uphold the elimination of discrimination in respect of employment and occupation	16-21	Communicated
Environment			
Principle 7	Businesses should support a precautionary approach to environmental challenges	34-39	Communicated
Principle 8	Businesses should undertake initiatives to promote greater environmental responsibility	34-39	Communicated
Principle 9	Businesses should encourage the development and diffusion of environmentally friendly technologies	34-39	Communicated
Anti-corruption			
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery	22-23	Communicated

FTSE4Good: Sustainability criteria		Page	Status
Environmental criteria			
Policy		24	Compliant
Management		34-39	Compliant
Reporting		4, 34-39	Compliant
Social and stakeholder criteria			
Policy		4	Compliant
Management		5-14	Compliant
Reporting		4, 5-14	Compliant
Human rights criteria			
Policy		2-6	Compliant
Management		2-6, 16, 23, 33	Compliant
Reporting		2-6, 16, 23, 33	Compliant
Supply chain labour standards criteria			
Policy		22-23	Compliant
Management		22-23	Compliant
Reporting		4, 23	Compliant
Countering bribery criteria			
Policy		2, 22-23	Compliant
Management		2-5, 16, 22-23	Compliant
Reporting		4, 22-23	Compliant

All Posters from our new HSE campaign

External recognition



FTSE4Good



Acknowledgments

Prepared, designed and produced by Maplecroft
www.maplecroft.com

Printed by Taylor Bloxham

© Premier Oil Limited 2011. All rights reserved.

Cover paper is sourced from responsibly managed forests, certified in accordance with the FSC (Forest Stewardship Council) and is manufactured to ISO 14001 and EMAS (Eco-Management and Audit Scheme) international standards, minimising negative impacts on the environment. Paper within this report is made from 100% ECF (Elemental Chlorine Free) wood pulp sourced from well-managed and renewed forests. The mill generates a portion of its renewable power from water turbines. Paper is fully recyclable and is manufactured within an ISO 14001 certified mill in the United Kingdom.

Whistle blowing hotline

United Kingdom: 0800 915 1571

Vietnam: 1800 545411

Indonesia: 001 803 440 884

Singapore: 001 800 7233 2255

Norway: 00 800 7233 2255

Pakistan: 00 800 900 44 036

United Emirates: 8000 441 3376

Disclaimer

This report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the group believes the expectations reflected herein to be reasonable in light of the information available to it at this time, the actual outcome may be materially difference owing to factors beyond the group's control or otherwise within the group's control but where, for example, the group decides on a change of plan or strategy. Accordingly, no reliance may be placed on the figures contained in such forward-looking statements.

Note: Environmental data used for this report is subject to a degree of uncertainty caused by limitations in measurement and estimation. Premier has in some cases been obliged to make estimates or use different approaches to data calculation to ensure all data covers the same scope. Data presented in this report include our office, production and drilling operations; but not the sub-contracted construction entities. The exception is our health and safety statistics that also include these construction entities.



NO SHORT CUTS: WE HAVE A DUTY TO DO THINGS IN THE RIGHT WAY. WE ASSESS AND MANAGE ALL RISKS. WE ALWAYS FOLLOW PROCEDURES. IT'S A PERSONAL RESPONSIBILITY. IT'S YOUR SAFETY.

HEALTH, SAFETY & ENVIRONMENT.
WE'RE ALL RESPONSIBLE.
NO SHORT CUTS. NO EXCEPTIONS. NO INCIDENTS.



NO EXCEPTIONS: WE ARE ALL ACCOUNTABLE. WE SHARE A RESPONSIBILITY FOR HEALTH, SAFETY & ENVIRONMENT. IF YOU SEE SOMETHING UNSAFE, SAY SO. IT'S YOUR JOB. WE ARE SAFER WORKING TOGETHER.

HEALTH, SAFETY & ENVIRONMENT.
WE'RE ALL RESPONSIBLE.
NO SHORT CUTS. NO EXCEPTIONS. NO INCIDENTS.



NO INCIDENTS: WE HAVE A RESPONSIBILITY TO ENSURE THAT OUR OPERATIONS CAUSE NO HARM TO PEOPLE OR THE ENVIRONMENT. THIS IS A PRIORITY. WE EACH HAVE A ROLE TO PLAY.

HEALTH, SAFETY & ENVIRONMENT.
WE'RE ALL RESPONSIBLE.
NO SHORT CUTS. NO EXCEPTIONS. NO INCIDENTS.



www.premier-oil.com

Premier Oil plc
23 Lower Belgrave Street
London SW1W 0NR

Telephone: +44 (0) 20 7730 1111
Facsimile: +44 (0) 20 7730 4696

