

Dragon Oil

Delivering for the future

ANNUAL REPORT 2014



Corporate Social Responsibility

The Company's mission is to safely explore and develop oil and gas resources by leveraging technology and a talented workforce. Dragon Oil is a dependable, ethical partner with strong environmental awareness.



Corporate Values and our approach

We have in place systems and processes that benefit our **People**, and ensure their **Health and Safety**. We have established a set of **Corporate Values** that will increasingly influence every facet of our operations, including our work in the **Communities** and **Environment** in which we operate.

Overview

The Company's mission is to safely explore and develop oil and gas resources by leveraging technology and a talented workforce. Dragon Oil is a dependable, ethical partner with strong environmental awareness.

When implementing projects, we follow the principles of sustainable development, which are:

- efficient operations
- environmental protection and
- social responsibility.

We believe that fulfilling these principles has a decisive impact on the success of projects. That is why we do our utmost to provide a balance of both short- and long-term economic, ecological and social inputs and comply with interests of all stakeholders – the local population, state authorities, employees and shareholders.

In Turkmenistan, Dragon Oil makes a significant contribution to the social and economic development of the country through its primary production activities. The Company is one of the largest employers and a major tax payer.

Average headcount

2014	1,775
2013	1,504
2012	1,368



People

We rely on the availability of skilled staff and invest in training programmes to promote their professional development. For many years Dragon Oil has had a policy of creating jobs for people in Turkmenistan, and today 93% of our employees there are local.

In 2013, we signed an agreement with the country's State Employment Agency to use their services in hiring local candidates, which resulted in more than 100 people joining us that year and a further 350 people in 2014.

Programmes for the training of local staff, which we have developed, are being delivered at the Group's Centre of Excellence. This has enabled hundreds of Turkmen citizens, who are Dragon Oil employees, to acquire new skills during the last two years. Since 2012, more than 380 professionals have also undergone training abroad – in the UAE, Russia and Europe.

For the UAE nationals, we have introduced a comprehensive scholarship scheme in technical fields related to the oil and gas industry. Students are offered an opportunity to join Dragon Oil to develop and gain knowledge in the organization. This scheme is also offered to Dragon Oil existing UAE national employees on full- or part-time basis. A similar programme will be offered in Turkmenistan in 2015.

In Turkmenistan, in 2014 we have identified 53 employees as high potential personnel who could replace expatriates. These carefully selected candidates are developed through an Individual Development Programme in addition to undergoing training and competency development as part of the Talent Development Programme, which we adopted in 2013.

Dragon Oil employees who join distance learning programmes at universities receive annual financial aid: four employees enrolled in this programme in 2014. This has a particular focus on the development of organisational and professional skills and managerial abilities.

In 2014, 2,892 man-courses were completed and training was conducted across many disciplines of the business with a particular focus on HSE, onshore and offshore operations, logistics and construction.

Across our organisation, during 2014, the Group specifically implemented or looked at the following measures within the area of human resources:



RETENTION RATE

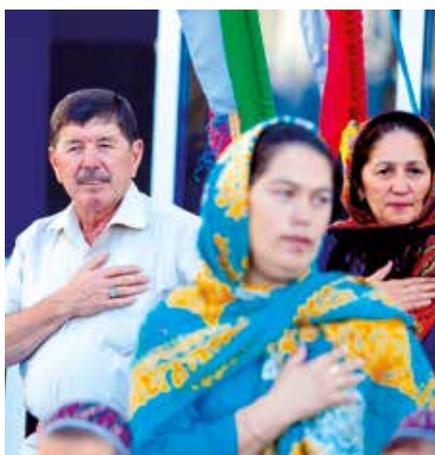
98%

Retention rate maintained in top-decile scores as a testament to our human resources strategy

COMMUNITY

US\$10mn

Annual commitment for social and training programmes in Turkmenistan



Corporate Social Responsibility Continued

- We defined a strategy for human capital to account for the ongoing expansion of the Group and our growth into a multi-asset company.
- In 2014, the HR department conducted a number of Code of Conduct awareness sessions for both new joiners and current employees.
- We changed our performance management system to a new one, which is in line with best practice systems; it will be introduced in 2015.
- The HR department introduced the ERP system for a number of its modules and will be upgrading the system further in 2015.
- We introduced the Taleo system for recruitment, allowing us to streamline the selection and hiring process – the impact on the process is expected to be very positive.
- We implemented the Long-Term Incentive Plan approved at the 2014 Annual General Meeting.
- Dragon Oil plans to formalise a specific internship policy and implement it across a number of locations.
- Within the framework of the UAE Nationals Scholarship Scheme, we offered scholarship for both our employees and external candidates to complete a Bachelor's or Master's degree.

Corporate social responsibility

We believe in giving back to the community, and in 2014 we undertook a number of health, education and sport-based projects to make a tangible impact on the lives and living standards of the community of Hazar – our operational base in Turkmenistan.

Health

We are sourcing a diesel generator for the local hospital in Hazar to ensure a constant supply of electricity and heating during winter months. Dragon Oil has also carried out a project to refurbish the heating system at the hospital. In 2015, we plan to invest significant funds in renovation of the hospital's building, supply necessary equipment and furniture and perform landscaping works on the adjacent territory.

We are arranging professional training and refresher courses for Hazar doctors to improve effectiveness and boost performance.



TRAINING

US\$1.8mn

US\$1.8mn spent on training Turkmen national Dragon Oil employees



HIGHER EDUCATION

15

Employees receiving financial support for higher education studies

SPORTS

5th

The 5th Dragon Oil Cup Tournament was held, which featured soccer, basketball, volleyball and boxing, with young sportsmen and women from different regions of the country taking part



In partnership with the Yenme NGO, we offer financial help to children whose medical conditions require high-cost treatment, as well as providing regular funding for the Blind and Deaf Society in both Ashgabat (the capital of Turkmenistan), and the regional capital Balkanabat. This includes support for an orphanage and a boarding school for visually impaired children together with the organisation of charity concerts for disabled children.

Education

Each year we invest in the overhaul of classrooms and facilities at schools in Hazar, which the Group has highlighted for support. The work is carried out by Turkmenistan's leading construction companies.

In 2014, this work included the refurbishment of classrooms, lobbies and toilets and the procurement of canteen equipment at a secondary school, and erecting new auxiliary buildings at the two nurseries we support.

Also in 2014, we provided all of Hazar's schools with interactive boards – including installation and training – and ran a seminar for the city's secondary school teachers on the application of computer technologies to the educational process. In 2015, we plan to supply another eight interactive boards to schools in Hazar.

Dragon Oil sponsored Olympiads – or academic contests – for secondary school students in Hazar and introduced special prizes for winners of the Olympiads in maths, physics and chemistry. We hope these contests will become regular events and will help to increase the interest to study these subjects among local secondary school students.

Sports

Dragon Oil has sponsored events organised by the Hazar Sports Committee over many years. Our support ranges from providing equipment, to the financing of young sportsmen and women to participate in tournaments locally and abroad, as well as funding the annual multi-sport Dragon Oil Cup Tournament, which brings together young people from all over Turkmenistan.

We are long-standing sponsors of sports clubs in Ashgabat and sponsor a club for disabled athletes in the Balkan region, as well as the National Paralympic Center of Turkmenistan and the country's National Paralympic Committee.

This year, we held the 5th Dragon Oil Cup Tournament, which featured soccer,

basketball, volleyball and boxing, with young sportsmen and women from different regions of the country taking part. Because of the importance of sports development, we are diversifying our sponsorship scheme to support sports such as ice hockey and judo, which are relatively new to Turkmenistan.

Over the past few years, the Company has also sponsored international tennis tournaments in Ashgabat with players from the CIS, Europe and Asia taking part.

Community support

Our community support extends beyond Hazar to its neighbouring towns and to Ashgabat.

Specifically, in 2014 we completed or initiated the following projects:

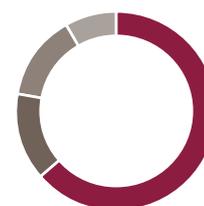
- In order to improve road safety, we are leasing a bulldozer to remove sand from the Balkanabat-Hazar highway. Wind-blown sand is a significant natural hazard on this road.
- We have procured two containers for flour for a local bakery in Hazar, which supplies bread to the whole town; and are now sourcing a diesel generator that will help ensure uninterrupted functioning of the bakery.
- We are in the process of sourcing diesel pumps for Hazar's water desalination plant.
- We have supported Ashgabat and Balkanabad Orphanages by providing necessary clothes for children and installing kitchen furniture at one of the orphanages.

In 2015, we intend to build a children's playground in Hazar as part of our plan to make improvements in the city, and we are carrying out a phased refurbishment of the Hazar bakery.

Development of the Cheleken Contract Area fields means new opportunities for local businesses and new jobs for local people in, for example, construction and transport. This helps to stimulate development of the small- and medium-sized enterprise sector within the country. We partner with more than 20 local companies for contractual work and materials supply, and the value of contracts awarded to local companies within the past three years amounts to approximately US\$17mn. Currently more than 3,000 local workers are employed by our contractor companies working on infrastructure projects in the Cheleken area.

Training across all of the Group

(people who attended, including some who attended on a number of occasions or both internal and external events)



● HSE	63%
● Technical	14%
● Non-Technical	14%
● English	8%

Corporate Social Responsibility

Continued

Culture

The people of Hazar have a rich culture, and Dragon Oil actively promotes the preservation of national and local traditions, values, arts and crafts.

In collaboration with the Hazar Department of Culture, we sponsor live performances, including by the long-established Rovshen Nepesov orchestra. Previously, we have sponsored the recording and release of an album by the orchestra, and are currently helping in the recording of its new album of classical Turkmen music.

We regularly invite members of the Guitarists' Society of Turkmenistan to perform and to conduct master-classes for the musicians of Hazar. Through our sponsorship, New Wave Ashgabat Jazz Band gave a free concert in Hazar in December last year.

Dragon Oil has also provided Hazar's folklore dance group with stage costumes and musical instruments and we have given instruments to students of the local music school.

Health, safety and environment

We are pleased to report that in 2014 we continued to operate safely: without fatalities, major catastrophic incidents or major environmental incidents.

Managing Health, Safety, and the Environment (HSE) is a vital part of Dragon Oil's activity. The Group's Health, Safety and Environment Management System (HSEMS) provides a tool for maintaining and continuously improving HSE performance, and meets both ISO 14001 and OHSAS 18001 as well as the legal requirements of Turkmenistan.

In line with our policies regarding the development of our local workforce, key HSE positions are currently occupied by young and highly motivated professionals from Turkmenistan.

Over 2014, we have significantly increased the number of HSE professionals at onshore and offshore facilities – by 14 people – engaged mainly with infrastructure projects and drilling activities. Since 2013, we now have two HSE managers based on-site in Hazar.

The employees' training and qualifications have been bolstered by development in-house of a comprehensive HSE training programme, which includes elements such as survival at sea and oil spill contingencies.

The Group's Centre of Excellence, which was established to improve employees' skills, runs regular HSE training courses using internal specialists, as well as training with other major oil companies and higher education institutions. From 2014, Dragon Oil has introduced a system of incentives encouraging employees and subcontractors to adhere to safety rules in our operations.

The HSE incentive scheme will help to promote a positive HSE culture and employee motivation within the Company and with our contractors.

Training statistics – a significant increase in HSE-related training events for local employees:

Type	Number of training events in 2013	Number of training events in 2014
English	7	2
Non-technical	18	28
Technical	40	35
HSE	17	32
Grand total	82	97

The HSE training, done both internally and externally, covered a significant range of areas where activities are particularly hazardous: working at height, basic and advanced fire fighting, as well as other topics, such as permit-to-work and first aid.

In recent years, we have significantly increased the number of fast rescue boats, adding another two in 2014, to improve

evacuation procedures in emergencies. New oil spill response equipment has been procured, and we have signed an agreement with an operator of the adjacent offshore block in respect of cooperation in emergencies, including oil spills. We apply the most advanced technology and management systems so as to be able to minimise possible ecological impacts and waste generation.

In 2014, the Group carried out 13 High Visibility tours with themes – lifting, emergency procedures, permit-to-work and risk assessment – both at onshore and offshore facilities, highlighting unsafe acts or conditions, recording findings and taking remedial action.

Monthly walkthrough audits are conducted with each contractor currently working at each of our project sites, to assess their performance in respect of meeting our HSE standards.

We require project contractors to maintain daily site construction inspection checklists, which will help to minimise and isolate factors that contribute to poor site conditions. In addition we:

- encourage project contractors to promote Anomaly Observation Report schemes to develop their people's awareness and increase involvement in the safety management system;
- hold weekly HSE team meetings and monthly HSE Management meetings with contractors discussing lessons learned from incidents;

	2010	2011	2012	2013	2014
Fatalities	0	0	0	0	0
Major catastrophic incidents	0	0	0	0	0
Major environmental incidents	0	0	0	0	0
Lost time incidents	2	3	6	6	5
Total hours worked (millions)	5.2	5.7	5.8	6.1	12.4
LTIF	1.46	1.30	1.26	1.22	0.60

Note: The LTIF calculation is now based on an industry standard of a five-year rolling average. The significant increase in man-hours is due to the fact that we now include all project contractors' man-hours in line with reporting an aggregated lost time incidents statistic for our employees and contractors. Total hours worked and LTIF for 2010-13 have not been adjusted.



ENVIRONMENT

Earth Day campaign

During the Earth Day week, we also sponsored a clean-up campaign involving schoolchildren who were taking part in the Dragon Oil Cup tournaments. Participants were given T-shirts with a specially designed Dragon Oil Earth Day logo

- developed training presentations for confined space entry, lifting, incident/near miss reporting awareness, and incident investigation awareness for supervisors;
- carried out 62 emergency-preparedness drills and exercises at our facilities in Turkmenistan.

In October, specialists from Dragon Oil and Schlumberger also jointly ran a first-of-its-kind training seminar for schoolchildren on HSE basics.

Environment

In order to reduce emissions into the air, in 2014 the Group installed additional equipment for short-term gas treatment. However, as part of a longer-term solution, we intend to build a gas treatment plant that will enable the processing of gas to export quality, reducing the need for current levels of flaring.

In 2014, our Hazar operations hub celebrated the UN-initiated Earth Day by cleaning the city's harbour area. More than 100 Dragon Oil employees joined in to collect over 250kg of recyclable litter, which was handled at our state-of-the-art waste disposal facility. They also planted 30 trees.

The Earth Day campaign brought together not only representatives of different Dragon Oil departments, but also many of the Company's contractors.

Future plans

In December 2014, we signed an amendment to the PSA with The State Agency for Management and Use of Hydrocarbon Resources at the President of Turkmenistan ("the Agency"), which will see an allocation of approximately US\$10mn annually for jointly identified social and training projects.

Dragon Oil is planning a number of large scale social projects. These include renovation of the Hazar Cultural Centre, the city's central park, town square and seafront, where we are looking to build an amphitheatre.

We hope that the re-equipped Cultural Centre will be a catalyst for renewed development of art and culture in town. We expect that by the end of 2016 the renovated building will be home to a wide variety of artistic and musical activity that will benefit from the new facilities. In addition the Centre's concert hall will not only host touring bands, but also will have facilities for screening movies.

In the longer term, we have plans to help with modernising the water supply system of Hazar, including partial replacement and repair of water mains, the repair of the water storage reservoirs, and installation of new water pumps, as well as increasing the capacity of the desalination plant from 1,500m³ to 6,000m³.

We look forward to implementing many more projects for the benefit of the host community and citizens of Turkmenistan.