Dragon Oil

Delivering for the future

ANNUAL REPORT 2014

About us

Dragon Oil (Ticker: DGO) is an independent international oil and gas exploration, development and production company. The Group has a producing asset in Turkmenistan and exploration assets in Iraq, Algeria, Afghanistan, Egypt, Tunisia and the Philippines.

Our headquarters are in Dubai, UAE. Dragon Oil is registered in Ireland (Company registration no: 35228) with a premium listing on the London Stock Exchange and a primary listing on the Irish Stock Exchange.

Operations at a glance

Dragon Oil's principal producing asset is the Cheleken Contract Area, in the eastern section of the Caspian Sea, offshore Turkmenistan. We also have onshore and offshore exploration assets in Iraq, Algeria, Egypt, Afghanistan, Tunisia and the Philippines.

The Group's headquarters are located in Dubai, United Arab Emirates. Emirates National Oil Company Limited (ENOC) L.L.C., a company ultimately owned by the Government of Dubai, owns approximately 54% of the Company's ordinary share capital. Dragon Oil is registered in Ireland (Company Registration no: 35228) with a premium listing on the London Stock Exchange (Ticker: DGO) and a primary listing on the Irish Stock Exchange (Ticker: DRS).

01. Production

Turkmenistan

The Cheleken Contract Area covers approximately 950km^2 and comprises two offshore oil and gas fields, Dzheitune (Lam) and Dzhygalybeg (Zhdanov), in water depths of between eight and 42 metres. The area is being developed under a Production Sharing Agreement (PSA).

In the Cheleken Contract Area, the average gross field production for 2014 reached approximately 78,790 bopd (2013: 73,750 bopd) – a 6.8% average gross production growth on the back of 14 wells completed in the Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields, including two sidetracks, and solid performance from the existing wells.

Read more on pages 8-9 and 22-26

02. Exploration

Iraq

Block 9 is located in the Basra province, onshore Iraq, and covers an area of 866km^2. Kuwait Energy is the operator for Block 9, participating with a 70% contractor share, while Dragon Oil has 30%.

In 2014, the partners drilled an exploration well, Faihaa-1, and made two oil discoveries with encouraging results.

Read more on page 27

03. Exploration

Algeria

Dragon Oil in partnership with Enel was awarded two onshore exploration perimeters, Tinrhert Nord Perimeter and Msari Akabli Perimeter, in 2014.

The Tinrhert Nord Perimeter (Dragon Oil 70% and operator, Enel 30%) is in the Illizi Basin in Eastern Algeria near a number of producing oil and gas fields and covers an area of 2,907 km^2.

The Msari Akabli Perimeter (Dragon Oil 30%, Enel 70% and operator) is in the Ahnet Basin in South-western Algeria and covers an area of 8,096 km^2. A number of undeveloped discoveries have been previously identified on the perimeter.

Read more on page 27

04. Exploration

Egypt

The contract for the East Zeit Bay, offshore the Gulf of Suez, was signed on 19 May 2014.

The East Zeit Bay (Dragon Oil 100%) is located offshore in the prolific southern Gulf of Suez region. The block covers an area of 93km^2 and lies in shallow waters ranging in depth from 10 to 40 metres. A number of producing oil fields are adjacent to or near East Zeit Bay, namely East Zeit, Hilal, Ashrafi, SW Ashrafi and Zeit Bay fields.

Read more on page 28

05. Exploration

Afghanistan

Dragon Oil has interest in two onshore exploration blocks, Sanduqli (2,583km^2) and Mazar-i-Sharif (2,715km^2). The participating interest of Dragon Oil (operator in Sanduqli block), Turkiye Petrolleri A.O. (TPAO) (operator in Mazar-i-Sharif block) and the Ghazanfar Group is 40%, 40% and 20%, respectively.

Read more on page 28

06. Exploration

Tunisia

The Bargou Exploration Permit, located in the Gulf of Hammamet in the Mediterranean Sea, offshore Tunisia covers an area of 4,616km^2 in water depths of 50 to 100 metres. The Bargou Joint Venture comprises Dragon Oil (55%), Cooper Energy (30%) and Jacka Resources (15%).

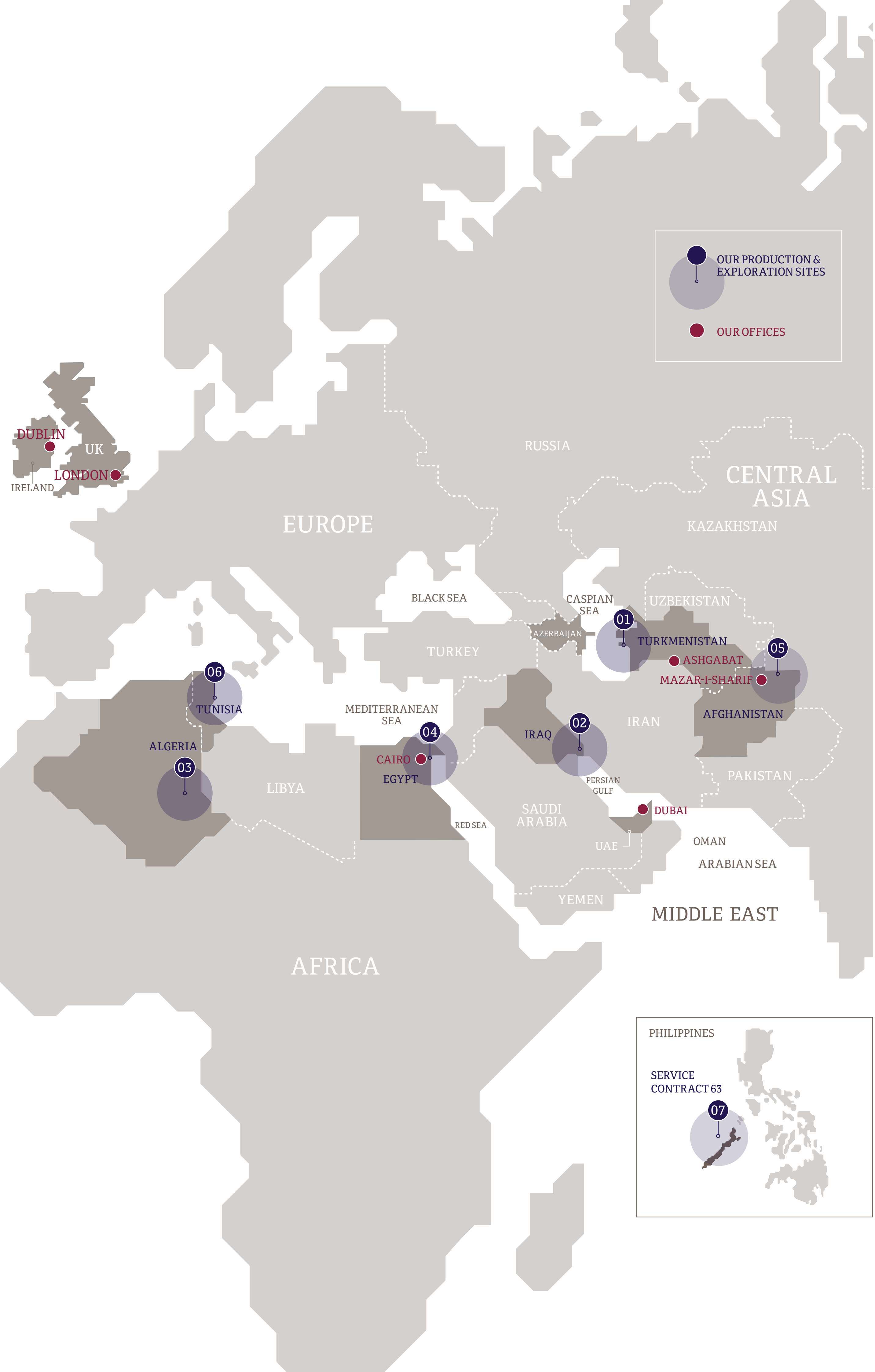
Read more on page 28

07. Exploration

The Philippines

In January 2014, Dragon Oil signed a farm-in agreement with Nido Petroleum Philippines Limited for Service Contract 63 (SC 63) North West Palawan Basin, offshore the Philippines. The partners drilled an exploration well, which did not discover commercial hydrocarbons.

Read more on page 28


OUR PRODUCTION & EXPLORATION SITES
OUR OFFICES
DUBLIN
UK
LONDON
IRELAND
EUROPE
RUSSIA
CENTRAL ASIA
KAZAKHSTAN
BLACK SEA
CASPIAN SEA
UZBEKISTAN
AZERBAIJAN
01
TURKMENISTAN
ASHGABAT
05
MAZAR-I-SHARIF
TURKEY
06
TUNISIA
MEDITERRANEAN SEA
04
02
IRAQ
IRAN
AFGHANISTAN
ALGERIA
03
CAIRO
EGYPT
LIBYA
PAKISTAN
PERSIAN GULF
SAUDI ARABIA
DUBAI
RED SEA
UAE
OMAN
ARABIAN SEA
YEMEN
MIDDLE EAST
AFRICA
PHILIPPINES
SERVICE CONTRACT 63
07

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35228

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The inks used are vegetable oil based.

Highlights of 2014

Operational highlights

14
Drilling
Fourteen wells, including two sidetracks, completed in the Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields in the Cheleken Contract Area, Turkmenistan

78,790 bopd
Production
Average daily gross production rose by 6.8%

60%
Reserves replacement
Approx. 60% of reserves produced in 2014 from the Cheleken Contract Area have been replaced

2
Diversification
Two new countries entered: the Philippines and Algeria with exploration assets

2
Diversification
Two successful oil discoveries in Block 9, Iraq

Financial highlights

US$1,093mn
Revenue
Revenue grew by 4% on the back of an increase in the volumes of crude oil sales as a result of higher entitlement offset by lower realised crude oil prices

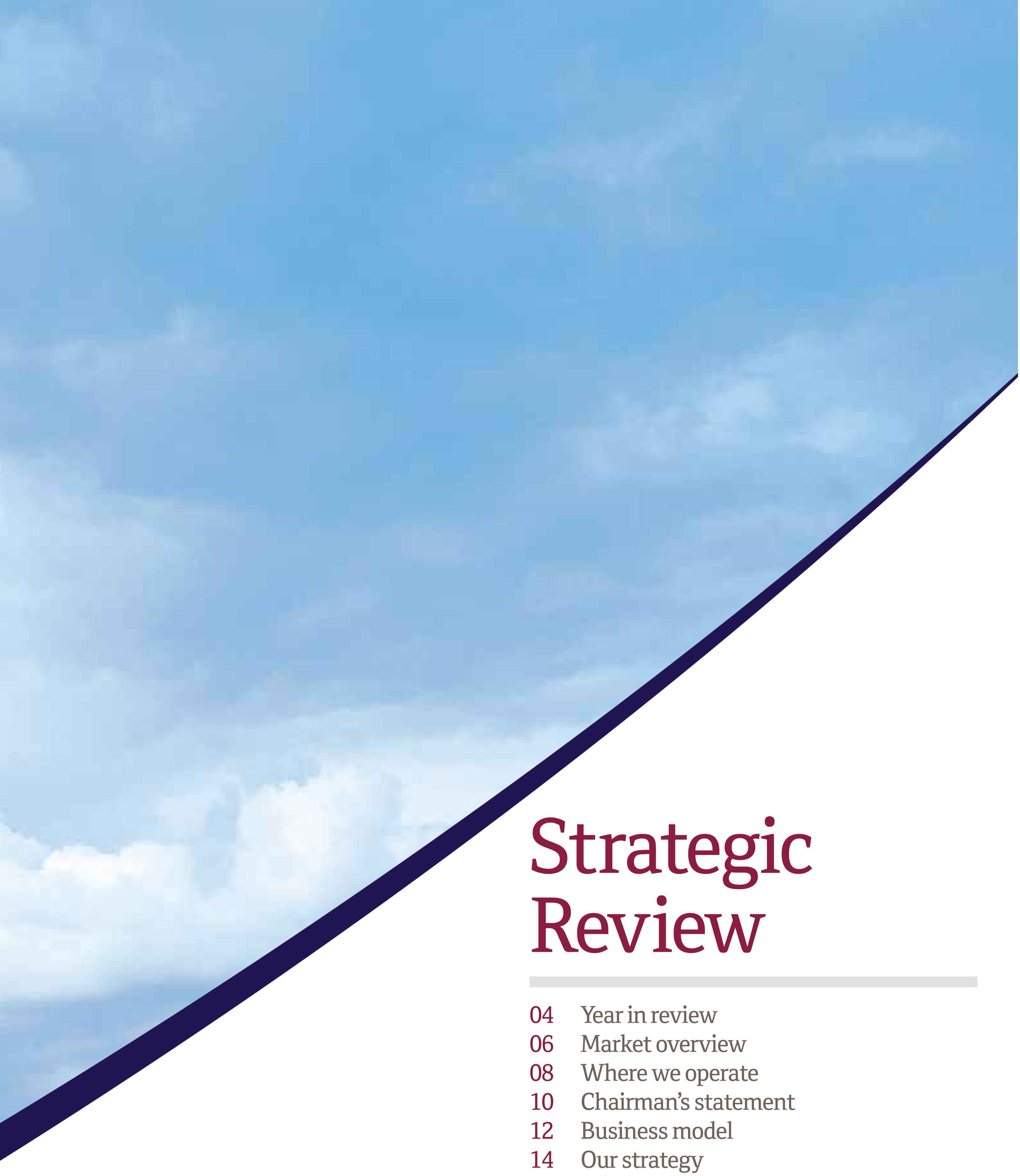
US$0.8bn
Cash from operations
Stayed at the same level due to higher sales volumes offset by lower realised crude oil prices

US$1,975mn
Cash balance, net of abandonment and decommissioning funds
Unleveraged position maintained

132.32 US cents
2014 Earnings per share (basic)
2014 full-year EPS diluted of 132.26 US cents

36 US cents
Full-year dividend
2014 final dividend of 16 US cents and interim dividend of 20 US cents, a 9% increase over 2013

Contents



Strategic Review

Year in review

In 2014, we continued to grow the average gross production in the Cheleken Contract Area, Turkmenistan, and exited the year at an impressive rate of 92,008 barrels of oil per day. We also added two exploration perimeters in Algeria to our portfolio of oil and gas assets and had two oil discoveries in Iraq.

The portfolio of our assets performed well during 2014: we grew average gross production in Turkmenistan by 6.8% to 78,790 bopd; in Iraq, the consortium reported encouraging oil discoveries in both targeted formations; and in Algeria, in partnership with a major European utility company, we won two exploration perimeters. Unfortunately, the joint venture partners were not successful in the Philippines where the exploration well did not discover hydrocarbons.

SEPTEMBER & OCTOBER
Diversification

Algeria

On 30 September 2014, Dragon Oil announced that in partnership with ENEL Trade S.p.A. ("Enel") the Group was awarded two exploration perimeters in Algeria, Tinrhert Nord Perimeter and Msari Akabli Perimeter. The contract for the exploration and exploitation of hydrocarbons was signed on 29 October 2014.

OCTOBER & DECEMBER
Diversification

Petroceltic

In 4Q 2014, the Board of Dragon Oil considered a possible offer to acquire Petroceltic International plc. However, in light of the then prevailing market conditions, the Board did not believe it was advisable to proceed with this transaction following a significant drop in the crude oil price and subsequent uncertainty about the long-term prices for crude oil.

MAY
Exploration

Egypt

The contract for East Zeit Bay, offshore the Gulf of Suez, Egypt, was signed between the Petroleum Ministry, represented by Ganoub El Wadi Petroleum Holding Company (GANOPE), and Dragon Oil on 19 May 2014. This is our first 100%-operatorship exploration block.

JANUARY & JULY
Exploration

The Philippines

In January 2014, Dragon Oil signed a farm-in agreement for Service Contract 63 (SC 63) NW Palawan Basin, offshore the Philippines. The exploration well drilled in summer did not discover commercial hydrocarbons and was plugged and abandoned.

SEPTEMBER & DECEMBER
Exploration

Iraq

In September 2014, the partners in Block 9 in Iraq, Dragon Oil (30%) and Kuwait Energy (70% and operator) were pleased to announce their first oil discovery in the exploration well Faihaa-1. The first target, the Mishrif formation, was reached at 2,700 metres and preliminary open hole tests resulted in flow rates of c. 2,000 bopd and 3,400 bopd of 20º API oil on 32”/64” and 64”/64” chokes, respectively.

In December 2014, the partners reported their second oil discovery in the second target. The Yamama formation was reached at 4,000 metres. Preliminary open hole tests of the Faihaa-1 Yamama formation resulted in oil flow rates of c. 5,000 and 8,000 bopd of 35º API crude oil on 32”/64” and 64”/64” chokes, respectively.

DECEMBER
Production

Turkmenistan

14 wells were completed; average gross production reached 78,790 bopd – a 6.8% increase from 73,750 bopd in 2013. We exited the year at a strong rate of 92,008 bopd.

DECEMBER
Export

Turkmenistan

We reached a one-year agreement with two buyers to export our share of gross production in 2015, achieving diversification in marketing routes.

FEBRUARY
Infrastructure

Turkmenistan

In February 2014, Dragon Oil awarded a contract for the engineering, construction and installation of the wellhead and production platform Dzheitune (Lam) E and associated pipelines.

Market overview

The combination of robust crude oil supply and relatively weak global demand can mean only one thing: crude oil prices have fallen to their lowest levels in nearly five years.

DATED BRENT

US$99

Dated Brent averaged US$99 per barrel in 2014 (2013: US$109)

CHELEKEN PRODUCTION

29 mn

In 2014, Dragon Oil produced 29 mn barrels of crude oil from its operated asset in Turkmenistan

Global oil production

Over the year, global oil supply has grown by almost 3% in both Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC sectors, though significant (non-OPEC) production outages remain in South Sudan, Syria and Yemen.

In the past few years, US shale oil producers have completed around 20,000 wells in previously unviable formations, boosting production by a third to nearly nine million barrels a day.

Although unconventional suppliers have certainly disrupted the market, their production costs are considerably higher than those of conventional suppliers, constantly threatening their future economic viability. Better technology and falling service costs, however, could see an increased supply of tight oil from the US and other new entrants into this sector, including Russia, Canada and Argentina.

Due to surging US production, global oil prices have fallen severely since Q3 2014, putting pressure on energy exporting countries, while consumers in many importing countries are likely to have to pay less.

Sources: IEA, EIA, Daily Telegraph, The Economist

Global oil consumption

According to the International Energy Agency, global oil demand is predicted to grow by one million barrels per day both in 2015 and 2016.

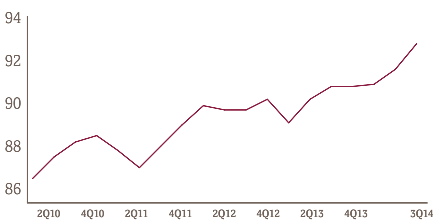
While economic growth in the developed world is likely to be patchy during 2015 – edging forwards in the US and UK, probably flat-lining in the EU and struggling in Japan – the overall global economy is still forecast to grow next year even if the rate of growth – at 3% – is lower than previously projected. On the one hand, cheaper oil should act as a catalyst as big importing economies benefit. On the other hand, the International Monetary Fund (IMF) warned of a risk of deflation in advanced economies, which are experiencing relatively robust economic expansion.

The fracking revolution and unconventional oil in the US has seen America's need to buy imported oil fall from 60% of total requirement in 2005 to 30% in 2014. Yet the US remains the world's biggest energy importer by far, still reliant on other countries for a net nine million barrels a day – amounting to around 10% of total global production.

Despite the current low oil prices, the fundamental trends still point to increasingly expensive energy in the long term. Next year's IEA forecast represents a 20% increase in oil demand in little more than a decade, and the large emerging markets, while their growth has slowed, are continuing to consume more than half of total crude output.

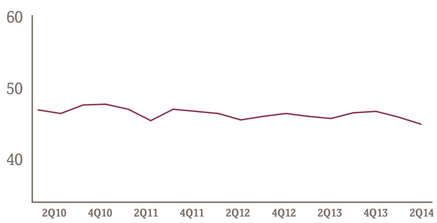
Sources: IEA, IMF, Prospect, Daily Telegraph, The Economist, the IMF

Global oil production (mn bopd)



Source: EIA

OECD consumption of petroleum products (mn bopd)



Source: EIA

Crude oil prices

The combination of robust crude oil supply and relatively weak global demand can mean only one thing: crude oil prices have fallen to their lowest levels in nearly five years.

Yet the cause is not only a simple supply and demand equation. Oil is priced in US dollars, and when the dollar rises, the price of oil falls.

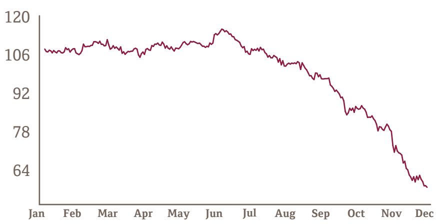
Despite having stood at US$115 per barrel in June 2014, by the end of the year the Brent oil price had fallen by 50% and was just above US$57. Yet the futures market, taking these factors into account, implies an upward trend in prices during 2015.

This will clearly affect countries whose budgets depend on high oil prices. It will also put pressure on high-cost producers. But the overall economic impact of cheaper oil is beneficial.

Currently the oil market indicates that the forward prices over the next three years are higher than current spot prices.

Sources: IEA, IMF, Daily Telegraph, The Economist

Brent crude price per barrel, 2014
(US$)



Source: Bloomberg

Turkmenistan

In terms of oil and gas, a number of factors underline the importance of Turkmenistan.

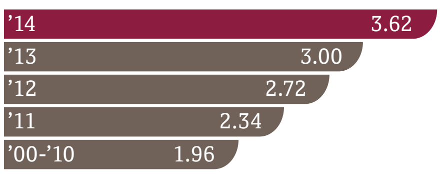
Turkmenistan has proven reserves of 32 trillion cubic metres of natural gas, putting it behind only Iran, Russia and Qatar in the global league table. Today, the country produces 80 bcm of gas per year and, in order to satisfy its current commitments, its government anticipates boosting gas output to 230 bcm by 2030, 180 bcm of which will be for export.

Turkmenistan is developing options to supply markets in which the fundamentals of gas supply and demand are especially favourable: China currently has low gas consumption of 5% of total energy supply versus the world average of 24%; Iran needs extra supply in the north; gas markets in India and Pakistan are restricted by limited indigenous supply; and Europe potentially may need to increase gas imports as domestic production declines.

This could make Turkmenistan a regional economic powerhouse and a major global energy player.

Sources: BP Statistical Review of World Energy 2014, Rigzone

Cumulative capital investment by Dragon Oil in the Cheleken Contract Area
(US$bn)



Source: Dragon Oil

Exploration

Dragon Oil is currently exploring in parts of North Africa, the Middle East and South-East Asia that offer significant opportunities for hydrocarbon producers.

Egypt
Egypt is the largest non-OPEC oil producer in Africa and the second-largest natural gas producer on the continent. Egypt has maintained a sustained level of exploration activity: there have been large numbers of oil and gas discoveries made each year. The country also serves as a major transit route for oil shipped from the Persian Gulf to Europe and the United States.

Algeria
Algeria's economic growth has picked up with the hydrocarbon sector forecast to expand and non-hydrocarbon sectors remaining supportive. The country is investing heavily in a range of social programmes to develop a productive and diversified economy over the next five years.

Tunisia
Tunisia's upstream oil industry is modest. Intensive exploration has been carried out in Tunisia since the discovery of oil in neighbouring Algeria. Sound fiscal policies have resulted in Tunisia being listed as one of the African country with sound growth prospects.

Iraq
The south-eastern part of Iraq in which we are investing has an established oil economy and infrastructure, is relatively stable and is integral to the future of the country.

Afghanistan
According to The World Bank, the country's biggest economic challenge is finding sustainable sources of growth. One of these is likely to be the development of an oil industry in the north of the country.

The Philippines
The World Bank forecasts growth of nearly 7% both in 2014 and 2015. Foreign direct investment has increased thanks to stable politics and better governance.

Source: IEA, The Economist, BBC, IBTimes

Where we operate

We have been successfully operating in Turkmenistan for almost 15 years. Dragon Oil has invested US$3.6bn in expanding the oil production and infrastructure in the Cheleken Contract Area, and, as such, the Group is one of the largest foreign investors in Turkmenistan.

Spotlight on the Cheleken Contract Area

Our operations in the Cheleken Contract Area

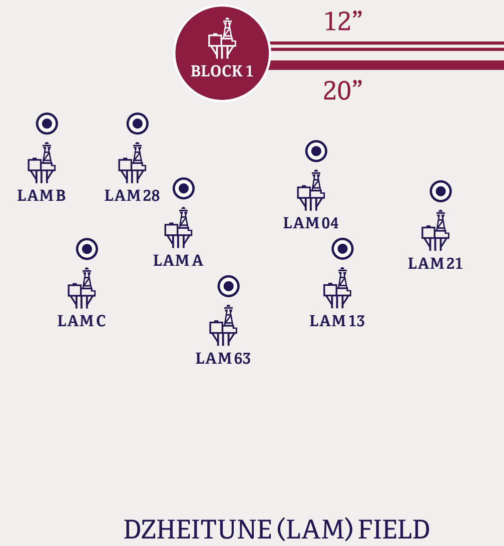
Dragon Oil operates in the Cheleken Contract Area under a Production Sharing Agreement (PSA) granted for a term of 25 years from 1 May 2000 and has an exclusive right to negotiate an extension of not less than 10 years.

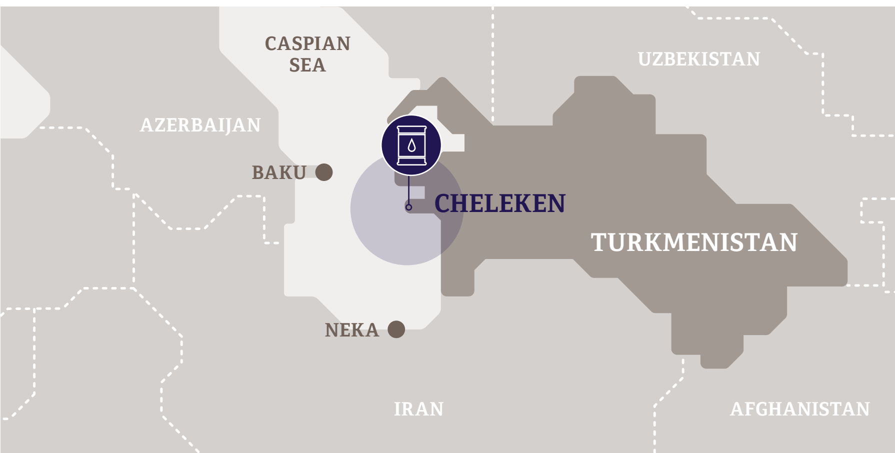
As at 31 December 2014, Dragon Oil had proved and probable oil and condensate 2P reserves of 663 million barrels and 93 million barrels of oil and condensate contingent resources, 1.3 trillion cubic feet of 2P gas reserves and 1.3 trillion cubic feet of contingent gas resources in the Cheleken Contract Area.

The Group has a medium-term development programme, which targets 100,000 barrels of oil per day as an exit production rate at the end of 2015 and then the average daily gross production of 100,000 bopd to be maintained for at least five years from 2016. We employ almost 1,900 employees of whom 1,700 are working in Turkmenistan and 93% of whom are Turkmenistan nationals.

The Cheleken Contract Area

The fields, Dzheitune (Lam) and Dzhygalybeg (Zhdanov), comprise two elongate anticlines situated at the eastern end of the Aspheron Ridge, which is a prolific hydrocarbon play extending from the Apsheron Peninsula in Azerbaijan to the Cheleken Peninsula in Turkmenistan.



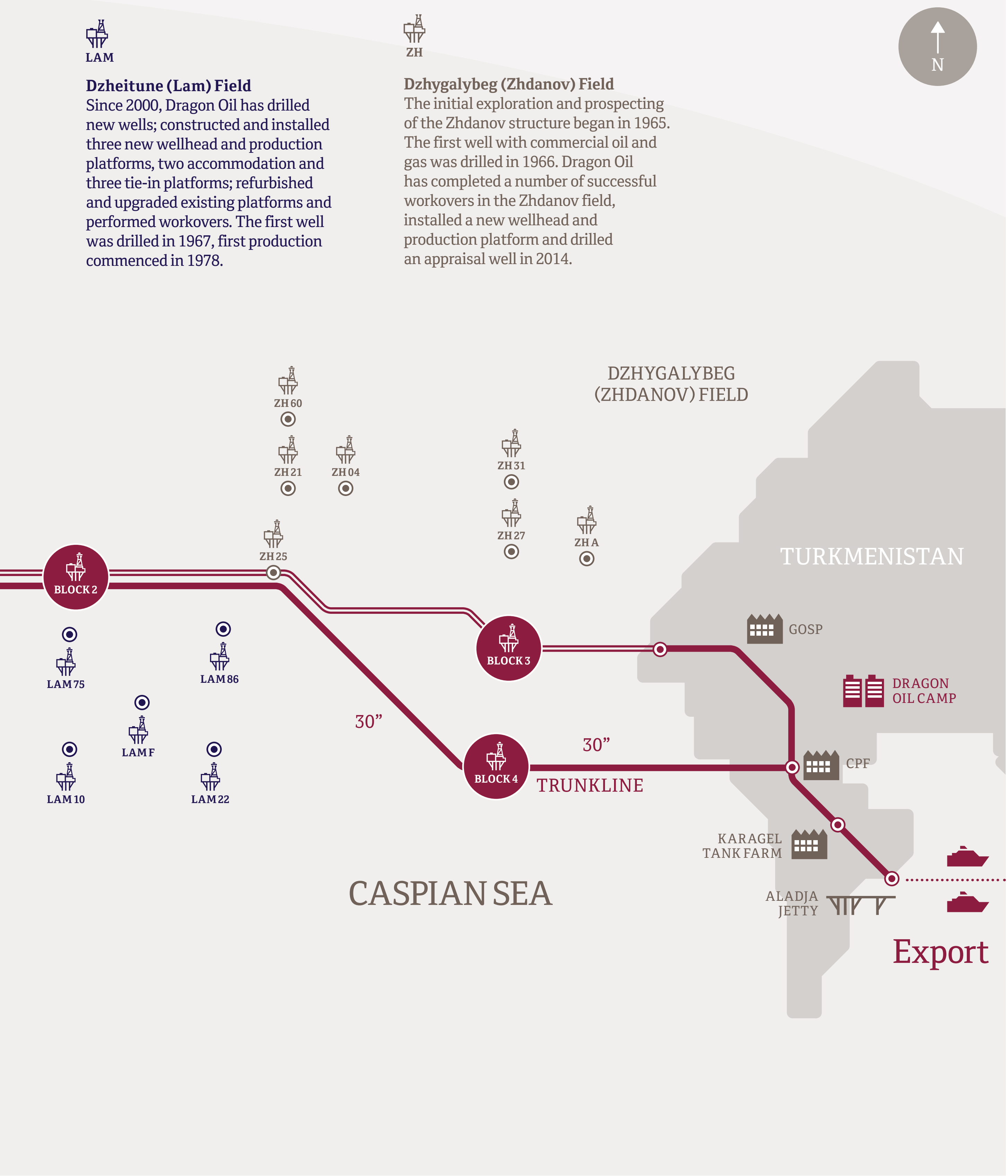


LAM

Dzheitune (Lam) Field
Since 2000, Dragon Oil has drilled new wells; constructed and installed three new wellhead and production platforms, two accommodation and three tie-in platforms; refurbished and upgraded existing platforms and performed workovers. The first well was drilled in 1967, first production commenced in 1978.

ZH

Dzhygalybeg (Zhdanov) Field
The initial exploration and prospecting of the Zhdanov structure began in 1965. The first well with commercial oil and gas was drilled in 1966. Dragon Oil has completed a number of successful workovers in the Zhdanov field, installed a new wellhead and production platform and drilled an appraisal well in 2014.



Chairman's statement

From a Chairman's perspective, 2014 was satisfactory. Production reached the levels we wished it to achieve, there were no Board changes, and we had an excellent safety record with no fatalities or major incidents.

Mohammed Al Ghurair
Chairman

Dear Shareholder

In 2014 we focused on production growth in Turkmenistan and on progress in our exploration assets.

Average gross production in Cheleken grew by 6.8% over the year. We drilled 14 new wells and the Caspian Driller jack-up drilling rig is now in Turkmen waters undergoing commissioning for commencement of drilling operations. Revenues were up by 4% and we generated US$0.8bn of cash from operations.

However, as production in Turkmenistan reached new highs – exceeding 90,000 bopd around the year-end – the Brent crude price fell from US$115/barrel in June to trade just above US$57/barrel. This 50% fall and continued slide of the oil price at the start of 2015 are likely to intensify focus on capital spending across the oil and gas sector whilst there remains uncertainty about long-term oil prices.

Under the terms of the contract in Turkmenistan, a lower oil price increases our production entitlement – assuming growth in investment levels. Improvement in the entitlement rate and planned 2015 gross production growth may not fully offset the negative impact from a lower oil price.

It is expected that there will be an impact on net income and a decrease in cash generation from operations should the low oil price environment continue during 2015.

The Board stays vigilant to ensure that the Group remains well-funded to continue with its strategy of growth and diversification.

Our strategy

Dragon Oil has a three pronged strategy, which we continue to execute at a steady pace.

We want to achieve sustainable production of 100,000 bopd from our production asset in Turkmenistan. Through the hard work of our team, of which we should all be immensely proud, we ended the year at 92,008 bopd of gross production. Thus we are on course to achieve our goal.

Monetisation of our gas assets in Turkmenistan – the second strand of our strategy – remains a priority. We are at the final stage of awarding a contract for the construction of a gas treatment plant in our base in Hazar that should come into operation three to four years later.

> Through the hard work of our team, of which we should all be immensely proud, we ended the year at 92,008 barrels of oil per day of gross production.

We also want to diversify the business into new regions and establish further operational bases in order to ensure the long-term sustainability of the Group. Such diversification could come from our exploration activities and/or from acquisitions should any attractive opportunity arise.

We made considerable progress in exploration in 2014, with encouraging finds of oil in Iraq, and the acquisition of high-potential blocks in Algeria for gas exploration and in Egypt for oil.

Full-year dividend
(US cents per share)

20 US cents
Interim dividend for 2014

16 US cents
Final dividend for 2014

Much of the Board's work – necessarily – goes unnoticed by shareholders and the market, as we consider diversification opportunities for Dragon Oil. A prospective bid for the Dublin-based Petroceltic International plc towards the end of 2014 was a manifestation of these efforts. Although we held detailed discussions with the Irish company, we ultimately decided not to make a firm offer in the light of prevailing market conditions. The Board understands its responsibility to create value for shareholders in acquisitions, and we value investors' trust in our ability to execute the right deal.

Nonetheless, we will continue to actively seek new assets in Africa, the Middle East and parts of Asia.

Returning value to shareholders

Since 2011, the Board has maintained a dividend policy, which takes account of the Brent oil price, the Group's investment requirements for the currently producing asset and exploration blocks, and merger and acquisition opportunities.

Although the price of crude oil fell substantially in the second half of the year, we do not expect that this will significantly affect future dividends – not least because we are sufficiently well-funded to withstand this downturn.

The current policy has returned substantial cash to shareholders; along these lines, the Board is recommending a final dividend payment of 16 US cents per share, which means that the full-year dividend would amount to 36 US cents (2013: 33 US cents) – an overall increase of 9%.

At the same time, however, the Board's priority is to use a significant proportion of the Group's sizeable cash reserve (approximately US$2 billion) to fund our diversification and growth plans. Therefore, we will continue to strike a balance between returning value to shareholders and retaining enough to support the growth of the Group.

Board changes and corporate governance

I am pleased to report that in 2014 there were no Board changes. It was a year of stability.

The Board places considerable emphasis on high standards of corporate governance, and recognises our role in providing clear leadership and direction on all matters relating to the business of the Group.

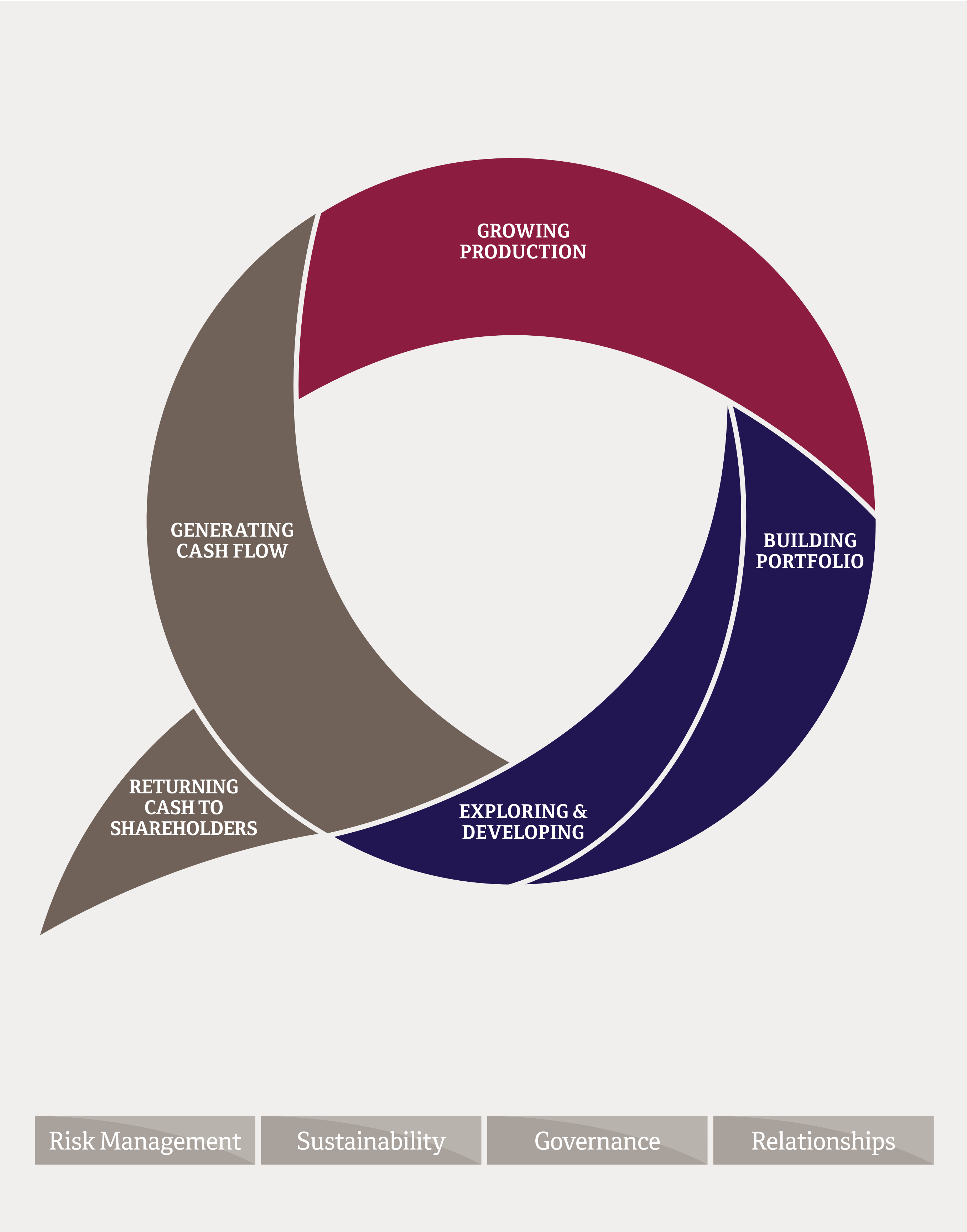
The long-term incentive plan as approved by shareholders at the 2014 AGM was put in place during the year and is described in detail in the Directors' Remuneration Report (pp. 62-74). Essentially, the plan is designed to ensure that senior management's interests in the Group's long-term success are further aligned with shareholders' interests.

Finally, of course, I would like to thank shareholders for their continued support, as we look forward to another year of success.

Mohammed Al Ghurair
Chairman

Business model

Our business model is to create value across selected areas of the oil and gas value chain where we can apply our expertise and knowledge best.



Continued development of the Cheleken Contract Area is the key strand of our strategy. We have invested US$3.6bn in infrastructure and drilling to grow average gross production to almost 79,000 bopd in 2014 from approximately 7,000 bopd in 2000.

Our objective is to continue safe and efficient operations, optimise development of the area and make a positive impact on the community to ensure sustainability of our business.

- Drill sufficient number of development wells to grow production to target level
- Maintain existing production by reducing downtime and using new technologies
- Pursue well services and workover operations
- Apply artificial lift using jet pumping systems
- Carry out pilot water injection projects at other locations with extended monitoring

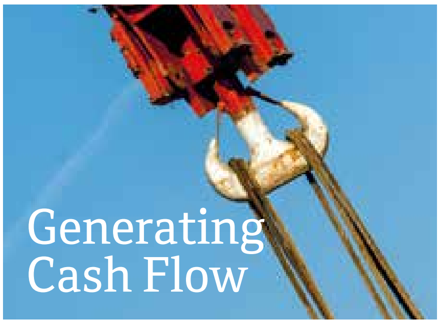
We already have a significant portfolio of assets: a strong producing asset in Turkmenistan (the Cheleken Contract Area) and a number of exciting exploration opportunities in North Africa, the Middle East and South-East Asia.

One of the three strands of our strategy is to diversify our portfolio of assets in regions of interest to us and to become a multi-asset company. We continue to search for right-fit development assets and in parallel grow our exploration portfolio.

- Diversify in select geographies
- Identify development assets
- Explore farm-in opportunities and participate in competitive bidding
- Work with strategic partners

Our expertise lies in development of proven reserves; at the same time we have been investing in building solid exploration capabilities. If and when we have proven commercial discoveries, we will benefit from transferring our development skills.

- Review infrastructure options for value engineering
- Plan delivery of infrastructure
- Synchronise rig availability with drilling schedules
- Ensure operating costs within pre-determined limits



In the current environment of comparatively low oil prices, our position is strong. We have just under US$2bn in cash and term deposits (net of abandonment and decommissioning funds) and no debt.

Our producing asset generates strong cash flows and is self-financing. We re-invest in our producing asset in Turkmenistan to continue its development and selectively add exploration assets while we continue our search for the right-fit development asset.

- Strong balance sheet with no debt
- Existing development operations are self-financing
- Exploration programmes to be financed from existing cash resources
- Return value to shareholders through dividend and share buyback
- Ability to monetise assets quickly as there are no funding constraints

Our Strategy

Our strategy is focused on three elements: to continue the development growth of the Cheleken Contract Area; to monetise opportunities for gas in Turkmenistan; and to become a multi-asset company through our diversification strategy.

01 Continued development of the Cheleken Contract Area

2014 targets	Achievements	Future targets
• Expect to complete between 14 and 16 wells, including one sidetrack.	• 14 development and appraisal wells, including two sidetracks, completed.	• Complete between 15 and 20 wells a year in 2015 and in 2016.
• Target annual production growth at the lower end of 10% to 15% .	• Average gross production increased by 6.8% to 78,790 bopd as a result of fewer wells completed in 1H 2014.	• Target annual production growth of around 10% and exit 2015 at 100,000 bopd.
• Execute relocation of Dzhygalybeg (Zhdanov) B platform to the Dzheitune (Lam) field.	• Installation of the Dzheitune (Lam) F accommodation platform in the central part of the Dzheitune (Lam) field is complete.	• Installation of the production platform Dzheitune (Lam) F is in progress.
• Expect to award contracts for a number of platforms to be constructed in the Cheleken Contract Area.	• A contract for the construction and installation of the wellhead and production platform Dzheitune (Lam) E and associated pipelines has been awarded.	• The platform is expected to be ready in 1H 2016.
• Expand the capacity of the processing facilities and award a contract for an additional 30-inch trunkline.	• Additional equipment to increase the capacity of the Central Processing Facility to handle 100,000 bopd and 150 mmscf of gas per day of average current production has been installed.	• The process to select a contractor to build another 30-inch trunkline is ongoing.
• Expand water injection operations and jet pumping systems installation.	• The water injection pilot is ongoing in the pilot Dzheitune (Lam) 75 area. • Two jet pumps were installed.	• The process to acquire water injection facilities is in the approval stage with the intention to procure and start installation of these facilities in 2H 2015.
• Progress with construction of the tank farm.	• The project to quadruple our crude oil storage capacity at the Central Processing Facility is progressing as planned.	• The tank farm is anticipated to be completed in 1Q 2016 of which three tanks will be built and commissioned on a priority basis in 2Q 2015.

Our mission

To safely explore and develop oil and gas resources by leveraging technology and a talented workforce as a dependable, ethical and environmentally conscientious partner.

Our vision

To continue the efficient operation and optimum development of our asset in Turkmenistan, with a vision of reaching an exit production rate of 100,000 bopd at the end of 2015 and maintaining the average daily gross production of 100,000 bopd as a plateau for a minimum of five years from 2016.

To achieve additional and significant production and reserves growth, through the acquisition of new exploration and production assets in other geographical areas.

02 Gas monetisation

2014 targets

- Award the contract for construction of the Gas Treatment Plant (GTP), which is expected to take up to three years.

Achievements

- The bids for an engineering, procurement, installation and construction project of the GTP were in the evaluation stage.

Read more on page 25

Future targets

- Award the contract for construction of the GTP in due course; construction is expected to take three to four years.

03 Diversification

2014 targets

- Actively pursue the diversification strategy to add more exploration and development assets to the portfolio.

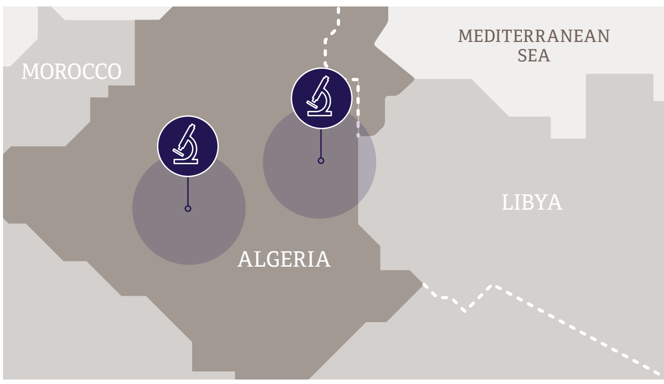
Achievements

- Two exploration perimeters in **Algeria** added in partnership with Enel.
- We considered acquisition of a major E&P company at the end of 2014, but subsequently withdrew our interest in the uncertain crude oil price environment.
- We farmed into Service Contract 63 (SC 63) NW Palawan Basin, offshore **the Philippines**.
- **Iraq**: two successful oil discoveries in both targeted formations with encouraging flow rates in the Faihaa-1 exploration well in Iraq.
- **Egypt**: contract signed on 19 May 2014; work programme commenced.
- **Afghanistan**: airborne gravity and magnetic survey commenced in 1Q 2015.
- **Tunisia**: appraisal drilling at Hammamet West postponed due to lack of rig availability.
- **The Philippines**: the exploration well Baragatan-1A did not discover commercial hydrocarbons; we are evaluating prospectivity of the remaining block.

Read more on page 27

Future target

- Actively pursue the diversification strategy to add development assets to the portfolio.



Chief Executive Officer's statement

In 2014, we took major steps towards further development of the Cheleken Contract Area and diversification: yet we also faced the impact of a marked fall in crude oil prices in the second half.

Dr Abdul Jaleel Al Khalifa
Chief Executive Officer

"We have had a significant success in our exploration portfolio: the discovery of oil in Block 9 in Iraq. We have also won two exploration perimeters in Algeria."

We ended the year with production levels up to 92,000 bopd. This is significant after a slow start to the year. Furthermore, we now have three drilling rigs operating simultaneously in the Cheleken Contract Area – one more jack-up rig is being commissioned to begin operating in 1H 2015. We have often had strong second halves – but it means that we begin the new year from a position of strength. Our immediate target remains 100,000 bopd by the end of 2015 – and we are confident that we will achieve this.

We have had a significant success in our exploration portfolio: the discovery of oil in Block 9 in Iraq. We have also won two exploration perimeters in Algeria in partnership with a major European integrated energy company.

Revenues for 2014 were up by 4% on the account of an 18% increase in the volumes of crude oil sold and offset by lower realised crude oil prices.

In December 2014, the state authorities in Turkmenistan amended the provisions of the PSA to make the tax rate consistent with the provisions of the Tax Code of Turkmenistan. The rate of 20% is now applicable to the Group in respect of its petroleum operations in Turkmenistan. At the same time the amendment incorporated an annual commitment of US$10mn for social and training projects. Consequently, profits were higher by 27% on the account of the reversal of the overprovision of US$160mn made in prior years in respect of tax liabilities offset by recognition of US$85mn for corporate social expenses for the initial term of the PSA in Turkmenistan.

We also generated $US0.8bn from operations in 2014.

The price of crude oil fell 50% in the second half of 2014. While our current Production Sharing Agreement in Turkmenistan provides us with a degree of resilience through uplift in entitlement barrels, we need to closely monitor cash flows and be able to preserve shareholder returns. We will continue to invest in production, but if the current oil price environment persists we will review our capital and exploration investments, including phasing certain projects without impacting production growth in 2015 and 2016.

Drilling and production

Drilling with three rigs out of four on site began later in the year. We drilled one new well in the first quarter and three in the second towards a full-year target of between 14 and 16. The lower number of wells completed in the first half of the year compared to our plan required us to downgrade our average gross production guidance mid-year.

The second half of the year, however, was excellent.

We completed 14 wells and saw production increase from 76,200 bopd at the end of the second quarter, to close to 90,000 bopd average production in December, by which time we had achieved annual production growth of 6.8% – in line with the revised estimates.

The long-awaited Caspian Driller jack-up rig arrived in October, and is now undergoing commissioning to commence drilling operations. It is expected to spud its first well towards the end of 1H 2015, and will remain with us for at least the next five years with an extension option for another two years. This is in addition to the three other rigs that we already have in place and operational.

Capital expenditure on infrastructure and drilling in Turkmenistan in 2014 was US$627mn: and though largely unseen, a key achievement during the year was the amount of well maintenance and well services work that we completed at the same time as growing production.

Operating in the Caspian Sea continues to pose substantial logistical challenges. Our ambitions are constrained by a limited supply of support capacity – for example, of contractors and materials. We have to be creative in respect of procurement and the sourcing of goods and equipment in support of our requirements. We have resourced and built up significant in-house construction capacity to execute small- to medium-sized projects to fill in gaps caused by the lack of availability of contractors.

Infrastructure

In February 2014, we awarded a contract for the construction and installation of the wellhead and production platform Dzheitune (Lam) E and associated pipelines. This is due for completion in 1H 2016.

In 2014, we also relocated the Dzhygalybeg (Zhdanov) B platform to the Lam field as Dzheitune (Lam) F to accelerate production from known areas in the Lam field.

We have increased the capacity of our Central Processing Facility (CPF) in Hazar from 80,000 to 100,000 bopd, to accommodate production growth. Expansion of our tank farm is ongoing. This will quadruple our crude oil storage capacity at the CPF and bring Dragon Oil up to industry best practice levels of storage capacity.

Reserves and recovery

Following an annual review of the reserves and resources in the Cheleken Contract Area performed by an independent petroleum engineer, we are pleased to report that assessment of the ongoing drilling operations and well performance have contributed towards the increase of oil and condensate 2P reserves by 17 mn barrels – an oil reserves replacement rate of approx. 60%. The 2014 year-end oil and condensate 2P reserves now stand at 663 mn barrels with oil and condensate contingent resources of 93 mn barrels. The gas reserves and contingent resources remain largely unchanged.

In order to maximise the amount of oil that we can recover from our fields, we are using a number of artificial lift technologies.

We are considering the use of electric submersible pumps (ESP) and aim to pilot their use in 2H 2015.

We are continuing with water flood programme with the aim of increasing reserves and longer-term production rates.

Exploration

We took two major steps forward in the second half of 2014, with two important oil reservoir discoveries in Iraq, and the winning of two exploration perimeters in Algeria – which represents entry into another North African country known to be rich in hydrocarbon resources and opportunities. In the second half of last year, we also seriously considered a corporate acquisition of a listed company with exploration and production assets in the regions of interest to us. However, with a significant drop in the oil price and continuing uncertainty, we did not believe it was advisable to proceed with this deal.

Iraq

Discovery in the first reservoir of our Iraqi block was highly encouraging, with flow rates of around 2,000 bopd and 3,400 bopd of 20° API oil on 32”/64” and 64”/64” chokes, respectively.

But subsequent testing of the second reservoir is proving to be even more exciting, with the prospect of lighter (35° API) oil at stabilised flow rates of up to 5,000 bopd and 8,000 bopd on 32”/64” and 64”/64” chokes, respectively.

14

Fourteen development and appraisal wells, including two sidetracks, completed

PRODUCTION

We increased our average gross daily production from 73,750 bopd in 2013 to 78,790 bopd in 2014 (with an exit rate of 92,008 bopd in 2014)

INFRASTRUCTURE

Lam F

A new wellhead and production platform is being installed in the central Dzheitune (Lam) field

Gross average production (bopd)

2014	78,790
2013	73,750
2012	67,600

RESERVES

663 mn

17 million barrels added to 2P oil and condensate reserves

Our block, onshore in Basra province, is being explored in a consortium with Kuwait Energy (70% and operator). We have a five-year exploration period in the block plus extension options, and an automatic 20-year development and production phase.

Algeria

Our diversification programme looks at both oil and gas assets. In September, we were awarded two exploration blocks in Algeria, in partnership with the Italian utility company Enel. Enel is the third largest purchaser of Algerian gas, and a potential sales channel for any discoveries.

Afghanistan

We have awarded contracts for airborne gravity and magnetic data acquisition in the Sanduqli block in northern Afghanistan, where we are the operator. The airborne gravity and magnetic data survey has commenced. Similar activities are ongoing for the Mazar-i-Sharif block.

Egypt

The contract for the East Zeit Bay (Dragon Oil 100%), offshore the Gulf of Suez, Egypt, was signed between the Petroleum Ministry, represented by Ganoub El Wadi Petroleum Holding Company (GANOPE), and Dragon Oil on 19 May 2014. We have hired a country manager and are setting up an office in Cairo.

We have commenced the work programme as per the Concession Agreement.

Tunisia

Progress this year has been limited; the partners have rescheduled appraisal drilling at Hammamet West until 2016.

The Philippines

Following the signing of a farm-in agreement in January 2014, we drilled an exploratory well, which unfortunately did not discover any commercial shows of hydrocarbons. The well has been plugged and abandoned.

However, we have learned a considerable amount from the exercise, and data obtained from the well are proving useful in our geological modelling.

EXPLORATION

3

Three exploration assets in two countries added to our portfolio in 2014

Marketing and distribution

In 2014, we sold 13.5 mn barrels of crude oil (2013: 11.5 mn), an increase of 18%. All of this was exported through Baku in Azerbaijan. However, our previous arrangements ended in December 2014.

At the end of 2014, the Group reached a one-year agreement with two buyers for all its anticipated entitlement production to be exported in 2015 through Baku, Azerbaijan and Makhachkala, Russia at a better overall discount of approximately US$14/barrel to monthly average Brent prices compared to the discount in the previous year.

With new marketing arrangements in place until the end of 2015, we have achieved our goal of diversifying export routes and now enjoy the flexibility of sending our share of the crude oil production in the Cheleken Contract Area through Baku, Azerbaijan and Makhachkala in Russia.

Gas

The contract for construction of our proposed gas treatment plant in Hazar will be awarded in due course. We anticipate construction will then take three to four years.

The processing capacity of the plant is expected to be 360 mmscfd of gas, which should allow us in the future to strip around 3,600 barrels of oil equivalent per day of condensate and to have dry gas. Our entitlement share will be blended with our share of the crude oil production.

People and communities

In 2014, 475 new people joined Dragon Oil, and our current headcount is just under 1,900 people, 93% of our workforce in Turkmenistan are Turkmen citizens.

In December 2014, we signed an amendment to the PSA, under which we will allocate approximately US$10mn annually for the initial term of the PSA for jointly identified social and training projects – a formalisation of our community work in Turkmenistan, of which we are very proud. We look forward to working with the host government to the benefit of the host community and citizens of Turkmenistan.

> ...We are also creating jobs in other parts of the world as we diversify our business and upgrade our talents in line with our ambitions.

COMMUNITY

US$10mn

Annual commitment for jointly identified social and training projects in Turkmenistan

HUMAN RESOURCES

475

New joiners across all our Group

But we are also creating jobs in other parts of the world as we diversify our business and upgrade our talents in line with our ambitions. We have appointed a new Group exploration manager. We also have a new office in Egypt as well as in Afghanistan headed by experienced country managers and staffed with local people.

In line with our strategy of becoming a multi-asset company, we understand that the ability to manage an expanding business in the face of rapid changes, new competition and market volatility is central to competitiveness and sustainable growth. The Group is implementing an Enterprise Resource Planning (ERP) system to increase the efficiency and transparency of our business in multiple phases in 2014-15 that include Human Resources, Asset Management, Finance and Accounting modules.

Outlook

In line with our strategy we intend to continue to

- grow production in the Cheleken Contract Area, Turkmenistan;
- appraise Iraqi discovery and progress other exploration assets; and
- diversify into new development assets.

Our focus in 2015 will be to achieve the exit rate of 100,000 bopd – and then to maintain that rate as average gross production from 2016 for a minimum of five years.

We plan to drill between 15 and 20 wells during 2015. The fact that we already have rigs in place makes this achievable. Capital expenditure for 2015 is expected to be in the range of US$500mn to US$600mn. Capital expenditure beyond 2015 will be assessed towards the year-end based on the oil price environment at that time.

We are diligently working to acquire development assets and have high hopes for success in our current prospects outside Turkmenistan.

Dr Abdul Jaleel Al Khalifa
Chief Executive Officer

Key Performance Indicators

Lost time incident frequency (LTIF)

Read more on page 36

0.60LTIF

Note: 2012 and 2013 LTIF indicators have not been adjusted in line with the new methodology.

- Safety of our people and contractors working for us is a top priority in our operations. The Group actively monitors lost time incidents, fatality and accidents risks.
- Our aim is to keep reducing the LTIF rate as we grow our operations, add assets and work more hours, making our operations safer overall.

Performance in the year

We changed methodology for calculating LTIF by adopting the industry standard of using a five-year rolling average. We now include all project contractors' man-hours in line with reporting an aggregated lost time incidents statistic for our employees and contractors. LTIF for 2014 is 0.60.

We operated without fatalities.

Outlook for 2015

The 2015 target is an LTIF rate of 0.60 with zero fatalities.

Gross average production (bopd)

Read more on page 22

78,790bopd

- The target is to achieve an exit production target of 100,000 bopd at the end of 2015 from the Group's sole production field offshore Turkmenistan.
- We will grow production by carefully maintaining performance of the existing wells and drilling new development wells.

Performance in the year

The growth in the average gross production during the year was 6.8%. This was below the target of between 10% and 15% due to fewer wells completed in the first half of 2014.

Outlook for 2015

We expect to grow the 2015 average gross production at around 10% and exit the year at 100,000 bopd.

Staff turnover (%)

Read more on page 33

2%

Note: 2012 and 2013 indicators have not been adjusted in line with the new methodology.

- Our workforce grew by 18% to 1,775 people (the average headcount) in 2014 and approximately 1,900 people at the end of the year. The majority of the employees (84%) are based in Turkmenistan of whom 93% are locals.
- The focus is on succession planning, training and development to ensure we have qualified personnel and professional teams to deliver on our strategy.

Performance in the year

Staff turnover for Turkmenistan was 1%. Overall, for the Group the retention rate was 98%.

We changed methodology for calculating the attrition rate by considering resignations and retirement but not termination of employment to determine the number of leavers.

Outlook for 2015

The target for the Group's staff turnover rate in 2015 to be maintained at a level below 5%.

- We use certain operating and financial KPIs that are associated with the business model (refer to pages 12-13) and our strategy (refer to pages 14-15) for tracking and assessing our performance to achieve long-term sustainable growth of the Group's assets and create shareholder value.
- These KPIs are incorporated in the Dragon Oil corporate KPIs that are monitored on a quarterly basis along with the departments' KPIs. Presentations on performance against these KPIs are made annually to the Board. All these KPIs have risks associated with their achievement and the mitigation of these risks is addressed as part of the Enterprise Risk Management (refer to pages 38-39).

Operating costs per barrel (US$ per barrel)

Read more on page 30

US$4.7pb

- The Group's operating cost targets are set and monitored as part of the five-year rolling business and one-year rolling operating plans. The field production operating costs are set at a targeted range per barrel. The key cost drivers are offshore operations, marine operations and logistics.

Performance in the year

Operating costs per barrel were at US$4.7 per barrel – higher than the target of US$4.5 per barrel. The operating costs per barrel excluding one-off costs were US$4.4 per barrel – within the target of US$4.5 per barrel.

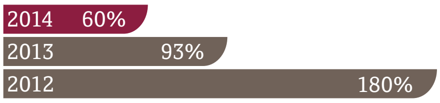
Outlook for 2015

We aim to keep the costs at around US$4.5 per barrel supported by robust cost management and efficiency gains.

Reserves replacement (%)

Read more on page 26

60%



- The Group has significant 2P oil and condensate reserves exceeding 600 million barrels.
- The aim is to pursue activities that may potentially lead to reserves replacement, such as the drilling of appraisal wells in undrilled areas and implementation of the water injection pilot and artificial lift projects.

Performance in the year

In 2014, the Group achieved a 60% reserves replacement ratio. The addition of 17 mn barrels to oil and condensate 2P reserves was mainly attributable to assessment of the ongoing drilling operations and well performance.

Outlook for 2015

Target for 2015 is to achieve reserves replacement in the range of 50% to 100%.

Diversification (assets added)

Read more on pages 27-28

3

- The Group seeks to diversify in various geographies with the expectation of managing a portfolio of exploration and development assets. The Group currently holds operator and non-operator interests in blocks in Turkmenistan, Iraq, Algeria, Egypt, Afghanistan, Tunisia and the Philippines.

Performance in the year

The Group won in partnership with a major European utility company two exploration perimeters in Algeria, farmed into an exploration block in the Philippines and considered the acquisition of an E&P company. Although our main goal is to add a producing asset to our portfolio, we have not yet been successful in achieving this goal.

Outlook for 2015

The Group seeks to acquire development assets in addition to prospective exploration assets on a selective basis.

Business and financial review

We had strong operational results in 2014 with 14 wells completed in the Cheleken Contract Area, Turkmenistan, underpinning the gross production growth of 6.8% and the exit rate of 92,008 bopd. Progress was made in Iraq with two oil discoveries in Block 9 and we added two exploration perimeters in Algeria to our portfolio of assets.

PRODUCTION

Turkmenistan

Production and entitlement

The average gross field production for 2014 reached approximately 78,790 bopd (2013: 73,750 bopd). We achieved a 6.8% average gross production growth on the back of 14 wells completed in the Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields, including two sidetracks, and solid performance from the existing wells.

The entitlement production for 2014 was approximately 56% (2013: 44%) of the gross production. Entitlement barrels are finalised in arrears and are dependent on, amongst other factors, operating and development expenditure in the period and the realised crude oil price. The higher proportion of entitlement barrels in 2014 is due to the higher capital expenditure and lower realised oil price.

Marketing

In December 2014, the Group announced that it had reached a one-year agreement with two buyers for all its anticipated entitlement export production in 2015, achieving diversification in marketing routes. The terms are FOB (free-on-board) the Aladja Jetty, Turkmenistan through Baku, Azerbaijan and Makhachkala, Russia. Negotiations on the new marketing agreements resulted in a better overall discount to monthly average Brent prices compared to the discount in the previous year. The discount to Brent is expected to be approximately US$14 per barrel. The previous arrangement expired on 31 December 2014 with the new arrangements in place until 31 December 2015.

Dragon Oil sold 13.5 mn barrels (2013: 11.5 mn barrels) of crude oil in 2014. The volumes sold were higher than the previous year's level mainly due to higher entitlement share of gross production offset by the movement in the lifting position.

In 2014, Dragon Oil exported 100% (2013: 100%) of its crude oil production through Baku, Azerbaijan.

The Group was in an underlift position of approximately 2.1 mn barrels of crude oil at the end of 2014 (31 December 2013: overlift position of 0.1 mn barrels of crude oil).

PRODUCTION

78,790

The average gross field production for 2014 reached approximately 78,790 bopd

DRILLING

14

During 2014, Dragon Oil completed a total of 14 development and appraisal wells

Drilling

During 2014, Dragon Oil completed a total of 14 development and appraisal wells: 13 wells in the Dzheitune (Lam) and one well in the Dzhygalybeg (Zhdanov) field. The table below summarises the results of the drilling programme in 2014 and the results of two wells completed since the beginning of 2015.

The initial flow rates from the completed wells vary depending on the depth of completions, maturity of the area and type of completion (a dual or single completion or a sidetrack).

The sidetrack drilled from the Dzheitune (Lam) 4 platform to appraise a location for a future platform encountered water and will be sidetracked in the future.

An appraisal well Zhdanov 21/101 was drilled to a depth of 3,447 metres, but due to difficulties only the top of the reservoir was tested and flowed at 425 bopd with a high water content. The bottom section of the reservoir was not tested, but has further potential. The well was suspended and will be sidetracked in the future.

The Dzhygalybeg (Zhdanov) A/102 well was drilled to a depth of 3,745 metres and is currently being completed and tested. State-of-the-art technology was used to drill this deep well helping us evaluate these hard and complex rock formations, and successfully confirm the presence of hydrocarbons.

The development well Dzheitune (Lam) 22/188 was drilled to a depth of 3,276 metres but due to equipment failure has been temporarily suspended and is scheduled for sidetracking in the future.

We are currently employing two jack-up and one platform-based rigs and expect the Caspian Driller to commence operations in 1H 2015.

The Elima jack-up rig is contracted until May 2016. It is currently drilling the Dzheitune (Lam) 13/199 well.

Average production (on a working interest basis)
(bopd)

Marketing of crude oil
(mn barrels)

Average realised crude oil price
(US$ per barrel)

Well	Rig	Completion date	Depth (metres)	Type	Initial test rate (bopd)
Lam B/155A	Elima	February	2,447	Development	1,027
Lam 4A/187	Elima	April	1,668	Appraisal	To be sidetracked
Lam B/148A	Elima	May	1,875	Development	1,300
Zhdanov 21/101	Neptune	June	3,447	Appraisal	425
Lam 22/188	Land Rig 1	July	3,276	Development	To be sidetracked
Lam A/189	Elima	July	1,822	Development	1,987
Lam A/190	Elima	August	1,904	Development	1,704
Lam C/191	Neptune	September	2,440	Development	1,510
Lam 28/192	Elima	September	2,283	Development	2,632
Lam 28/193	Elima	September	2,220	Development	1,961
Lam C/195	Neptune	November	2,421	Development	2,002
Lam 28/196	Elima	November	2,100	Development	1,952
Lam 22/194	Land Rig 1	December	3,252	Development	Pending jet pump application
Lam C/197	Elima	December	1,943	Development	1,600
Zhd A/102	Land Rig 2	January	3,745	Appraisal	Being completed
Lam C/198	Neptune	January	2,540	Development	Being completed

The second jack-up rig, Neptune, is available until we take delivery of the Mercury jack-up drilling rig later in 2015. The Mercury rig has been constructed and delivered to the contractor from whom we will be leasing it for the remainder of the three-year period as a replacement for the Neptune rig. The Neptune rig is currently completing the Dzheitune (Lam) C/198 development well.

The Caspian Driller jack-up rig is in the Cheleken Contract Area being commissioned to commence operations in the Dzheitune (Lam) field. The lease and management contract is for an initial duration of five years, with an option to extend it for a further period of up to two years.

Land Rig 2 is contracted for drilling on the Dzhygalybeg (Zhdanov) A platform until it completes eight slots allocated for drilling with a land rig on this platform. It is currently completing the Dzhygalybeg (Zhdanov) A/102 well.

Land Rig 1 has been released following the completion of the Dzheitune (Lam) 22/194 well.

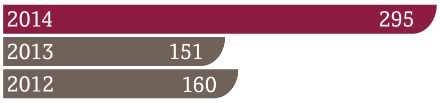
Water injection project and artificial lift

The water injection pilot project has been progressing in the pilot Dzheitune (Lam) 75 area since June 2013. The process to acquire water injection facilities to be installed in the Dzheitune (Lam) field is in the approval stage with the intention to procure these facilities. The aim of the water injection programme is for pressure maintenance, to sustain production rates and increase reserves recovery.

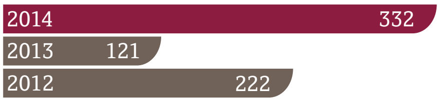
In 2H 2014, Dragon Oil commissioned the jet pumping system on the Dzheitune (Lam) 13 platform for two wells. Additional jet pumping systems were procured for other platforms and commissioning is scheduled to start later in 1Q 2015. The objective of this artificial lift application is to increase production and enhance recovery.

In parallel, Dragon Oil is considering use of electric submersible pumps (ESP) with an aim to commence their application in a pilot in 2H 2015.

Capital expenditure – Drilling
(US$mn)



Capital expenditure – Infrastructure
(US$mn)



2P oil and condensate reserves (on a working interest basis)
(mn barrels)

DRILLING

4

Four drilling rigs (one platform-based and three jack-up rigs) are on site at the Cheleken Contract Area

INFRASTRUCTURE
Dragon Oil awarded a contract for the construction and installation of the wellhead and production platform Dzheitune (Lam) E and associated pipelines

ARTIFICIAL LIFT

2

In 2H 2014, Dragon Oil commissioned the jet pumping system on the Dzheitune (Lam) 13 platform for two wells

Infrastructure

In February 2014, Dragon Oil awarded a contract for the construction and installation of the wellhead and production platform Dzheitune (Lam) E and associated pipelines. The platform will have eight slots with provision for another four slots to be fitted later, and suitable for a jack-up drilling rig use. Design and detailed engineering work is in progress and fabrication of the platform has commenced. Construction and installation are expected to take two years with the platform being ready in 1H 2016.

Installation of the Dzheitune (Lam) F accommodation platform in the central part of the Dzheitune (Lam) field has been completed. Installation of the production platform is in progress and the platform is expected to be made ready for drilling by 2Q 2015.

The project to quadruple our crude oil storage capacity at the Central Processing Facility is progressing as planned. The tank farm is anticipated to be completed in 1Q 2016 of which three tanks will be built and commissioned on a priority basis in 2Q 2015.

The process to select a contractor to build another 30-inch trunkline from the Dzheitune (Lam) field to the Central Processing Facility is in the tendering stage. Construction is expected to take two years after the contract is awarded.

In 2014, we installed additional equipment to increase the capacity of the Central Processing Facility to handle 100,000 bopd and 150 mmscf of gas per day of average current production. This would allow us to accommodate increases in gross production in 2015 and 2016 and the plateau production of 100,000 bopd for at least five years from 2016.

Structural strengthening and slot addition works continue at a number of platforms in the Dzheitune (Lam) field, with new slots being added or planned to be added to allow further drilling from these platforms. Work has been completed at the Dzheitune (Lam) C and Dzheitune (Lam) 28 platforms with four slots added on each platform. Strengthening and slot addition works are ongoing at the Dzheitune (Lam) 10 (six slots) and Dzheitune (Lam) B (two slots) platforms and are expected to be completed in 1Q 2015.

Gas Treatment Plant

The bids for an engineering, procurement, installation and construction project of the Gas Treatment Plant are in the evaluation stage. We anticipate the construction phase to take three to four years after the contract is awarded.

The processing capacity of the plant is expected to be 360 mmscfd of gas, which, according to our currently optimised estimates, which are to be confirmed at a later stage, should allow us in the future to strip around 3,600 barrels of oil equivalent per day of condensate and produce dry gas.

Abandonment and decommissioning activities

Dragon Oil continues to perform abandonment and decommissioning work within the first phase of its strategy for the plugging, abandonment and decommissioning of the old non-producing wells and non-producing platforms in the Cheleken Contract Area under the PSA. In 2014, Dragon Oil evaluated another 12 non-producing old wells in the Dzhygalybeg (Zhdanov) field and plugged and abandoned six wells, bringing the total of old non-producing plugged and abandoned wells to 11. The cost of activities is to be met from the abandonment and decommissioning funds.

Reserves and resources

Based on the results of the recent assessment by an independent energy consultant, the 2014 year-end oil and condensate 2P reserves were 663 (31 December 2013: 675) million barrels after having allowed for the 2014 production of 29 million barrels. Assessment of the ongoing drilling operations and well performance have contributed towards the increase of oil and condensate 2P reserves by 17 million barrels. The oil and condensate contingent resources are 93 million barrels compared with 69 million barrels as of 31 December 2013.

The gas 2P reserves are 1.3 TCF and the gas contingent resources are 1.3 TCF. Necessary upgrades of and additions to offshore and onshore infrastructure are planned to allow the conversion of the contingent resources into reserves in the future.

No changes have been made to the estimates of recoverable oil from the Dzhygalybeg (Zhdanov) field, where we believe 15% of the total proved and probable recoverable reserves are contained.

	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
Proved and Probable	**Oil and Condensate**	**Gas**	**Oil and Condensate**	**Gas**	**Oil and Condensate**	**Gas**
Remaining Recoverable Reserves	**mn barrels**	**TCF**	**mn barrels**	**TCF**	**mn barrels**	**TCF**
Gross field reserves to 1st May 2035	**663**	**1.3**	675	1.4	677	1.5
2C Resources						
Gross oil and condensate contingent resources	**93**	–	69	–	59	–
Gross gas contingent resources	–	**1.3**	–	1.3	–	1.4

RESERVES AND RESOURCES

663mn

Based on the results of the recent assessment by an independent energy consultant, the 2014 year-end oil and condensate 2P reserves were 663 mn barrels

EXPLORATION

Iraq

On 10 September 2014, the partners in Block 9 in Iraq, Dragon Oil (30%) and Kuwait Energy (70% and operator), announced their first oil discovery at the consortium's first target, the Mishrif formation, reached at 2,700 meters, in the Block 9 exploration well, Faihaa-1. Preliminary open hole tests of the Faihaa-1 Mishrif formation resulted in flow rates of c. 2,000 bopd and 3,400 bopd of 20º API oil on 32"/64" and 64"/64" chokes, respectively.

Later in the year, in December, the partners reported their second oil discovery in the second target, the Yamama formation, reached at 4,000 meters in the same Faihaa-1 exploration well. Preliminary open hole tests of the Faihaa-1 Yamama formation resulted in oil flow rates of c. 5,000 and 8,000 bopd of 35º API crude oil on 32"/64" and 64"/64" chokes, respectively.

The report from an independent petroleum engineer incorporating the results of testing the Mishrif formation indicated contingent 2C oil resources of 198 million barrels and contingent 2C gas resources of 56 Bscf net to Dragon Oil on a working interest basis.

More detailed testing on both formations will be conducted in the cased hole to help evaluate the commerciality of the findings. The consortium's strategy is to accelerate the evaluation of the Faihaa-1 discovery by drilling two appraisal wells in 2015 in order to fast track the development.

Block 9 is located in the Basra province and covers an area of 866km^2. The work commitment on the block within the initial five-year exploration period includes de-mining, seismic acquisition and interpretation and the drilling of the exploration well Faihaa-1.

Algeria

On 30 September 2014, Dragon Oil announced that in partnership with ENEL Trade S.p.A. ("Enel"), the Group was awarded two exploration perimeters in Algeria, Tinrhert Nord Perimeter and Msari Akabli Perimeter. The contract for the exploration and exploitation of hydrocarbons was signed on 29 October 2014.

The Tinrhert Nord Perimeter in which Dragon Oil holds a 70% paying interest and is the operator, with Enel holding the remaining 30%, is in the Illizi Basin in Eastern Algeria and near a number of producing oil and gas fields. The total area of the perimeter is 2,907 km^2. A number of undeveloped discoveries have been previously identified on the perimeter. The commitment during the exploration period includes acquisition and interpretation of 2D seismic data and drilling four wells.

The Msari Akabli Perimeter in which Dragon Oil holds a 30% paying interest, with Enel holding the remaining 70% and serving as the operator, is in the Ahnet Basin in South-western Algeria. The total area of the perimeter is 8,096 km^2. A number of undeveloped discoveries have been previously identified on the perimeter. The commitment during the exploration period includes acquisition and interpretation of 3D seismic data and drilling three wells.

EXPLORATION

3

Three exploration assets added in two countries (the Philippines and Algeria)

Egypt

The contract for the East Zeit Bay (Dragon Oil 100%), offshore the Gulf of Suez, Egypt, was signed between the Petroleum Ministry, represented by Ganoub El Wadi Petroleum Holding Company (GANOPE), and Dragon Oil on 19 May 2014. We have hired a country manager and are setting up an office in Cairo.

The East Zeit Bay is located offshore in the prolific southern Gulf of Suez region. The block covers an area of 93km^2 and lies in shallow waters ranging in depth from 10 to 40 metres. A number of producing oil fields are adjacent to or near the block, namely East Zeit, Hilal, Ashrafi, SW Ashrafi and Zeit Bay fields. Dragon Oil plans to acquire a new 3D survey over an area of approximately 100km^2 and reprocess all of the available 2D data in the block in addition to drilling two wells during the initial exploration period of four years. We have commenced the work programme as per the Concession Agreement.

Dragon Oil is evaluating bids to select a contractor to re-process the existing 2D seismic data.

Afghanistan

In 2014, the consortium, comprising Dragon Oil (40%, operator of Sanduqli block), TP Afghanistan Ltd. (TPAL, 40% and operator of Mazar-i-Sharif block) and the Ghazanfar Group (20%), awarded contracts for the airborne gravity and magnetic survey, which commenced in early 1Q 2015 in both blocks.

Tunisia

The joint venture partners (Dragon Oil, 55%; Cooper Energy, 30% and operator; and Jacka Resources Ltd, 15%) have rescheduled appraisal drilling at Hammamet West until 2016. The extension to the current exploration phase taking it to 7 August 2015 has been granted.

The Philippines

On 7 July 2014, Nido Petroleum Limited (ASX: NDO, 20% participating interest) on behalf of SC 63 Joint Venture partners PNOC-EC (40% and operator) and Dragon Oil (Philippines SC 63) Limited (40%) advised that the Baragatan-1A well did not discover commercial hydrocarbons. The Baragatan-1A well was plugged and abandoned. The partners are in the process of integrating information and data obtained from the well into current geological models and Dragon Oil is assessing its future interest in the block.

Dividends

The Board of Directors of Dragon Oil recommends the payment of a final dividend of 16 US cents per share (2013: 18 US cents). Together with the interim dividend of 20 US cents, the total dividend for the year ended 31 December 2014 is 36 US cents. The final dividend of 16 US cents is subject to shareholder approval at the Annual General Meeting to be held in London, UK on 27 April 2015. If approved, the final dividend of 16 US cents is expected to be paid on 30 April 2015 to shareholders on the register as of 7 April 2015.

The following is the dividend timetable for the shareholders' information:

- 17 February 2015: Declaration of final dividend
- 2 April 2015: Ex-Dividend Date
- 7 April 2015: Record Date
- 27 April 2015: Annual General Meeting
- 30 April 2015: Dividend Payment Date.

MATERIAL EVENTS

Diversification

In line with our diversification strategy, we continue to look for development or production assets in Africa, the Middle East and parts of Asia.

On 6 October 2014, the Dragon Oil Board confirmed that it was in detailed discussions regarding a possible offer to be made by Dragon Oil for the issued, and to be issued, share capital of Petroceltic International plc (Petroceltic) and submitted a proposed offer of 230 pence sterling per share in cash following an extensive confirmatory due diligence exercise.

On 1 December 2014, Dragon Oil confirmed that, in light of the then prevailing market conditions, it no longer intended to make an offer for Petroceltic and accordingly, as a result of the announcement, was bound by the restrictions set out in Rule 2.8 of the Irish Takeover Rules.

The Board did not believe it was advisable to proceed with this deal following a significant drop in the crude oil price and subsequent uncertainty about the long-term prices for crude oil.

Our People

In 2014, the Group increased its average headcount to 1,775, an 18% increase over the previous year. In 2014, 475 people joined Dragon Oil across its two main locations, the headquarters in Dubai, UAE, and operational and administrative sites in Turkmenistan. The overwhelming majority of new hires joined our workforce in Hazar, Turkmenistan, of whom 93% were local people as we gear up for continued growth of production at the Cheleken Contract Area towards our medium-term goal of exiting 2015 at 100,000 bopd and maintaining the average gross production of 100,000 bopd as a plateau for at least five years from 2016.

The Group continued with its objective of strengthening our expertise, cultural diversity and talent through hiring experienced and competent people. Our guiding principle of "People First" continues to drive our focus on training, empowering and trusting our talented workforce.

Corporate Social Responsibility

We strongly believe in giving back to the community, aiming to contribute to the well-being, educational and sports life of our host communities. In 2014 Dragon Oil undertook a number of projects for the community of Hazar, the hub of our operations in Turkmenistan. Among these projects were refurbishment of educational quarters and building an auxiliary building at two nurseries and refurbishment of sanitary facilities and the canteen, including procurement of canteen equipment, at a secondary school.

Dragon Oil also equipped all of Hazar's schools with interactive boards, including installation and training, and set up a seminar for the city's secondary school teachers on the application of computer technologies to the educational process. Other projects included sponsorship for a number of sport events in Turkmenistan and donations to relevant charitable organisations.

In 2014, Dragon Oil celebrated Earth Day at our Hazar operations hub by cleaning the harbour area and bringing together our employees, contractors and school-age children-citizens of Hazar and other towns.

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.

Social projects would cover any such projects designed to develop or upgrade social infrastructure and facilities, training, sponsorship of cultural, educational, sports

COMMUNITY

Turkmenistan

Aiming to contribute to the well-being, educational and sports life of our host communities through the US$10mn annual commitment to jointly agreed social and training programmes

PEOPLE

1,775

In 2014, the Group increased its average headcount to 1,775, an 18% increase over the previous year

and other related activities to the benefit of the host communities in Turkmenistan. This is in line with our corporate social responsibility policy towards host communities.

Training programmes will focus on higher education or vocational training, training courses for Turkmenistan citizens, including school graduates and secondary school leavers, who are not employees of Dragon Oil. This would be an expansion of our currently run in-house programme of providing financial assistance to help high-potential employees fund their higher education.

Outlook

In 2015, our target is to grow average gross production at around 10% or higher and exit the year at 100,000 bopd. We plan to complete 15 to 20 wells a year in 2015 and 2016 given the present and future availability of drilling rigs. We aim to average the gross production at 100,000 bopd in 2016 and maintain this level of production for a minimum period of five years from 2016.

Financial Summary

Dragon Oil has strengthened its balance sheet further in the last 12 months with a growth of 14% in net assets to US$3.7bn. The Group has no debt and is able to finance its operations internally with net cash generated from its operations in Turkmenistan.

Net profit for the year was 27% higher than the previous year primarily on account of an increase in revenue and a credit in the current income tax expense offset by increased cost of sales, recognition of corporate social expenses, a provision for impairment and higher corporate costs. Earnings per share were 27% higher and net cash from operations was 26% higher over 2013.

Income Statement

Revenue

Gross production levels in 2014 averaged approximately 78,790 bopd (2013: approximately 73,750 bopd) on a working interest basis.

Revenue for the year was US$1,093mn compared with US$1,048mn in 2013. An increase of 4% over the previous year is primarily attributable to a 17% increase in the volume of crude oil sold over the previous year, despite the 11% decrease in the average realised crude oil price during the year. The average realised crude oil price during the year was approximately US$81 per barrel (2013: US$91 per barrel) and was at an 18% (2013: 17%) discount to Brent during the year.

Operating profit

Gross profit is measured on an entitlement basis. The entitlement production was approximately 56% (2013: 44%) of the gross production in 2014. Entitlement barrels are finalised in arrears and are dependent on, amongst other factors, operating and development expenditure in the period and the realised crude oil price. The increase in the volumes of crude oil sold was mainly due to higher entitlement share of gross production offset by the movement in the lifting position. The higher proportion of entitlement barrels in 2014 is primarily due to the higher capital expenditure in the Cheleken Contract Area and lower realised crude oil prices.

At the year-end, the Group was in an underlift position of approximately 2.1 mn barrels that is recognised and measured at market value (31 December 2013: overlift position of approximately 0.1 mn barrels).

The Group generated an operating profit of US$579mn (2013: US$688mn), 16% lower than in the previous year.

The decrease in operating profit of US$109mn was primarily on account of higher cost of sales, recognition of corporate social obligations, provision for impairment towards the exploration and evaluation costs of the Baragatan-1A well, offshore the Philippines and administrative expenses offset by higher revenue.

The Group's cost of sales was US$357mn in 2014 compared to US$324mn in 2013, an increase of about 10%. Cost of sales includes operating and production costs and the depletion charge. The increase is primarily due to the increased depletion charge during the year and higher field operating costs, offset by the movement in the lifting position.

The depletion and depreciation charge during the year was higher by about 47% at US$316mn (2013: US$215mn) primarily due to increased entitlement barrels during the year. The depletion rate per barrel, and the consequent charge, is also impacted by significant assumptions in the future oil and gas prices and future development costs, and is partly offset by reserves replacement during the year. The decrease in operating and production costs was primarily attributable to the changes in lifting positions of US$93mn, offset by increased costs of US$24mn due to a higher level of field operations.

Administrative expenses (net of other income) were higher at US$49mn (2013: US$36mn) primarily due to an increase in corporate costs during 2014. Under the terms of the PSA amended in December 2014, the Group is committed to spend US$10mn per year until the end of the PSA towards corporate social expenses. Consequently an amount of US$85mn (2013: nil) has been recognised for corporate social expenses for the initial term of the PSA in Turkmenistan. A provision for impairment of US$24mn (2013: nil) was recognised towards the exploration and evaluation costs of the Baragatan-1A well, offshore the Philippines. The exploration well did not discover commercial hydrocarbons and has been plugged and abandoned. The future interest in the block remains to be assessed.

Profit for the year

Profit for the year was US$651mn (2013: US$513mn), 27% higher than the previous year primarily on account of a credit in the current income tax expense in respect of the reversal of the overprovision made in prior years up to 2013 no longer payable, and higher revenue offset by higher cost of sales, recognition of corporate social obligations, a provision for impairment and administrative expenses. The profit for the year includes finance income of US$11mn (2013: US$11mn).

The Group's subsidiary Dragon Oil (Turkmenistan) Ltd has paid taxes in accordance with the legislation of Turkmenistan. From 2008 to 2013 Dragon Oil (Turkmenistan) Ltd paid taxes in accordance with the Tax Code at the rate of 20% and provided for additional taxes at 5% in line with provisions of the Production Sharing Agreement (PSA) and the Hydrocarbon Resources Law of 2008.

During 2014 the state authorities in Turkmenistan and the Group entered into an amendment to the provisions of the PSA to bring the tax rate in line with the provisions of the Tax Code of Turkmenistan. The rate of 20% is now applicable to the Group in respect of its petroleum operations in Turkmenistan. The Group has applied this rate in determining its tax liabilities as at 31 December 2014. The impact of the reduction in the tax rate is a reversal of US$160mn in respect of an overprovision for prior years up to 2013 no longer payable, and a corresponding credit resulting from remeasurement of deferred taxes at 20%.

Finance income in 2014 remained similar to that of the prior year, despite higher cash and cash equivalents and term deposits maintained during the year on account of marginally lower interest yields.

Basic Earnings per share of 132.32 US cents for the year were 27% higher than the previous year (2013: 104.44 US cents).

Key financial data

US$mn (unless stated)	2014	2013	Change
Revenue	**1,093.1**	1,047.9	+4%
Gross profit	**736.4**	723.8	+2%
Operating profit	**578.6**	687.7	-16%
Profit for the year	**650.5**	512.6	+27%
Earnings per share, basic (US cents)	**132.32**	104.44	+27%
Earnings per share, diluted (US cents)	**132.26**	104.36	+27%
Net assets	**3,708.2**	3,239.5	+14%
Net cash from operating activities	**821.8**	652.2	+26%
Net cash used in investing activities	**(627)**	(763.5)	-18%
Debt	**Nil**	Nil	Nil

Balance Sheet

Total capital expenditure for 2014 was US$679mn (2013: US$331mn). Investments in property, plant and equipment increased by an amount of US$310mn primarily due to capital expenditure of US$627mn (2013: US$272mn) incurred on oil and gas interests, offset mainly by the depletion and depreciation charge during the year. The total capital expenditure during the year was on drilling and infrastructure projects in Turkmenistan and exploration assets in Afghanistan, Iraq, Egypt and the Philippines. Of the total capital expenditure for 2014, 49% was attributable to infrastructure (2013: 37%) with 44% (2013: 46%) spent on development and appraisal drilling and the balance spent on exploration assets and computer software, which are classified as intangible assets on the balance sheet. The infrastructure spend during the period included relocation of the Dzhygalybeg (Zhdanov) B platform (now Dzheitune (Lam) F platform), construction of the tank farm and additional slots on a number of platforms.

Current Assets and Liabilities

Current assets rose by US$225mn primarily due to an increase of US$115mn in abandonment and decommissioning funds, US$85mn in underlift debtors, US$51mn in term deposits and cash and cash equivalents and US$11mn in inventories offset by a US$37mn decrease in trade and other receivables. The cash and cash equivalents and term deposits at the year-end were US$1,975mn (2013: US$1,924mn), excluding funds held for abandonment and decommissioning activities. Amounts of US$1,936mn (2013: US$1,894mn) are held in term deposits with original maturities greater than three months.

Funds held for abandonment and decommissioning activities at the year-end were US$664mn (2013: US$549mn). Previously, the abandonment and decommissioning funds and the related liability were presented within Term deposits and Cash and cash equivalents, and Trade and other payables, respectively. The presentation has since been amended to reflect the specific nature of the fund and the related liability and accordingly the change has been applied retrospectively.

Current liabilities rose by US$47mn due to increases of US$105mn in trade and other payables, US$95mn in the abandonment and decommissioning liability set aside to meet future obligations based on increased production offset by a US$153mn decrease in the current tax liability.

Cash flows

Net cash generated from operations during the year increased by US$170mn to US$822mn (2013: US$652mn). The increase was primarily attributable to an increase in volumes of crude oil sales despite marginally lower average realised crude oil prices, the change in the working capital position, lower tax paid and lower amounts transferred to abandonment and decommissioning funds.

Cash used in investing activities was US$627mn (2013: US$764mn), comprising capital expenditure of US$546mn (2013: US$281mn), net placement on term deposits of US$42mn (2013: US$435mn) and additions to intangible assets of US$50mn (2013: US$59mn), offset by interest received on cash and cash equivalents and term deposits of US$11mn (2013: US$11mn). Cash used in financing activities was US$185mn (2013: US$136mn) mainly on account of the payment of dividends of US$187mn (2013: US$147mn).

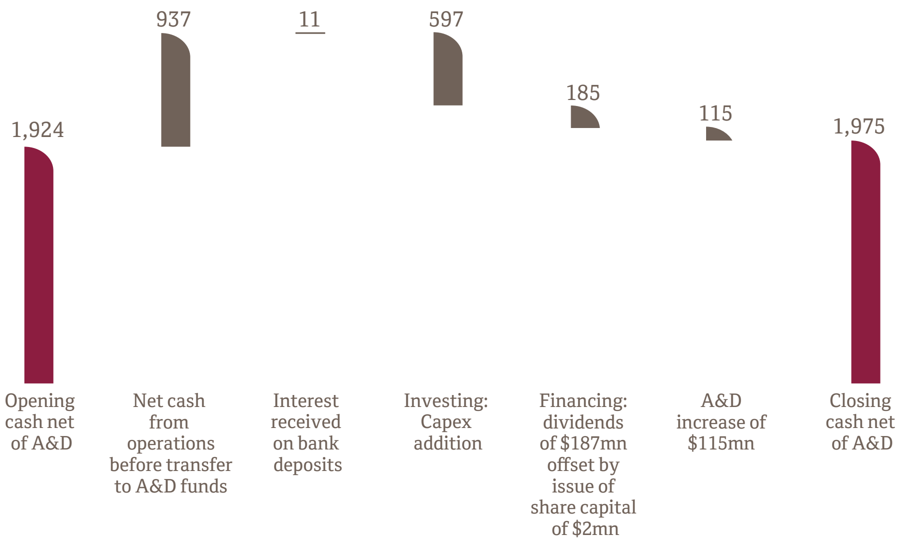
Earnings before interest, tax and depreciation
(US$mn)

Operating profit
(US$mn)

Earnings per share (basic)
(US cents)

Net profit
(US$mn)

Cash Flow
(US$mn)



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

RETENTION RATE

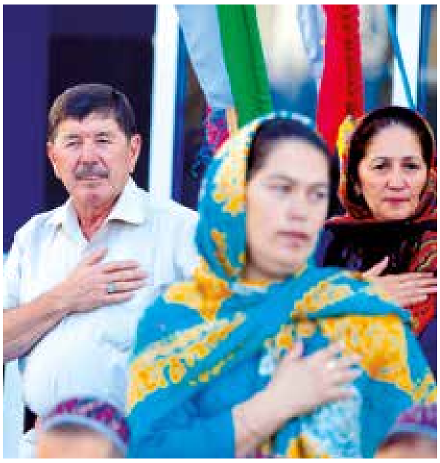
98%

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



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:

- 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.

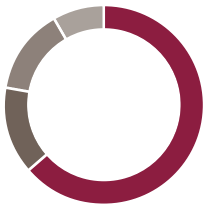
Specifically, in 2014 we completed or initiated the following projects:

- 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%

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 1,500m^3 to 6,000m^3.

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

Enterprise Risk Management
Risk Management Approach

We are continuously building capabilities through communication, training and consultation meetings across the Group.

Risk overview

Dragon Oil adopted an Enterprise Risk Management (ERM) framework in 2012 and developed a methodology and process to mitigate potential business risks that can impact the Group's ability to execute our strategy. The Group seeks to improve awareness and continuously strengthen its capabilities throughout the organisation to ensure that appropriate and suitable risk identification, assessment, treatment and monitoring as well as risk reporting are in place to help deliver the Group's business objectives and targets.

ERM overview

ERM forms part of the overall Dragon Oil Control Framework that governs how the Group conducts business. The Group's ERM process is designed and implemented in a manner that certain business risks can be accepted by the Group provided that acceptance of such risks creates value and that the risks are properly managed and monitored.

Dragon Oil's Control Framework document was reviewed in 2014 to ensure relevancy of the key control elements. Application and consistency of policies and procedures aimed at managing strategic, operational, financial and compliance risks inherent in our business are regularly reviewed by respective operations and support departments.

Risks identified previously were reviewed in the current operating environment and updated in the risk registers at corporate and department levels. The review of department risks following the risk assessment was focused on the critical risks that were considered in depth for defining mitigating measures.

In 2014, Dragon Oil performed benchmarking of its corporate risks against the peer group and as a result certain definitions were expanded.

We understand that the implementation process will happen over a number of years and so the integration of risk management within business plans and objectives will continue during 2015 and beyond with a view to further refining and enhancing the process.

Focus in 2015 will be on:

1. Continuously building capabilities through communication, training and consultation meetings across the Group;
2. Monitoring proposed mitigation implementation plans and reporting progress to senior management and to the Board;
3. Embedding the ERM in the strategy, planning processes and day-to-day activities in a more structured process.

Our approach to risk management

In order to effectively manage the Group's ERM process with adequate controls, the ERM reporting is structured to allow for a consistent and clear framework of managing and periodically reporting risks from departments level all the way to the Board.

Board of Directors

The Board is ultimately responsible for risk management within the Group in accordance with corporate governance requirements. The Board ensures that risk management is embedded into all processes and activities of the Group, including business planning processes and performance management that act as principal parameters against which the performance of the Group is measured. These include annual objectives and targets covering exploration, development, production, HSE, resources and capital allocation and financial performance. The Board, with the support of the Audit Committee and Executive Committee (ExCom), ensures that all corporate risks that may significantly influence the Group's strategic goals and targets are adequately identified, assessed, mitigated and monitored. Through the ERM process, the CEO makes an annual presentation on corporate risks to both Audit Committee and Board.

Audit Committee

The Audit Committee provides an oversight to identify, challenge and manage significant corporate risks. The mitigation plans for each risk are identified and effectively implemented. As part of the risk management process, the Audit Committee sets out annual audit programmes and monitors progress and issues recommendations.

Chief Executive Officer and Chief Operating Officer

The CEO is the Group Risk Owner at the corporate level. The CEO with the support of the ExCom members challenges identified risks and their profile, proposed mitigation plans and ensures that agreed mitigation plans are implemented and reported periodically. The Chief Operating Officer (COO), as the Risk Sponsor, is responsible for ensuring that each department completes an assessment of their risks, for challenging the robustness and completeness of the risk profile, for performing in-depth reviews of the key risks and monitoring planned improvements.

Executive Committee

The Executive Committee sets policy and oversees the management of group risks. The ExCom reviews semi-annually and ensures that significant risks at departmental level and corporate risks are identified, assessed, monitored and reported and mitigating factors and planned improvements are discussed and implemented to manage these risks.

Risk Owners and Risk Manager

Risk Owners at department level manage identified risks in appropriate ways, including assessing the risks, evaluating the mitigation factors, monitoring the progress of planned improvements and reporting quarterly. In addition, it is the responsibility of risk owners to promote safe, secure, compliant and reliable operations as part of the day-to-day risk management process.

The Risk Manager facilitates periodic reporting up the management chain to the Board. The Risk Manager and his team receive reports from departments, review and track progress of risk management activities, compile the Group's risk register, ensuring compliance to the approved risk management policy and procedure. In addition, the Risk Manager assists the Risk Owners with creating risk awareness and building capabilities in the Group through continuous communication, consultations and training programmes.

Assurance

The internal audit department provides independent assurance that the Group's control systems are adequate and operating according to its intended objectives to respond appropriately to the risks that are significant to Dragon Oil. In addition, the Risk Owners also provides assurances that the ERM process in Dragon Oil is effectively implemented as per the approved policy and procedures.

Key risks for the business

We recognise that managing risks requires a continuous effort from the organisation. Our risk management strategy is to embed risk management into the decision making processes.

Our Corporate Risk Register is compiled across the Group through a top down and bottom up review process. Those risks identified as critical and potentially affecting our employees, reputation, operations, performance and assets needed to deliver the Group's strategic goals and targets are identified and recorded through this process. During the year we have reviewed, identified and assessed the risks the Group faces.

The risks are grouped into four categories: strategic, operational, financial and compliance-related. The principal risks and uncertainties, together with mitigating actions, are set out in the table opposite.

Principal Risks

The Board and management are committed to an effective and proactive approach to risk management as a tool to enhance shareholder value.

	Risk Description	Mitigation
Strategic Risks		
Limited export routes	The isolated geography of Turkmenistan coupled with regional geopolitics, particularly various international sanctions against Iran, means that Dragon Oil currently has limited marketing routes for its share of crude oil production. The Group's entitlement volumes are currently exported out of the Caspian Sea region to international markets via Baku, Azerbaijan and Makhachkala, Russia. Prolonged disruption of either routes could lead to severe economic consequences for Dragon Oil. In the past, Dragon Oil used a swap agreement with an Iranian counterparty to sell its share of crude oil production. At the moment, this route remains unavailable.	The Group possesses considerable experience in marketing within the Caspian Sea region. In December 2014, the Group announced that it had reached a one-year agreement with two buyers for all its anticipated entitlement export production in 2015, achieving diversification in marketing routes via Baku, Azerbaijan and Makhachkala, Russia. Negotiations on the new marketing agreements resulted in a better overall discount to monthly average Brent prices compared to the discount in the previous year.
Reliance on sole producing asset	The Group's revenues are dependent on the continued performance of its single producing asset, offshore Turkmenistan. The satisfaction felt by shareholders, the Board and Dragon Oil staff arising from the success of the PSA may create a culture that is too risk averse in terms of acquiring new assets elsewhere resulting in missed opportunities to grow or diversify the business and alleviate the reliance on a single asset.	The Board has adopted a clear strategy for growth and regularly reviews investment opportunities, submitted by the dedicated new ventures team in line with this strategy. Given the inherent risks of such investments and that market conditions are constantly changing, the Board and management face a challenge of adapting and reacting to new opportunities quickly. One of the strands of the Group's strategy is to grow the portfolio of exploration and development assets.
Political and fiscal	Dragon Oil's production operations and exploration assets are located in countries where political, economic and social instability may impact the business. Changes in legal or fiscal systems or regulations may occur in any of the jurisdictions in which the Group operates, which could result in a significant, adverse impact on the Group's operations and relevant exploration and production or service contracts.	The Group has considerable experience in conducting business in the jurisdictions in which it operates. In Turkmenistan, there are strong and well-established government relationships. In other jurisdictions, we have partners with significant experience of operating in the relevant regions. In countries where it operates or has exploration assets, Dragon Oil focuses on corporate social responsibility (CSR) programmes and undertakes community and environment-related projects to ensure sustainability of its operations.

	Risk Description	Mitigation
Operational Risks		
Failure to attract and retain skilled and talented human capital	Dragon Oil's performance and successful implementation of the Group's strategy are dependent on the Group's ability to attract and retain suitable highly skilled and qualified personnel. Due to intense competition within the upstream sector and in particular within Turkmenistan and Afghanistan, the Group could face lack of availability or fail to attract and retain talented and skilled personnel that would have significant adverse impact on delivering growth targets, ability to operate safely, costs associated with staff replacement or reputational damage.	Focus is on continuous development of both technical and non-technical skills within Dragon Oil, including training within the Group's Centre of Excellence and development of all staff, in particular local nationals, in Turkmenistan. Regular bench-marking of remuneration packages to ensure competitiveness against market levels is undertaken.
Unavailability or loss of drilling rigs	Dragon Oil's producing asset is the Cheleken Contract Area, offshore Turkmenistan. The availability of drilling rigs, specifically new platform-based and jack-up rigs, is limited due to the fact that the Caspian Sea is land-locked with restricted access. This creates significant challenges for contractors willing to bring in new rigs. Unavailability or loss of a drilling rig or significant delays in rig deliveries may result in significant negative impact on field development, impose higher costs and inhibit the strategy to increase production.	The Group has contracted several jack-up and platform-based rigs for its operations in Turkmenistan. It is expected that the Group will have four rigs operational for all or part of 2015. In the near term, there is a greater reliance on jack-up rigs introducing greater flexibility into the drilling programme.
Quality of contractors to undertake projects	There is a small pool of top international contractors capable of completing offshore and onshore construction projects and few construction yards within the Caspian Sea region. Outside this pool, the contractors may have limited capability, making them less reliable and capable of delivery on time. This may result in delays to project delivery, missed production opportunities, inefficiencies and increased HSE exposure.	We have seen an increased number of high quality contractors tender for Dragon Oil's projects and a programme to diversify actively the Group's supplier base has been successful over the last three years. With many new companies now working for the Group, this programme will continue. Business plans include flexibility in case of delays by a contractor, enhanced by the use of FEED studies and project management consultants on key projects.
HSE and security incidents	Health, safety and environmental risks are inherently associated with oil and gas extraction and recovery. The Group also has to meet country-specific environmental standards. Specifically for our producing asset in Turkmenistan, an oil spill in the Caspian Sea and inadequate crisis management could adversely impact production capability and profitability. In addition, the local conditions related to security in countries where we have exploration assets may impact the exploration and operations of those assets.	Extensive monitoring and review of HSE policies and procedures as well as contracts with specialist service providers for the clean-up of oil spills have been concluded. Dragon Oil undertakes regular HSE training for operational staff together with annual HSE and crisis management exercises across the Group. Robust Group security management programme has been finalised.
Impairment of production due to integrity of old infrastructure	Integrity of old infrastructure, particularly in the Dzhygalybeg (Zhdanov) field in the Cheleken Contract Area, presents significant operational, maintenance and safety challenges and uncertainties, and increases the likelihood of an accident.	The Group has refurbished the producing pre-PSA infrastructure and replaced key components in the oil and gas delivery system. Going forward, the Group has adequate resources to build new infrastructure to modern design standards. There are plans in place to survey and/or plug and abandon wells and dismantle and remove inactive old infrastructure as part of its abandonment and decommissioning plans.

Principal Risks
Continued

	Risk Description	Mitigation
Financial Risks		
Prolonged or sharp decline in oil price	A recent decline in oil prices presents challenges to oil and gas industry. Prolonged low oil price environment can impact the Group's development plans, profitability, cash flows, liquidity and ability to finance planned capital expenditure as a result of lower revenue and lead to impairment of the Group's oil and gas properties.	The Group does not currently hedge its oil price exposure but does actively monitor it. Our operations in Turkmenistan are cost efficient and one of our business objectives is to maintain operating costs within a pre-determined range. The Group also has significant cash resources and aims to finance capital expenditure on the producing and exploration assets internally. We intend to retain appropriate levels of cash resources to ensure we can finance capital expenditure in a low oil price environment.
Failure to replace, acquire and develop additional reserves	Future production growth and successful implementation of the growth strategy are highly dependent on maintaining long-term reserve replacement. This includes undertaking activities in the existing producing asset leading to the booking of additional reserves (such as drilling appraisal wells, water flooding and application of artificial lift techniques), organic reserves replacement, as well as acquiring and developing additional reserves, inorganic reserves replacement. Additionally, inherent to the oil and gas industry are risks related to the continued discovery, production and processing of hydrocarbons in economically viable quantities as well as low success rates associated with exploration.	For the Cheleken Contract Area, our reservoir department conducts evaluations of considerable volumes of historical and 3D seismic data on which to base our future drilling programmes and select drilling targets. The reservoir team has specialist and experienced reservoir engineers and, if needed, employs external specialists. The oil, condensate and gas reserves and contingent resources in Turkmenistan are assessed annually by an independent energy consultant. Exploration is risky and may not always result in a successful outcome. Dragon Oil has eight exploration assets in six countries and our plan is to add more exploration assets.
Economics under the PSA	A significant breach of compliance with the PSA, whether caused willfully or inadvertently, or due to differing interpretations of key provisions can affect the underlying economics of an investment project and shareholder value.	Dragon Oil has worked successfully under a PSA regime for 15 years in a country where fiscal and legal systems have been stable. The Group has a system of review and accountability in place to ensure compliance with the PSA terms under an enterprise-wide control framework.
Gas development project	Dragon Oil's project to develop the gas from the Cheleken Contract Area is dependent upon many factors including construction of the Gas Treatment Plant (GTP), oil price environment, demand for gas, execution of a gas sales agreement, accessibility to a gas transportation network, and overall economic conditions. They affect Dragon Oil's ability to develop its gas reserves.	A portion of the Group's unprocessed gas is being supplied into a nearby governmental compressor station and delivered into the Turkmenistan network. The tendering to award a contract to construct the GTP is in its final stages. The construction of the GTP is expected to take three to four years, condensate will be stripped and sold. The remaining gas will be of export quality. We continue to seek available markets for our gas.

	Risk Description	Mitigation
Compliance Risks		
Challenges in securing approvals, licences and visas	The Group relies on the approval by government bodies in different jurisdictions of the appropriate licences, permits and regulatory consents as well as visas for foreign nationals to continue its operations. Difficulties with securing the necessary approvals could potentially limit the Group's ability to achieve production targets, materially increase cost, and/or increase the chance of HSE non-compliance and accidents.	The Group has considerable experience in operating in countries with strong and well-established government relationships, both at central and local level. The Group is taking additional steps to communicate and engage at the highest levels to resolve any concerns.
Compliance with international laws and regulations	Various, differing sanctions against Iran and Iranian entities passed by the UN, the EU, individual EU Member States and the USA intensified during 2012. Sanctions imposed currently may impact on the Group's ability to transact with Iranian counterparties. They also restrict the ability of certain companies in the Group to transact with Iranian entities and may also impact US and non-US suppliers engaged in business with Dragon Oil in some respects.	The scope and applicability of each sanctions regime to companies in the Group are discussed and reviewed with specialist lawyers on a regular basis; EU sanctions have resulted in substantial changes to the Group's business and to the way that the Group transacts with Iranian counterparties, for example in relation to the leasing of one of the jack-up rigs. Our lawyers are instructed to maintain constant vigilance on developments and advise accordingly. We maintain regular dialogue with suppliers regarding the implications of the sanctions regimes.

Governance

Board of Directors

The Board members contribute their experience and knowledge from many years of working in the oil and gas industry, oil services and finance sectors.

01. Mohammed Al Ghurair
Non-executive Chairman

Date of birth: 24 February 1952

Appointed to the Board: 25 April 2007

Appointed as Chairman: 26 September 2008

Education: B.Sc. in Mechanical Engineering.

Skills and experience: Business management.

Other appointments: Mr Al Ghurair is a Director at the Saudi International Petrochemical Company and a Director of National Cement Company.

Committee membership: Member of the Remuneration Committee.

02. Dr Abdul Jaleel Al Khalifa
Executive Director

Date of birth: 2 July 1957

Appointed to the Board: 26 September 2008

Education: PhD in Petroleum Engineering from Stanford University.

Skills and experience: Management and technical experience gained during his time at Saudi Aramco, where he managed a wide range of E&P departments.

Other appointments: Dr Al Khalifa is a founder member of the industry's Humanitarian Support Alliance NGO (IHSAN-H2O). He was the 2007 President of the International Society of Petroleum Engineers (SPE).

Committee membership: None.

03. Ahmad Sharaf
Non-executive Director

Date of birth: 16 October 1966

Appointed to the Board: 25 April 2007

Education: B.Sc. and M.Sc. in Petroleum Engineering from the Colorado School of Mines and MBA from Duke University's Fuqua School of Business.

Skills and experience: Specialist knowledge with expertise in evaluating and critiquing new business venture opportunities in the oil and gas sector. Mr Sharaf has worked in the international upstream oil and gas industry for over 20 years, including with ConocoPhillips from 1990 – 2005 as well as for Dubai Holding in various leadership positions in the energy, health care and real estate sectors.

Other appointments: Mr Sharaf is the Chief Executive Officer of Dutco Energy, a division of the Dutco Group, dedicated to positioning and expanding the Group's global interests in the oil and gas sector. Mr Sharaf is Chairman of the Dubai Mercantile Exchange (DME) and also chairs both the DME's Corporate Governance and Compensation Committees. Mr Sharaf is an active Member of Duke University Fuqua Business School's Board of Visitors. He is a Director of the Board of Emirates National Oil Co. (ENOC) L.L.C. and serves as a Member of ENOC's Audit Committee and Chairman of its Investment Committee. Mr Sharaf is a nominee of the majority shareholder, Emirates National Oil Co. (ENOC) L.L.C.

Committee membership: Chairman of the Nominations Committee.

04. Ahmad Al Muhairbi
Non-executive Director

Date of birth: 7 September 1959

Appointed to the Board: 22 May 2007

Education: B.Sc. in Petroleum Engineering, University of Texas, Austin.

Skills and experience: Operational aspects (field development and drilling programmes in particular) of the upstream oil and gas business. Mr Al Muhairbi has been involved in petroleum field development and production since 1988 for ADNOC, ARCO Dubai Inc. and previously Margham Dubai Establishment and then with Dubai Supply Authority.

Other appointments: In December 2012, Mr Al Muhairbi was appointed the Secretary General of the Dubai Supreme Council of Energy. He also serves as a Director on the Regulatory and Supervisory Bureau for Electricity & Water Sector for the Emirate of Dubai. He has recently been appointed to the Board of Directors of Etihad Energy Services Company (Etihad Esco), a 100% subsidiary of Dubai Electricity and Water Authority.

Committee membership: Member of the Audit and Nominations Committees and Chairman of the Remuneration Committee.

05. Saeed Al Mazrooei
Non-executive Director

Date of birth: 24 December 1960

Appointed to the Board: 22 May 2007

Education: M.Sc. in Gas Engineering and Management from Salford University, UK.

Skills and experience: Development and production of gas assets. Mr Al Mazrooei joined Arco International in 1985 to work on various aspects of their gas business and then he played a central role in the development of the Dolphin Project, to transport gas from Qatar to the UAE for power generation purposes.

Other appointments: Mr Al Mazrooei is President and CEO of Emirates Aluminium and a Board Member of Emirates Nuclear Energy Corporation (ENEC).

Committee membership: Chairman of the Audit Committee.

06. Thor Kristian Haugnaess
Non-executive Director

Date of birth: 25 May 1958

Appointed to the Board: 20 February 2012

Education: M.Sc. in Petroleum Technology from the University of Trondheim (NTNU), Norway.

Skills and experience: Over 30 years' experience in the upstream oil and gas industry, predominantly in the oilfield services with the Schlumberger group of companies in a variety of management roles. Between 2003 and 2006, Mr Haugnaess was the President for the Norwegian drilling contractor, Ocean Rig ASA, which was listed on the Oslo Stock Exchange.

Other appointments: Mr Haugnaess is Vice Chairman of Visuray Plc and alternate Non-executive Director at XCounter AB.

Committee membership: Member of the Audit, Remuneration and Nominations Committees.

07. Justin Crowley
Non-executive Director

Date of birth: 10 October 1972

Appointed to the Board: 9 September 2013

Education: B.Sc. in Economics from the London School of Economics and Political Science, UK.

Skills and experience: Mr Crowley had an extensive audit career with PricewaterhouseCoopers and with two UK-based mid-tier auditing firms as a Director prior to joining BDO International. His working experience covers external audit services; internal audit, risk management, corporate governance, compliance audit; as well as forensic audit and corporate advisory.

Other appointments: Mr Crowley is an Audit and Assurance Partner at BDO International specialising in regulated industries, the oil and gas sector and other manufacturing and industrial sectors. He is a member of the Institute of Chartered Accountants in England and Wales.

Committee membership: Member of the Audit and Remuneration Committees.

Dragon Oil senior management team

In 2015, we strengthened our senior management team by hiring a General Manager for Turkmenistan and a country manager for Egypt as well as adding people across other functions.

01. Hussain Al Ansari Chief Operating Officer
Hussain has 26 years' experience in the petroleum industry having worked with ARCO International, ENOC, Dolphin Energy and Mubadala Petroleum Services Co. He has a Bachelor's Degree in Chemical Engineering from the University of California at Santa Barbara, USA.

02. Emad Buhulaigah General Manager of Petroleum Development
Emad has over 30 years of experience in petroleum engineering, having worked for Gulf Oil, Saudi Aramco, Chevron and Shell. He has a Master's Degree in petroleum engineering from the University of Southern California, USA.

03. Tarun Ohri Director of Finance
Tarun has over 29 years' experience in finance, accounting and audit predominantly in oil and gas upstream and downstream sectors in Qatar and the UAE. He is an associate of the Institute of Chartered Accountants of India with a CISA qualification.

04. Hussain Al Alaiwy Director of Human Resources
Hussain holds a Bachelor's Degree in Mechanical Engineering from the University of Alabama, USA. He comes to us with more than 27 years of experience in operational, engineering and project management from working for Saudi Aramco.

05. Mark Sawyer Business Development and New Ventures Manager
Mark has over 30 years of broad international experience in the energy sector, including responsibility for E&P business development for a large multinational energy company. Prior to Dragon Oil, Mark was Vice President, Business Development with Tatweer Investments and Chief Business Development Officer for Dubai Energy.

06. Annisa Loadwick Acting General Counsel
Annisa joined Dragon Oil in 2008. She qualified as a solicitor of the Supreme Court of Queensland, Australia in 2002. Prior to joining Dragon Oil, Annisa was a partner in a law firm in Dubai where she provided advice to international oil and gas services companies. She holds an LLB, a Bachelor of Arts in Psychology from Griffith University and a Post Graduate Diploma in Energy and the Environment from Murdoch University.

07. Farriz Mashudi Company Secretary
Farriz read Law at Oxford University and holds a LLM in International Business Law from the University of London. She qualified as a UK Barrister and joined Dragon Oil from an English law firm. Her 18 years of oil & gas industry experience, including as Board Secretary for several Group subsidiaries, was gained from in-house legal and corporate roles with Shell, Petronas and Qatar Petroleum.

08. Ahmad Assadi Marketing Manager
Ahmad holds a Bachelor of Science Degree in Mechanical Engineering and MBA in Finance. He comes to Dragon Oil after having worked for over 25 years in commercial and logistics background within the oil and gas industry with Abu Dhabi Gas Liquefaction Limited (ADGAS) Abu Dhabi.

09. Faisal Al Ansari Corporate Planning and Purchasing Departments Manager
Faisal has over 30 years of experience in reservoir engineering and field development planning, business performance, corporate planning, purchasing, logistics and marine operations. Faisal holds a Bachelor of Science Degree in Double Major in Physics and Mathematics from the University of Lewis and Clark College, Portland, USA.

10. Jamel Kahoul Contracts Manager
Jamel has worked for over 35 years in corporate and project management within the oil and gas industry having started as a Project Manager with John Brown-London, then as Department Manager for ZADCO-UAE, Senior Consultant in Project Management for SITECH, Canada and Area Engineering Manager with Abu Dhabi Company for onshore oil operations prior to joining Dragon Oil.

11. Nabil Al Ouf Head of Internal Audit
Nabil has 26 years of experience in financial management, regulatory and compliance auditing, ERP system implementation and fraud investigation. Nabil held senior positions with manufacturing and industrial firms such as Nihon Kohden America and Al Ghurair Resources. He finished his graduate studies in Accounting at Portland State University, USA. He is a qualified CRBA, CRMA.

12. Mohamed Hashem Reservoir Development Manager
Mohamed joined Dragon Oil after 25 years with Shell. Mohamed earned his BS Mechanical Engineering degree from Ain-Shams University, Cairo, Egypt; an MS Petroleum Engineering degree from the University of Southern California, Los Angeles, USA; and a DE degree in Petroleum Engineering from Stanford University.

13. Stefano Santoni Exploration Manager
Stefano is a geologist with 35 years of international oil industry experience gained through numerous assignments in Libya, Egypt, Argentina, Brazil, the USA, UK and UAE, where he worked on projects ranging from new ventures to development. Stefano has a Master of Science degree in Geology from University of Firenze, Italy.

14. Igor Morgunov Projects Manager
Igor has over 30 years' experience in oil and critical sour gas processing, pipeline operations, and facility design and construction project management. Igor holds a Bachelor of Applied Science Degree in Chemical Engineering from the University of Toronto and is a member of APEGGA.

15. Ali Al Matar Engineering Manager
Ali has over 28 years' experience in gas processing, Engineering and Project Management, including involvement in the design, construction, commissioning & operation of large scale gas processing facilities with Saudi Aramco. At Dragon Oil, Ali covers both offshore & onshore oil & gas processing and operation since 2010. Ali holds a Master's Degree in Construction Engineering Management and a Bachelor's Degree in Chemical Engineering from KFUPM, Saudi Arabia.

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16. Tarek Fahmy Drilling Manager
Tarek has almost 40 years of experience having worked with AMOCO International, BP (ADMA OPCO), Apache, KOC, Weatherford and Halliburton. He has a Bachelor of Science Degree in Petroleum Engineering from Suez Canal University, Egypt.

17. Dr Oleksandr Chechotkin Abandonment and Decommissioning Projects Manager
Oleksandr is a Chartered Engineer with over 35 years' experience in engineering and work experience in the Commonwealth of Independent States and the Middle East for oil-related industries. He has a Master's Degree and PhD in Hydro Machinery from Kharkov Polytechnic University, Ukraine.

18. Jasim Mohammed Information Technology Manager
Jasim holds an Executive Master's Degree in Business Administration from Zayed University and Higher Diploma in Information Systems from Higher Colleges of Technology. He has more than 17 years of experience in leading and managing IT departments and corporate services.

19. Faisal Rabee Al Awadhi General Manager, Turkmenistan
Faisal has more than 31 years of experience in the energy-related sectors. He holds a Bachelor of Science Degree in Petroleum Engineering from Tulsa University Oklahoma, USA and a Master's Degree in Petroleum Engineering and Management from the University of Southern California, USA.

20. Rashid Redjepov Deputy General Manager, Turkmenistan
Rashid trained as an economist and worked for over 19 years in various aspects of the upstream oil and gas industry of Turkmenistan, both in the public and the private sectors, before being appointed as Country Manager in November 2008.

21. Eldar Kazimov Deputy General Manager, Turkmenistan
Eldar graduated from the Polytechnic Institute of Turkmenistan and the TISBI University of Russia with an Honours Degree in Petroleum Engineering and Management. He had eight years of experience in field operations before being appointed as Country Manager at Dragon Oil in November 2008.

22. George Batrinca Field Production Operations Manager, Turkmenistan
George joined Dragon Oil in February 2014 as Field Manager. George holds PhD in Petroleum Engineering from University of Oil & Gas Ploiesti, Romania and he has almost 27 years of oil & gas experience with reputed international companies such as OMV and Petrom, Conoco Phillips, Petrofac and Expert Petroleum.

23. Mohammed Al Suwail Field Production Operations Manager, Turkmenistan
Mohammed joined Dragon Oil 2010 to establish and lead the field operations engineering department and develop operational procedures. Prior to Dragon Oil, Mohammed spent 25 years working for Saudi Aramco. He holds a Bachelor's degree in Mechanical Engineering from the University of Arizona, USA.

24. Kheder Mekha Field Construction and Services Manager, Turkmenistan
Kheder worked as the Head of the Technical Services Department in the Alfourat Petroleum Company in Syria from 1990–2003, before he joined Dragon Oil as a Field Manager. Kheder holds a Bachelor's Degree as mechanical engineer from Aleppo University, Syria.

25. John Wood Health, Safety and Environment Manager, Turkmenistan
John is a Chartered Member of the Institute of Occupational Health and Safety. He holds the National Examination Board in Occupational Safety and Health (NEBOSH) Diploma Level 6 in Occupational Health and Safety. John has almost 20 years of experience of working worldwide, including in Nigeria, Equatorial Guinea, Libya, Qatar and the UAE on onshore and offshore projects.

26. Ian Fletcher Health, Safety and Environment Manager, Turkmenistan
Ian has over 23 years' experience in the Health, Safety and Environmental fields within the oil and gas industry with the most recent position being HSE Manager for Dubai Supply Authority, a natural gas production, storage and transportation company responsible for all hydrocarbon supply and storage within the Emirate of Dubai.

27. Ephraim Ebodaghe Country Manager, Afghanistan
Ephraim joined Dragon Oil in 2013 and is based in Dubai and Mazar-i-Sharif. He holds a Bachelor's Degree in Geology and Surveying from University of Science and Technology, Port Harcourt, Nigeria. He comes with 25 years of experience with Schlumberger in various positions and in different regions.

28. Hesham El Meligy Country Manager, Egypt
Hesham has almost 30 years' experience in the oil & gas industry. Prior to joining Dragon Oil, he worked for Statoil where he was leading the exploration activities for different regions and before that for Apache Corporation as an Operations Manager. Hesham holds a Master's Degree in the Geophysics and Geology from Ain Sham University, Egypt.

Directors' Report

The Directors present their report and the audited consolidated Financial Statements for the Group and audited Financial Statements for the Company for the year ended 31 December 2014. These will be laid before the shareholders at the Annual General Meeting (AGM) of the Company, which is scheduled to be held on 27 April 2015 in London, United Kingdom.

Principal business activities

The Group's principal activity is the development and production of oil and gas in Turkmenistan and exploration activities in Algeria, Tunisia, Egypt, Iraq, Afghanistan and the Philippines. The Group, through its wholly owned subsidiary (Dragon Oil Turkmenistan Limited), holds a 100% interest in the Cheleken Contract Area, offshore Turkmenistan under a Production Sharing Agreement (PSA) entered into in November 1999 with the Competent Body for the Use of Hyrdocarbon Resources at the President of Turkmenistan. The PSA has a 25-year term, which expires in May 2025 and Dragon Oil has an exclusive right during the term to negotiate an extension for a further period of not less than ten years.

Dragon Oil, through its wholly owned subsidiary Dragon Oil (Algeria Alpha) Limited, in partnership with ENEL Trade S.p.A. ("Enel") was awarded two exploration perimeters in Algeria, Tinrhert Nord Perimeter and Msari Akabli Perimeter, in September 2014. The contract for the exploration and exploitation of hydrocarbons in the perimeters was signed on 29 October 2014. Dragon Oil holds a 34.3% participating interest and is the operator in the Tinrhert Nord Perimeter. Dragon Oil holds a 14.7% participating interest in the Msari Akabli Perimeter.

Dragon Oil, through its wholly owned subsidiary Dragon Oil (Bargou Tunisia) Limited, is a partner (55%) in a joint operation with Cooper Energy (30% and operator) and Jacka Resources Ltd (15%) to explore the Bargou Exploration Permit, offshore Tunisia. In 2013, the Hammamet West-3 exploration well was drilled and initial production testing confirmed the presence of open hydrocarbon bearing fractures, but could not be completed due to continuous blockages and obstructions caused by lost circulation material. The Hammamet West-3 well has been suspended and the partners have rescheduled appraisal drilling at Hammamet West until 2015-2016.

The concession for East Zeit Bay, offshore the Gulf of Suez, Egypt, was signed between the Petroleum Ministry represented by Ganoub El Wadi Petroleum Holding Company (GANOPE) and Dragon Oil (Egypt Alpha) Limited on 19 May 2014.

In 2014, Dragon Oil (30%), through its wholly owned subsidiary Dragon Oil (Block 9) Limited, and Kuwait Energy Company (70% and operator) announced two oil discoveries at Block 9, Iraq, in both targets, the Mishrif and Yamama formations.

A consortium of companies, comprising Dragon Oil, through its wholly owned subsidiaries Dragon Oil (Sanduqli) Limited, (40%, operator of Sanduqli Block) and Dragon Oil (Mazar-i-Sharif) Limited (40%, non-operator in the Mazar-i-Sharif Block), Turkiye Petrolleri A.O. (TPAO) through its subsidiary T.P. Afghanistan Limited (TPAL, 40% in each of the blocks and operator of Mazar-i-Sharif block) and the Ghazanfar Group through its subsidiary Ghazanfar Investment Limited. (20% in each of the blocks) conducted tenders and awarded contracts for the airborne gravity and magnetic survey and acquisition of 2D seismic data for the Sanduqli and the Mazar-i-Sharif blocks during 2014.

In January 2014, Dragon Oil, through its wholly owned subsidiary Dragon Oil (Philippines SC63) Limited, signed a farm-in agreement with Nido Petroleum Limited (20%) for Service Contract 63 (SC 63) North West Palawan Basin, offshore the Philippines. On 7 July 2014, Nido on behalf of SC 63 Joint Venture partners, PNOC-EC (40% and operator) and Dragon Oil (Philippines SC 63) Limited (40%), advised that the Baragatan-1A well did not discover commercial hydrocarbons. The Baragatan-1A well was plugged and abandoned, and accordingly, a provision for impairment was recognised in the Group income statement, as set out in Note 8 to the consolidated Financial Statements on pages 99 to 100.

Information on the Group's various subsidiaries is set out on page 115.

Business Review

A full review of the Group's activities during the year and recent events, as well as details of the Group's business model and its strategy for creating value over the longer term, is contained in the Strategic Review on pages 4 to 43, which also includes the corporate key performance indicators and the analysis of those indicators in the table on pages 20 to 21 and information relevant to employee and environmental matters set out on pages 32 to 37.

The Corporate Governance statement on pages 56 to 61, the Remuneration Report on pages 62 to 74 and the Strategic Review on pages 4 to 43 are deemed to be included in this report for the purposes of the Irish Companies Acts.

This report and the documents referred to herein, are deemed to be the management report as required by the Transparency (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations").

Results and Dividends

The results of the Group for the year ended 31 December 2014 are set out in the Group's income statement on page 85. Profit attributable to equity holders of the Company was US$650.5 million (2013: US$512.6 million), which has been transferred to Reserves. The Board of Directors of the Company has recommended a payment of a final dividend for 2014 of 16 US cents per share, subject to shareholder approval at the AGM to be held on 27 April 2015. Along with the interim dividend of 20 US cents per share (paid on 15 September 2014) the full-year dividend amounts to 36 US cents per share (2013: 33 US cents per share).

Going Concern Statement and Future Funding

After reviewing the Group's business plans for 2015-2019, including budgets and cash flows, the Directors are confident that the Company, and the Group as a whole, will have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the financial statements.

Directors

The Board regularly reviews its own performance and, if deemed necessary, may look to strengthen its membership by appointing additional directors with expertise or experience, which can be of value to the Company.

In accordance with paragraph B.7.1 of the UK Corporate Governance Code 2012 (the "Code"), being the code that applied to the Company for financial year ended 31 December 2014, and the Company's Articles of Association, all Directors of the Board will retire and, being eligible, will offer themselves for re-election at the 2015 AGM.

The following individuals served as Directors during the period from 1 January 2014 up to 31 December 2014:

Director

	Events during 2014
Mohammed Al Ghurair (Non-executive Director and Chairman, member of the Remuneration Committee) (UAE)	Re-elected on 23 April 2014
Ahmad Sharaf (Non-executive Director and Vice-Chairman, Chairman of the Nominations Committee) (UAE)	Re-elected on 23 April 2014
Abdul Jaleel Al Khalifa (Executive Director and CEO) (Saudi Arabia)	Re-elected on 23 April 2014
Ahmad Al Muhairbi (Independent Non-executive Director, Chairman of the Remuneration Committee, member of the Nominations and Audit Committees) (UAE)	Re-elected on 23 April 2014
Saeed Al Mazrooei (Independent Non-executive Director, Chairman of the Audit Committee) (UAE)	Re-elected on 23 April 2014
Thor Haugnaess (Senior Independent Director, member of the Audit, Remuneration and Nominations Committees) (Norway)	Re-elected on 23 April 2014
Justin Crowley (Independent Non-executive Director, member of the Audit and Remuneration Committees) (United Kingdom)	Elected on 23 April 2014

Directors' and Company Secretaries' Interests

The interests of the Directors and Company Secretaries in the share capital of the Company, all of which are beneficial, are as set out in the tables on pages 70 and 74.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Irish company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these Financial Statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State that the Financial Statements comply with IFRS as adopted by the European Union; and
- Prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group as a whole will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Annual Report and Financial Statements.

The Directors are also required by applicable law and the Listing Rules issued by the Irish Stock Exchange to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance. In accordance with the Transparency Regulations 2007, the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial Statements comply with the Irish Companies Acts and, as regards the Group Financial Statements, Article 4 of the International Accounting Standards (IAS) Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The measures taken by the Directors to secure compliance with the Group's obligation to keep proper books of account are the use of appropriate systems, controls, processes and the employment of competent persons. The books of account are maintained at the Group's head office in Dubai, United Arab Emirates.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement in regard to the Annual Report

Each of the Directors, whose names and biographical details are listed on pages 46 to 47, confirms that, to the best of each of their respective knowledge and belief:

As required by the Transparency Regulations:

- the Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Company and the Group and of the profit of the Group; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

As required by the Code:

- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Group's performance, business model and strategy.

Charitable donations:	2014	2013
Beneficiary	**US$**	**US$**
Rashid Pediatric Therapy Centre, UAE	–	6,127
Al Noor Centre, UAE	–	2,723
Annagylyjov Suhanberdi – Turkmenistan Invalids Support Centre	–	5,000
Kasymova Hatija – Turkmenistan Invalids Support Centre	–	5,000
Turkmen Society of Blind And Deaf People of Balkanabat, Turkmenistan	–	1,759
National Paralympic Committee of Turkmenistan	**4,610**	1,055
Special Olympics, Turkmenistan	–	1,759
Sport Committee of Invalids & Sports of Balkan Region, Turkmenistan	–	1,372
Boarding School for Blind and Visually Impaired Children, Turkmenistan	–	5,730
State Committee for Sport of Turkmenistan	**11,425**	4,098
National Centre of Special Olympics of Turkmenistan	**2,500**	–
Physical Training & Sports Club of the Disabled & Invalids Support Centre Public Association, Turkmenistan	**10,000**	–
Balkan Region Blind and Deaf People Territorial Production Association of Turkmenistan	**3,517**	–
Yenme (aid fund for disabled people and medical treatment of diseased children), Turkmenistan	**29,000**	–
Schools of Hazar, Turkmenistan	**68,809**	–
Hazar Sports Committee, Turkmenistan	**25,962**	–
Secondary Sport School "OLIMP" (Judo team), Turkmenistan	**6,261**	–
Turkmenistan Balkan Velayat Sport Committee of Hazar town	**3,696**	–
Rovshen Nepesov Orchestra, Turkmenistan	**12,832**	–
National Centre of Car Sport of Turkmenistan	**5,000**	–
Participants of sports tournament organised by State Agency, Turkmenistan	**5,738**	–
Ashgabat Football Academy, Turkmenistan	**5,563**	–

Auditor

Ernst & Young have expressed their willingness to continue in office and are eligible for reappointment as the auditor. They will continue in office in accordance with Section 160(2) of the Companies Act, 1963 and are deemed to be reappointed as the auditor in the absence of a resolution for their removal. A resolution to authorise the Directors to determine the auditor's remuneration will be proposed at the 2015 AGM.

Charitable and/or Political Donations

During the year ended 31 December 2014, the Group made charitable donations in the amount of US$194,913 (2013: US$34,623) to the organisations set out in the table 'Charitable donations' and no political donations were made (2013: nil).

Major Shareholdings in the Company

As at 16 February 2015, Dragon Oil plc had been notified of the following significant shareholdings, which are in excess of 3%:

	No. of ordinary Shares Issued	% of Share Capital
Emirates National Oil Company (ENOC) L.L.C (held directly)	265,263,515	53.9%
Baillie Gifford & Co. (held indirectly)	33,462,087	6.8%

The members of the Board, including the Non-executive Directors, have developed an understanding of the views of major shareholders about the Company. For details of how the Board communicates with shareholders and obtains their feedback, please see pages 60-61.

Supplier Payment Policy

The Group's policy in respect of its suppliers is to establish documented terms of payment when agreeing the terms and conditions of the business transaction and to abide by the terms of payment. The Group's normal payment terms are 30 days from the date of receipt of invoice. The Group requires its suppliers to confirm compliance with the provisions of its Code of Conduct as part of the contractual terms in the ordinary course.

Close Company Provisions

The Directors are of the opinion that Dragon Oil plc is not a close company as defined by the Taxes Consolidation Act 1997.

Disclosures required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006

Share capital

Particulars of the authorised and issued share capital of the Company are set out in Note 14 to the consolidated Financial Statements on page 104.

Holders of Ordinary Shares are entitled:

- to receive notice of, to attend, to speak and to vote (in person or by proxy), at general meetings having, on a show of hands, one vote, and, on a poll, a vote for each Ordinary Share held, and to appoint a proxy so as to attend, speak and vote. The Articles of Association and the Irish Companies Acts permit the Directors to seek information from shareholders as to the beneficial ownership of Ordinary Shares. Where a shareholder does not comply with such a notice, the right to vote attached to the shares of that shareholder may be restricted;
- to receive, 21 days at least before an AGM, a copy of the Annual Report and Financial Statements presented at that general meeting, which will be made up to a date no earlier than nine months before the date of that general meeting;
- where dividends are paid by the Company or recommended by the Board of Directors and declared by a resolution at a general meeting, to receive those dividends in cash or by distribution of specific assets, including new shares in the Company; and
- in a winding-up of the Company, and subject to payments of amounts due to creditors and to any holders of shares ranking in priority to the Ordinary Shares, to repayment of the capital paid up on the Ordinary Shares from a proportionate part of any surplus in the Company.

Rights attaching to transferred Ordinary Shares remain with the transferor until the transferee's name is entered on the Register of Members of the Company.

The instrument of appointment of a proxy must be received by the Company not less than 48 hours before the meeting or adjourned meeting, or, in the case of a poll, not less than 48 hours before the taking of the poll.

All shares allotted and issued pursuant to any existing employees' share scheme or to be allotted or issued pursuant to the Company's long-term incentive plans, are Ordinary Shares carrying the same rights as other Ordinary Shares and have no special rights or rights not exercisable directly by the employees.

The Exploration, Development and Production Service Contract for Block 9, Iraq, the Exploration and Production Sharing Contracts for the Sanduqli and Mazar-i-Sharif Blocks, Afghanistan and associated agreements and the concession for East Zeit Bay block, offshore the Gulf of Suez, Egypt – all include change of control provisions that might cause termination of the contracts upon a change of control of the Company following a takeover if appropriate consents were not obtained.

Transfer of Shares

There are no restrictions on the transfer of shares in the Company and no requirements to obtain approval of the Company, or of other holders of securities in the Company, for a transfer of shares in the Company, save that:

- the Directors may decline to register a transfer of Ordinary Shares on which the Company has a lien or in the case of a single transfer of Ordinary Shares in favour of more than four persons jointly;
- transfers of Ordinary Shares in certificated form are transferable subject to production of the original share certificate and the usual form of stock transfer duly executed by the holder of the Ordinary Shares and stamped with the requisite stamp duty;
- Ordinary Shares in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system, which enables title to be evidenced and transferred without a written instrument and in accordance with the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996; and
- the Articles of Association and the Irish Companies Acts permit the Directors to seek information from shareholders as to the beneficial ownership of Ordinary Shares. Where a shareholder does not comply with such a notice, the transfer of the shares of that shareholder and the voting rights on those shares may be restricted.

Save as may arise in the event of such non-compliance, there are no restrictions on voting rights.

Share options are personal and not assignable.

The Company is not aware of any arrangements between shareholders, which may result in restrictions on the transfer of securities or on voting rights.

Significant Shareholders

Shareholders known or disclosed (as at the date of this Report) to the Company as holding 3% or more of the Ordinary Shares or voting rights therein are set out above on page 52. No person holds securities carrying special rights with regard to control of the Company.

Appointment and Replacement of Directors

Directors may be appointed by the Directors or by the shareholders. No person, other than a Director retiring at a general meeting is eligible for appointment by the shareholders unless either recommended by the Directors or, not less than seven nor more than 42 calendar days before the date of the general meeting, written notice by a shareholder of the intention to propose the person for election and notice in writing signed by the person of his willingness to act are received by the Company.

Under the Company's Articles of Association, where the Directors resolve that it is appropriate for there to be annual re-elections of Directors, including for the purpose of compliance with any relevant governance code or guidelines, all Directors automatically retire at the next AGM and are eligible for election by the shareholders at that meeting. The Directors have so resolved and all Directors retire and offer themselves for re-election at the AGM.

Any Director may be removed by ordinary resolution (50%+1 majority) of the shareholders passed at a general meeting. No person aged 75 may be appointed a Director and any Director aged 75 must retire at the AGM following his/her 75th birthday.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Amendment of Articles of Association

The Articles of Association may be amended by special resolution of the shareholders, being a resolution proposed on not less than 21 days' notice as a special resolution and passed by more than 75% majority of those voting on the resolution.

Powers of the Board of Directors

The Directors are responsible for the management of the business of the Company and may exercise all the power of the Company subject to the provisions of the Company's Memorandum and Articles of Association.

The Directors' powers to allot, issue, repurchase and reissue Ordinary Shares are dependent on the terms of the resolutions from time to time in force so empowering the Directors.

Share Capital Authorities

Allotment of Relevant Securities

By Resolution 9 passed at the Company's 2014 AGM, the Directors were granted authority to allot shares pre-emptively or for a consideration other than cash or employee share scheme shares equivalent 10% of the then total issued share capital of Dragon Oil plc. As at 15 February 2015, this authority had not been exercised, save for the issue of shares pursuant to employee share schemes. This allotment authority is due to expire at the conclusion of the 2015 AGM of the Company or 15 months from the passing of the resolution, whichever occurs first.

Allotment of Equity Securities

By Special Resolution 10 passed at the Company's 2014 AGM, the Directors were granted authority to allot shares for cash other than pre-emptively equivalent to 5% of the then total issued share capital of Dragon Oil plc or as might be necessary or expedient to deal with fractional entitlements or legal or practical problems on a rights issue or other pre-emptive issue. As at 15 February 2015, this authority had not been exercised. This allotment authority is due to expire at the conclusion of the 2015 AGM of the Company or 15 months from the passing of the resolution, whichever occurs first.

Purchase of Company's Own Shares and Reissue of Treasury Shares

By Resolution 11 passed at the Company's 2014 AGM, the Directors were granted authority to make market purchases of the Company's Ordinary Shares up to 10% of the issued Ordinary Shares in Dragon Oil plc and to reissue those shares. This authority is due to expire at the conclusion of the 2015 AGM of the Company or 15 months from the passing of the resolution, whichever occurs first. As at 17 February 2015 Dragon Oil plc held no shares in treasury.

The Directors are proposing resolutions on the same terms at the 2015 AGM and will take advantage of the flexibility afforded by the resolution, if passed, as they deem appropriate.

Important Events since 31 December 2014

Details of the important events that have occurred since 31 December 2014 can be found in the Strategic Review on pages 4 to 43.

Disclosures Required by UK Listing Rule 9.8.4

The disclosures required under Listing Rule 9.8.4 which are applicable to the Company are set out below:

– Agreement with Majority Shareholder

The Relationship Agreement between the Company and its majority shareholder originally entered into in May 2009 has been updated in line with the requirements of U.K. Listing Rule 9.2.2 AR (2)(A). The Company has complied with the independence provisions included in this agreement during 2014. So far as the Company is aware the independence provisions of the agreement have been complied with during 2014 by ENOC and its associates.

The updated Relationship Agreement provides that ENOC shall:

(a) conduct all transactions and relationships with Dragon Oil and any Dragon Oil Company on terms which are at arm's length and on a normal commercial basis; and

(b) not take any action that would have the effect of preventing Dragon Oil from complying with its obligations under the Listing Rules;

(c) not propose or procure the proposal of a shareholder resolution, which is intended or appears to be intended to circumvent the proper application of the Listing Rules; and

(d) notify Dragon Oil as soon as practicable upon becoming aware that it or any such Associate (i) is or is proposing to enter into any transaction or relationship with Dragon Oil or any Dragon Oil group company (ii) carries or is proposing to carry on any business that is or can reasonably be foreseen to compete with any business of Dragon Oil or any Dragon Oil group company.

General Meetings

Matters of Ordinary Business

General meetings of the Company are convened in accordance with and governed by the Articles of Association and the Irish Companies Acts. The AGM has the power to consider the following matters, which are deemed to be items of ordinary business:

(a) declaration of a dividend;

(b) the consideration of the Financial Statements and the reports of the Directors and Auditor;

(c) the election of Directors in the place of those retiring by a rotation or otherwise or ceasing to hold office;

(d) the removal and fixing of the remuneration of the Auditor;

(e) generally authorising the Directors, for a period to expire no later than the conclusion of the next AGM of the Company, to allot relevant securities, within the meaning of the Companies (Amendment) Act 1983 (the "1983 Act"), with a nominal value not exceeding the authorised but unissued share capital of the Company;

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(f) generally authorising the Directors, for a period to expire no later than the conclusion of the next AGM of the Company, to allot equity securities within the meaning of section 23 of the 1983 Act:

(i) pre-emptively; and/or

(ii) other than pre-emptively, of a character and/or with a nominal value not exceeding such percentage as is chosen by the Directors;

(g) generally authorising the Directors, for a period to expire no later than the conclusion of the next AGM of the Company, to exercise the power of the Company to make market purchases of the Company's shares with a nominal value not exceeding 10% of the nominal value of the shares in issue.

Special Business

All other business transacted at an AGM and all business transacted at an Extraordinary General Meeting are deemed to be special business. Matters which must be attended to by the Company in general meeting pursuant to the Irish Companies Acts include the following matters:

(a) amending the Memorandum and Articles of Association;

(b) changing the name of the Company;

(c) increasing the authorised share capital, consolidating or dividing share capital into shares of larger or smaller amounts or cancelling shares, which have not been taken by any person;

(d) reducing the issued share capital;

(e) approving the holding of the AGM outside the State;

(f) commencing the voluntary winding up of the Company;

(g) re-registering the Company as a company of another type;

(h) approving a substantial property transaction between the Company and a Director;

(i) approving a guarantee or security for a loan or similar transaction made by the Company to a Director or connected person of a Director; and

(j) approving the draft terms of a cross-border merger.

Other matters, such as the consideration of reports and the passing of resolutions where required by the Listing Rules, such as for approval of share option schemes and other long-term incentive plans, are to be attended to at a general meeting as items of special business.

2015 Annual General Meeting

The Board uses the AGM of Dragon Oil plc for the purpose of communicating with all its investors and welcomes their participation. It is the Company's policy that all Directors should attend if possible, subject to business or personal reasons. It is also the Company's policy to involve shareholders fully in the affairs of the Group at the AGM and to give them an opportunity to ask questions about the Group's activities and prospects. The Senior Independent Director will also be available at the AGM to meet with the shareholders, as will the Chairmen of the Audit, Nominations and Remuneration Committees.

Details of the resolutions to be proposed at the AGM are given in a letter attached to the Notice of AGM, which is published separately and sent to shareholders with this report, or in a notification of the report's availability on the Company's website. The Directors consider that all of the resolutions set out in the Notice of AGM are in the best interests of the Company and its shareholders as a whole and recommend that shareholders vote in favour of each of them.

On behalf of the Board

Mohammed Al Ghurair and
Abdul Jaleel Al Khalifa
Directors of Dragon Oil plc
16 February 2015

Corporate Governance Statement

Mohammed Al Ghurair
Chairman

Dragon Oil places great significance on high standards of corporate governance as a means to emphasise the Group's good business conduct and strong ethical culture. As noted by the Chairman in his statement on pages 10 to 11, the Board recognises its role in providing effective and clear leadership and direction on all matters relating to the business of the Group, and specifically on corporate governance. This creates a robust culture of business integrity and performance, with a view to generating value for the Company and the shareholders, whose views must be clearly communicated to the Board. Management then translates the Board's direction into actions through adequate and appropriate processes and procedures.

Dragon Oil currently has a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange. Its shares are traded on the Irish and London Stock Exchanges under tickers 'DRS' and 'DGO', respectively, and the Company complies with its obligations under the listing rules of both the Irish Stock Exchange and the UK Listing Authority (together the "Listing Rules") accordingly.

The Board is committed to applying the UK Corporate Governance Code 2012 (the "Code"), which is issued by the Financial Reporting Council (FRC), which is referred to in the Listing Rules and is available on the website of the FRC at www.frc.org.uk. In addition, as an Irish-incorporated entity, the Company is required to comply with the corporate governance provisions set out in the Irish Corporate Governance Annex to the Code (the "Irish Annex") which is available on the website of the ISE at www.ise.ie. The Directors also follow the related guidance and suggested best practices referred to in the Code. Where there are divergences from these materials, the Board has so determined that it is in the best interests of the Group to do so, whether that arises from the need to retain flexibility in operations or from the ability to react quickly to new developments.

The Board continues the process of reviewing and updating the Group's corporate governance structure. This reflects the fundamental principles of the Code and an earlier commitment to refresh its control framework. Details are as set out below in this Corporate Governance Statement.

As a further practical example of the Company's commitment to compliance, in June 2014 Tamer Nassar was appointed Group Compliance Officer.

Application of the Code

The Directors are committed to maintaining high standards of corporate governance and this Corporate Governance Statement describes how the Group has applied the Code in 2014. The Board considers that, except where non-compliance is explained below at pages 59 to 60, the Group has complied with the provisions set out in the Code throughout the last financial year under review.

The Board

The Board is responsible for the success of the Group and is accountable to shareholders for delivery of a strong, sustainable financial performance and long-term shareholder value. The Board is also responsible for assessment of the Group's strengths and weaknesses and determining the extent of the significant risks it is willing to take in achieving its strategic objectives. The Board sets the Group's strategic aims and reviews management and financial performance, ensuring all necessary resources are in place to achieve these aims. Overall the Board directs and monitors the Group's affairs within the established Dragon Oil Control Framework to enable risk to be assessed and managed effectively.

Under the leadership of the Chairman, the Board has during 2014 approved a revised set of matters reserved for the Board. This includes overall Group strategy, rolling five-year business plans, key projects, major investment plans and an annual budget. Save for matters reserved solely for consideration by the Board, the Board delegates its authority for the management of the Group's business primarily to the CEO and certain other matters are delegated to the Audit, Remuneration and/or Nominations Committees, each of which are described in more detail below.

Nevertheless, the Board meets regularly to discuss many other aspects of the Group's business, whether that is operational or financial performance against stated key performance indicators or diversification, as well as many other topics of relevance according to the requirements of the business. The Board discussed a range of topics in 2014 including:

Topics at Board Meetings

- Corporate Governance, including policies, Board evaluation and training, internal controls and risk management;
- Financial Management, including financial statements, planning, budgeting and financing;
- Operations, including infrastructure, marketing, exploration, HSE, reservoir development and management;
- Risk and rewards, including setting KPIs, long-term incentive plans; and
- Strategy, including growth options, diversification, acquisitions and performance measures.

Composition, Succession and Development

During 2014 the Board and Nominations Committee has discussed the composition of the Board and noted the importance of having the right balance, both in terms of having the right skills and experience but also to encourage openness and transparency during meetings. The Board of Dragon Oil plc currently comprises the Non-executive Chairman, the CEO and five Non-executive Directors. The biographies of all the Directors appear in this report on pages 46 to 47.

The Board has determined that the present composition is currently sufficient for the purposes of the Company, as it enables the Board to be nimble and react quickly to new developments. The Board has adopted a policy on diversity seeking to ensure that it is sufficiently diverse and appropriately balanced. In its work in the area of Board renewal, the Nominations Committee looks at a range of issues:

- international business experience, particularly in the regions in which the Group operates or in which it intends to expand;
- skills, knowledge and expertise in areas relevant to the operation of the Board;
- diversity, including nationality and gender;
- the need for an appropriately sized Board.

During the ongoing process of Board renewal, each, or a combination, of these factors may take priority. As a consequence, to-date the Board has not set specific measurable objectives in relation to diversity.

In December 2014, within the Dragon Group as a whole 1,863 people of 48 nationalities were directly employed of which 7% are women and 93% are men.

The Board considers that the current number of five Non-executive Directors on the Board is sufficient for the purposes of the Group at this time. Each Non-executive Director participates fully in Board discussions and attends all possible Board and/or Committee meetings in order to do so.

As highlighted in the biographical details of the Directors on pages 46 to 47, each of the Directors, including the nominee Directors of the majority shareholder, ENOC, brings a different set of skills and experience to the Board and all have a good knowledge of the oil and gas industry. The Directors' diverse skill sets complement each other and will ensure that the challenges that Dragon Oil faces on a day-to-day basis are considered from a range of perspectives.

Since their original appointment, Mohammed Al Ghurair and Ahmad Sharaf have been and continue to be nominee Directors of the majority shareholder, ENOC. ENOC did not provide a particular statement or explanation for the appointment of Messrs. Al Ghurair and Sharaf on their appointment in 2007.

During 2014, the Directors received dedicated training sessions from the Company's external lawyers and brokers as well as expert industry advisers and the Directors reviewed the requirement to update and refresh their skills and knowledge.

Independent Non-executive Directors

The independence of Non-executive Directors is an area that has been under considerable scrutiny in recent years and the Board takes its role of determining the independence of its Non-executive Directors seriously.

As noted above, all Directors bring differing but complementary skill sets to the Board and the Independent Non-executive Directors have a comprehensive knowledge of the Dragon Oil business and apply their skills to the benefit of the Group. Messrs Al Muhairbi and Al Mazrooei have been on the Board since 2007. Mr Haugnaess was appointed to the Board of the Company on 20 February 2012 and Mr Crowley was appointed to the Board on 9 September 2013. The Board considers all four to be independent in character and judgment, having considered the criteria for assessing the independence of a Director as set out in paragraph B.1.1 of the Code. Mr Haugnaess is currently Senior Independent Director.

Subject to their respective re-election at the AGM, Messrs Al Muhairbi and Al Mazrooei will be commencing their ninth year as independent directors. The Board is satisfied as to their continuing independence but will in any event be conducting an evaluation of their independence for the purposes of the Code in the course of 2015. This will be with a view to assisting the Board in determining their status as directors for the purposes of the Code in advance of the 2016 AGM.

The terms and conditions of the appointment of the Non-executive Directors are available for inspection.

Chairman of the Board and Chief Executive Officer

There is a documented split within the Group for the roles and responsibilities between the Chairman and the CEO, which are summarised below:

The Chairman manages the Board and the strategy for the Group, and also leads implementation of Board decisions meaning that he:

- drives the strategic leadership for the Group, including vision and direction;
- ensures that the views of key stakeholders are understood by the Board;
- supports the CEO to communicate the Board's views to institutional shareholders and communicates the Board's views to retail shareholders;
- ensures that the Board operates smoothly and efficiently for effective decision-making;
- leads the Board and Committee performance evaluation process;
- works constructively with the CEO to implement Board decisions and the business strategy.

The CEO has the Board's delegated authority on all matters of management and is accountable for the same (where they are not reserved for the Board) meaning that, among other things, he:

- executes the Group's business plans and objectives;
- establishes organisation structure, plans and policies and effectively implements the same;
- recommends the Group's business plans and budgets prior to Board approval;
- monitors and appraises performance of all key personnel;
- reviews operational and financial performance of the Group against established goals;

- is primarily responsible for external relationships with host governments;
- communicates with investors, analysts, institutional shareholders and supports the Chairman to communicate the Board's views to retail shareholders.

Although the Board of Dragon Oil plc met only 2 times during 2014, there were numerous Board meetings of major operating subsidiary companies, including 12 meetings of its major operating subsidiary whose Board has the same composition as that of the Company. All Board meetings, whether at the Company or subsidiary level took place in Dubai, UAE. The AGM was held in London, UK, in April 2014. Further, the Directors regularly communicate outside of the formal process of Board and Committee meetings. The Directors consider that they have allocated sufficient time to the Company to discharge their responsibilities effectively and this is evident from their attendance at, and the frequency of, the Board and Committee meetings.

In the ordinary course, the CEO and other senior management will submit proposals and recommendations to the Board and to its Committees for review and approval. Such proposals and recommendations are included within a formal agenda for each scheduled Board or Committee meeting and the agenda is set by the Chairman or the Committee Chairman (as the case may be), in consultation with the Company Secretary. To the extent reasonably possible, agendas and materials are distributed to the Directors on a timely basis for review in advance and to enable constructive discussions at the relevant meeting. Formal minutes of all Board and Committee meetings are circulated to all Directors and considered for approval at the next available meeting.

External Advice

All Directors have access to independent professional advice at the Group's expense, as and when required. All Directors have access to the advice and services of the Company Secretary, who has responsibility for ensuring that the Board procedures are followed and for governance matters. The appointment of the Company Secretary is one of the matters reserved for the Board. Mr Julian Hicks acted as Company Secretary until 14 January 2015, when Mrs Farriz Mashudi was appointed Company Secretary.

Meetings and Attendance

	Board	Audit Committee[1]	Remuneration Committee[1]	Nominations Committee[1]
Number of meetings	14 Total 2 DOPLC 12 DOHL	7 Total	3 Total	1 Total
Mohammed Al Ghurair	14	N/A[2]	2	N/A[2]
Abdul Jaleel Al Khalifa	14	N/A[2]	N/A[2]	N/A[2]
Saeed Al Mazrooei	12	7	N/A[2]	N/A[2]
Ahmad Al Muhairbi	14	7	3	1
Ahmad Sharaf	14	N/A[2]	N/A[2]	1
Thor Haugnaess	13	7	3	1
Justin Crowley	14	7	3	N/A[2]

Notes:
(1) During 2014, certain Directors who were not Committee members attended meetings of the Audit, Remuneration and/or Nominations Committees by invitation. These details have not been included in the table.
(2) N/A – not applicable (where a Director is not a member of the Board or the Committee on the relevant date that the meeting was held) as the table reflects only attendance by members.

Management Working Committees

In order to assist and support the CEO in the implementation of the Group's business strategy and plans, the CEO has established a number of management working committees, notably including the following:

(1) Executive Committee:

(a) comprises the CEO, the Chief Operating Officer (COO) and the General Manager of Petroleum Development along with four other senior managers;

(b) is a primary advising body enabling the CEO to make informed decisions through periodic discussion and deliberations on critical strategic, operational and financial matters relating to management of the Group;

(c) met a total of 10 times in 2014 and discussed key topics including the business plan and budgets, risk management, insurance cover and treasury policies.

(2) Major Tender Board:

(a) comprises the CEO, COO and General Manager of Petroleum Development along with four other senior managers;

(b) is responsible for approving the contract strategies and awards of all major contracts (i.e. with a value in excess of US$3 million), as well as being accountable for ensuring the effectiveness and transparency of the Group's procurement processes; and

(c) met at least twice per month during 2014 and approved a number of major contract awards.

Insurance Cover

The Group maintains such Directors' and Officers' Liability insurance as is appropriate in nature and level for a listed company of the type and size of the Group.

Performance Evaluation Process

In order to ensure that the Board operates effectively as a unit, that each Director continues to contribute and show commitment and in line with its earlier commitment and with the provisions of the Code, in 2012 the Board appointed an independent external facilitator, Boyden Middle East, to coordinate and manage the process for the performance evaluation of the Board, its Committees and the individual Directors. The external facilitator had no other connection with the Group. A further external independent evaluation will be conducted during 2015.

An internal performance evaluation of the Board, its Committees and Directors was undertaken during 2014 to review the performance of the Board, its Committees and Directors using the collective evaluation methodology that involved anonymous data collection, aggregation and analysis of inputs, review by appropriate individuals and agreement of action plans where necessary, all of which helped ensure the objectivity and robustness of the process. The objective of this performance evaluation process is to ensure that the personnel appointed to the Board continue to perform their duties in accordance with the highest standards. The performance evaluation process concluded that the Board was robust, well qualified and had a wealth of operational, technical and regional experience.

When deciding whether to regard a Director as independent, the Board took into account the following factors:

- Employment by the Group;
- Business relationship with the Group;
- Family ties;
- Whether the individual represented a significant shareholder; and
- Whether the individual has been in office for more than nine years.

The internal performance evaluation process reinforced the conclusion previously reached that the Board was robust, well qualified and had a wealth of operational, technical and regional experience. While the Board regularly reviews its own performance, the Board will only look to strengthen its membership by appointing additional Directors with expertise or experience, which can be of value to the Company.

During 2014, there was a meeting between the Chairman and the other Non-executive Directors without the CEO present and a meeting between the Senior Independent Director and the other Directors without the Chairman present (to evaluate their respective performances). The Board has concluded that it operates in an open and transparent manner.

Committees of the Board

The Board has established the Audit, Remuneration and Nominations Committees and all three have written terms of reference setting out their authority and duties. These terms of reference for each of the Nominations, Remuneration and Audit Committees are available on Dragon Oil's website at www.dragonoil.com.

Audit Committee

Topics at Audit Committee Meetings

- Audit, including external and internal;
- Financial Statements, including interim results and Annual Report;
- Governance and compliance matters; and
- Reports from the whistleblower hotline.

Remuneration Committee

The Remuneration Committee determines the framework or broad policy for the salary and other benefits of the Executive Director, together with awards under any related scheme. Details of the composition of the Remuneration Committee, as well as a full review of the Remuneration Committee's activities during the year, are contained in the Directors' Remuneration Report on pages 62 to 74.

Nominations Committee

The Nominations Committee is responsible for identifying and proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. Mr Ahmad Sharaf (Chairman), Mr Ahmad Al Muhairbi, and Mr Thor Haugnaess comprise the Nominations Committee, with the Company Secretary acting as secretary to the Nominations Committee. Messrs. Sharaf and Al Muhairbi have served on it since 20 May 2007. Mr Haugnaess was appointed to the Nominations Committee on 9 April 2012. Mr Al Muhairbi and Mr Haugnaess are both Independent Non-executive Directors. Mr Sharaf is a nominee Director of the majority shareholder.

The Nominations Committee met once during 2014 (2013: twice). The Committee's principal topic was to consider the size, skills, diversity and experience of the Board.

Compliance with the Code

The Board considers that the Group has complied with the provisions set out in the Code and the Irish Annex throughout the financial year under review except where the Group is not in compliance as noted and explained below:

B. Effectiveness

B.2.1 The Nominations Committee is comprised of Messrs Sharaf, Haugnaess and Al Muhairbi, the latter two being Independent Non-executive Directors. Accordingly, the Nominations Committee is in compliance with the requirement that the majority of the members of the Nominations Committee should be independent non-executive directors. However, the chairman of the Nominations Committee is Mr Sharaf who is a nominee Director of the majority shareholder. Given the total number of Directors on the Board, it is necessary to use all available Directors to diversify the membership of the different Board committees.

B.2.3 Non-executive Directors were appointed for indefinite terms according to their letters of appointment. In accordance with the provisions of the Code, all Directors of the Company will be submitted for re-election by the shareholders at the 2015 AGM. The letters of appointment for Non-executive Directors include a three-month notice period.

D. Remuneration

D.2.1 During 2014 the members of the Remuneration Committee were Messrs Al Ghurair, Haugnaess, Al Muhairbi and Crowley. Messrs Haugnaess, Al Muhairbi and Crowley are Independent Non-executive Directors and Mr Al Ghurair is a nominee Director of the majority shareholder. Further, given the total number of Directors on the Board, it is necessary to use all available Directors to diversify the membership of the different Board committees.

D.2.2 The Remuneration Committee does not have delegated responsibility for setting remuneration for the Executive Director and the Chairman. Given the size of the Board, there is no added value in such delegation. Rather, the Committee monitors the level of remuneration for the Executive Director and the Chairman, as well as senior management, and recommends the same to the full Board for approval.

E. Relations with Shareholders
E.1.1 Most of the communication with institutional shareholders, analysts and retail investors is undertaken by the CEO and Director of Finance with the support of the Chairman and other members of management. The CEO ensures that the views of shareholders are communicated to the wider Board on a regular basis throughout the year.

The Board considers, and has done for a number of years, that there are appropriate mechanisms in place to listen to the views of shareholders and communicate them to the Board without it being necessary for the Chairman to attend meetings with major shareholders. The Chairman and the Senior Independent Director are, however, available at the Annual General Meeting and available to attend any such meetings if requested by shareholders. The Board believes that this approach is consistent with the main principle of the Code on dialogue with shareholders, to which Code provision E.1.1 relates, and is consistent with good governance and the promotion of delivery of the Company's objectives.

The Irish Annex

1.1-1.3, 2.1 The Nominations Committee considers the current Board size and structure to be appropriate for a company of the same size and involved in the same business as the Company. The Board considers that four independent Non-executive Directors are sufficient, since this number meets both the requirements of the Code and the Company's own corporate governance needs. Accordingly, the Committee does not propose to identify a pool of candidates through a formal process as anticipated by the Irish Annex.

Related Party Transactions

The Group has its head office in Dubai, UAE, which it rents from ENOC. Furthermore, the Group has availed itself of a limited number of services from the ENOC Group, including IT services and the acquisition of lubricants used in the operations. All such services are provided on an arm's length basis and are subject to a written contract on commercial terms.

Details of the services received are set out in Note 28 of the consolidated Financial Statements on page 114.

Communication with Shareholders

The Group maintains regular contact with shareholders. In order to understand the views of all shareholders, including the majority shareholder, ENOC, potential investors and sell-side analysts and to seek their continuing support, Dragon Oil's senior management conducts regular meetings and conference calls with the investment community. This programme aims to ensure that the performance, strategies and objectives of the Group are clearly communicated to the investment community and provides a forum for institutional shareholders to address any corporate governance issues. With the aid of our joint corporate brokers and public relations agency, we host results meetings and simultaneous conference calls and webcasts to present our half-yearly and year-end financial results to the market with particular focus on the sell-side analysts.

In 2014, the Chairman and senior management (including the CEO, General Manager of Petroleum Development and Director of Finance) between them conducted both one-on-one and group meetings with institutional investors in the UK, Ireland and the USA, and attended two investor conferences in the UK and France. Over the course of the year, management met over 60 institutions, existing and potential shareholders, some of them on a number of occasions. The senior management team make themselves available for a significant number of conference calls on a regular basis with institutional investors around the world.

Dragon Oil continues to benefit from the services of its joint brokers, Davy and Nomura International, which have worked for Dragon Oil for over 16 years and four years, respectively. Both are regarded key advisers who regularly brief senior management on developments in the oil and gas sector, market trends, Bloomberg consensus and peer companies' news. This joint brokership has worked well as the different strengths of each broker complement one another to expand the range of investors being targeted for investment into the Company and to gather market data.

The Group issues its financial and operational results, drilling updates and other news releases promptly via Regulatory News Service, the company news service from the London Stock Exchange. The news releases appear simultaneously on our website, www.dragonoil.com, on the Home Page and in Investors section. The E-mail alert sign-up function within the Investors and Media sections allows shareholders and other interested parties to subscribe to news updates. The Group archives all key information and documentation on its website with a dedicated Download centre and Regulatory News release archive for its shareholders.

Most of the communications with shareholders is undertaken by the CEO with the support of the General Manager of Petroleum Development, the Director of Finance and the Investor Relations Officer. The CEO ensures that the views of shareholders are communicated to the wider Board on a regular basis throughout the year.

Dragon Oil holds its AGM in London and welcomes shareholder participation. At the 2014 AGM, our Chairman, CEO and Director of Finance all made presentations to our investors regarding the operations and finances of the Group, all of which were well received. The AGM is an opportunity for individual shareholders, particularly retail investors, to put questions directly to the Board members and the senior management during and after the formal session.

New shareholders are sent a hard copy of the Annual Report and Financial Statements and given an option to receive the information electronically or in hard copy. The majority of the shareholders receive information from the Company electronically.

Internal Control

The Directors are responsible for the Group's systems of internal control, which are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication and to comply with the Turnbull Committee guidance. The primary internal control procedures comprise the formal delegation of authorities by the Board to the executive management, and then a Control Framework with a number of subsidiary mechanisms including inter alia a financial authorities manual, tendering procedures and various financial and operational policies and procedures.

The control processes are complemented by effective monitoring and reporting mechanisms, not least of which are the annual reports to and reviews by the Audit Committee. The Directors are responsible for the implementation and review of the Group's system of internal control appropriate to the various business environments in which it operates. The system has been designed to enable the Group to identify, evaluate and manage significant risks faced by the Group and includes the safeguarding of assets from inappropriate use or loss or fraud, the identification and management of liabilities, the maintenance of proper records to ensure quality internal and external reporting and compliance with the applicable laws and regulations governing its conduct of business.

The key internal control and risk management measures that the Directors have implemented in the parent and its subsidiary undertakings in relation to the financial reporting process and the process for preparing the consolidated Financial Statements are as follows:

- Enterprise-wide risk framework;
- Employment of competent persons;
- Use of an appropriate ERP system for processing transactions;
- Consideration of appropriateness of accounting policies through the Audit Review Papers;
- Segregation of duties, authorisation limits and independent review;
- Management review of key judgments and estimates;
- Use of specialists, e.g. for valuations, as appropriate;
- Budgetary control, variance analysis and monthly performance reviews;
- An internal audit function;
- Regular communication with external auditors.

Any system of internal control can provide only reasonable and not absolute assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system operated effectively throughout the financial year and up to the date that the Financial Statements were signed.

On behalf of the Board

Farriz Mashudi
Company Secretary of Dragon Oil plc
16 February 2015

Ahmad Sharaf
Non-executive Director

Nominations Committee

The Nominations Committee is responsible for identifying and proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. Mr Ahmad Sharaf (Chairman), Mr Ahmad Al Muhairbi, and Mr Thor Haugnaess comprise the Nominations Committee, with the Company Secretary acting as secretary to the Nominations Committee. Messrs. Sharaf and Al Muhairbi have served on it since 20 May 2007. Mr Haugnaess was appointed to the Nominations Committee on 9 April 2012. Mr Al Muhairbi and Mr Haugnaess are both Independent Non-executive Directors. Mr Sharaf is a nominee Director of the majority shareholder.

The Nominations Committee met once during 2014 (2013 twice, 2012: once). The Committee's principal topic was to consider the size, skills and experience of the Board.

Directors' Remuneration Report

Ahmad Al Muhairbi
Non-Executive Director

Dear Shareholder,
As Chairman of the Remuneration Committee,
I am pleased to introduce our Report on Directors' Remuneration for the year ended 31 December 2014.

Remuneration for 2015

The Remuneration Committee regularly reviews the senior executive remuneration policy to ensure it promotes the attraction, motivation and retention of the high quality executives who have been key to delivering the Company's strategy in the past and who will be key to delivering sustainable earnings growth and shareholder return in the future.

At the 2014 AGM, shareholders approved the remuneration policy as set out in the 2013 Directors' remuneration report, together with the 2014 Long-Term Incentive Plan. The Remuneration Committee believes that the remuneration policy continues to support the Company's strategy and will not propose any changes in policy at the 2015 AGM.

In implementing the remuneration policy for 2015, the Committee has decided:

- base compensation positioning remains appropriately positioned in the market. The increase for the Executive Director in 2015 is 9%;
- the structure and quantum of the annual bonus continues to be appropriate; and
- the new long-term incentive plan is appropriate and remains in line with the peer group.

Format of the Report

This report has been prepared so as to be consistent with the UK's regulations on remuneration reporting, even though we are not formally required to do so. Although the Committee does not propose to make any changes to the remuneration policy, the existing policy has been included in this year's Directors' remuneration report for the information of shareholders.

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 27 April 2015.

Ahmad Al Muhairbi
Chairman of the Remuneration Committee
16 February 2015

www.dragonoil.com/about-us/corporate-governance

Directors' Remuneration Policy

The Company's remuneration policy was put to a shareholder vote at the 2014 AGM and was approved by 82.8% of shareholders. There is no requirement for a vote on the policy in 2015 unless any changes to the policy are proposed, and the Committee does not intend on making any changes to the policy at this time.

Policy Overview

The recruitment market is, as always, competitive for high quality candidates and so the Group (led by the Remuneration Committee, the executive management and the Group's HR Department) has incrementally built a package of compensation and benefits, which is attractive but also flexible enough to accommodate differing experience levels of candidates, coming from a variety of backgrounds and geographies. As a fundamental principle however, from the perspective of remunerating its executive management and other employees, the Group compares and benchmarks itself towards the upper end of the market against other mid-range international oil and gas Exploration and Production companies (both listed and unlisted).

Components of total remuneration

The Executive Director's remuneration package comprises three key elements: fixed compensation, the annual bonus and long-term incentives. This is in line with standards for Executive Directors' remuneration packages within the oil and gas industry.

The Committee takes into account local remuneration practices within the UAE and the Oil and Gas sector at large when setting the Executive Director's remuneration package. The package is geared towards variable pay, with incentives contributing in a range of 60% to 80% of the package value at the higher levels of performance. As is typical, the variable pay elements include a number of factors which link performance to the level of remuneration.

Consideration of Shareholder Views

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year at a meeting immediately following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Group's annual review of remuneration policy. In addition, the Remuneration Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be made to the remuneration policy. Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the Annual Report on Remuneration.

Consideration of Employment Conditions Elsewhere in the Group

The Committee considers the general base compensation increase for the broader employee population when determining the annual base compensation increases and remuneration for the Executive Director.

Summary Remuneration Policy

The table below summarises the Directors' remuneration policy from 2014:

Policy for Executive Director

Element of remuneration	Purpose and link to strategy	Operation	Maximum value	Performance targets
Base Compensation	• Reflects the value of the individual and their role • Reflects skills and experience over time • Provides an appropriate level of basic fixed income • Avoiding excessive risk • arising from over reliance on variable income • Includes all regular cash payments including, for example, housing allowance	• Reviewed annually, effective 1 January • Takes periodic account of practices of companies with similar characteristics and sector comparators	• There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population and the market, but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role • Current base compensation levels are set out on page 66	Not applicable
Benefits	Takes into account the local remuneration practices within the UAE	Educational Assistance for up to 4 children, airfare allowance, medical health insurance, life insurance, car and driver for CEO and family on need basis	Actual cost of approved benefits provided	Not applicable
Bonus	Incentivises annual delivery of financial and strategic goals	• Paid in cash • Not pensionable	150% of base compensation*	A combination of operational metrics with majority weighting and financial metrics

Policy for Executive Director continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum value	Performance targets
Long-Term Incentive Plan	Aligned to main strategic objectives	Annual grant of performance shares, which vest after year three, subject to continued service and performance targets	Maximum of 300% of base compensation	Four performance measures: • Earnings per share • Production levels • Cost of production • Reserve replacement
Employee Share Purchase Plan (ESPP)	Participation offered to all employees to encourage share ownership and provide further alignment with shareholders	A portion of income is accumulated in a fund, from which share subscriptions are made at a discount at designated times throughout the year	• Maximum subscription is 30% of fixed salary or US$50,000 per annum, whichever is lower • Discount to the prevailing share price at grant is 15%	Not applicable
Pension	There is no pension as such, but rather End of Service Benefits are paid at the date of termination of the employee's contract as required under UAE Labour law. Currently, the requirement is for End of Service Benefits to be calculated on basic compensation over 21 days per year of service up to five years. Over five years it becomes 30 days a year.		UAE Labour Law requires End of Service Benefits to be paid at the date of termination of the employee's contract. End of Service Benefits is calculated on basic compensation and the maximum value is 30 days a year of completed service.	Not applicable

Notes:
*As part of the transition arrangements from the old remuneration structure to that set out above and elsewhere in this policy, the Executive Director can earn an additional 50% of base compensation under the annual bonus in 2013, 2014 and 2015.

A description of how the Company intends to implement the policy set out in this table for 2015 is set out in the Annual Report on Remuneration on page 66.

The following differences exist between the Company's policy for the remuneration of the Executive Director as set out above and its approach to the payment of employees generally:

- A lower level of maximum annual bonus opportunity may apply to employees other than the Executive Director and certain senior executives.
- Benefits offered to other employees generally may be marginally lower than those provided to the Executive Director.
- Participation in the LTIP is limited to the executive Director, certain selected senior executives and key positions in the organization.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive Director and senior executives, a greater emphasis tends to be placed on performance-related pay.

The choice of the performance metrics applicable to the annual bonus scheme reflect the Committee's belief that any incentive compensation should be appropriately challenging and tied to the delivery of financial metrics and specific individual objectives.

The performance conditions applicable to the LTIP (further details of which are provided on pages 68 to 69) were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Group's financial growth and are consistent with the Company's objective of delivering superior levels of long-term value to shareholders and also focus on key drivers of performance.

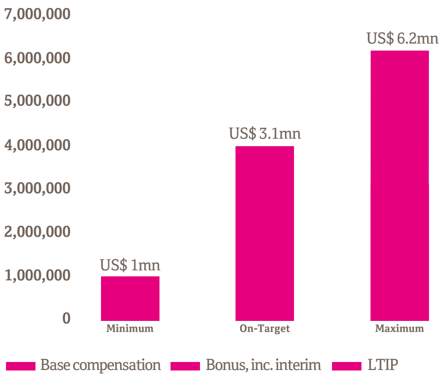
For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments entered into with current Directors (such as the payment of a pension or the vesting/exercise of past share awards) that have been disclosed to and approved by shareholders in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Policy for Non-Executive Directors

Element of remuneration	Purpose and link to strategy	Operation	Maximum value
Non-Executive Director Fees	• Reflects time commitments of each role • Reflects fees paid by similarly sized companies	• Cash fee paid • Fees are reviewed on an annual basis • Non-executive Directors do not participate in variable pay arrangements	• Fee increases for Non-Executive Directors will not normally exceed the average base compensation increase awarded to the Executive Director although increases may be above this level if there is an increase in the time commitment and/or responsibility level

Illustrations of Application of Remuneration Policy

The chart below illustrates how the composition of the Executive Director's remuneration package for 2015 varies at different levels of performance under the remuneration policy (as approved at the 2014 AGM), both as a percentage of total remuneration opportunity and as a total value:



Notes:

(1) The value of benefits receivable under these scenarios is taken to be the value of benefits received in 2014 (as calculated under the Single Total Figure of Remuneration, set out on page 67).

(2) The on-target level of bonus is taken as approximately 50% of the maximum. The maximum bonus is calculated as 150% of base compensation, together with an additional annual bonus award of up to 50% of base compensation for 2015 (this is set out in greater detail on page 68).

(3) The on-target level of vesting under the LTIP is taken to be 100% of base compensation.

(4) The maximum value of the LTIP is taken to be 300% of base compensation.

(5) The fixed pay includes base compensation and benefits.

Approach to Recruitment and Promotions

The remuneration package for a new executive Director – i.e. base compensation, benefits, annual bonus and long-term incentive awards – would be set in accordance with the terms of the Company's prevailing approved remuneration policy at the time of appointment. The Committee reserves the right to use discretion where market expectations differ from the prevailing approved remuneration policy. Base compensation would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. Annual bonus potential will be limited to 150% of base compensation and long-term incentives will be limited to 300% of base compensation. In addition, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration relinquished when leaving the former employer and would reflect the nature, time horizons and performance requirements attaching to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

For an internal executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate. If appropriate the Committee may agree on the recruitment of a new executive with a notice period in excess of 12 months but to reduce this to 12 months over a specified period. Service contracts will be in line with the current provisions, as disclosed below.

Service contract for the Executive Director

The service agreement of the Executive Director is not fixed term and is terminable by either side on six months' notice and includes a 12-month non-compete clauses and standard provisions for summary termination. The contract makes provision for end of service benefits as per UAE Labour Law. The Remuneration Committee will review the contractual terms for new executive Directors to ensure these reflect best practice. In summary, the contractual provisions are:

Provision	Detailed Terms
Notice Period	6 months
Termination Payment	End of Service Benefits as per UAE Labour Law
Remuneration entitlements	A bonus may be payable (pro-rated where relevant) and outstanding share awards may vest (see below)
Change of control	No executive Director's contract contains additional provisions in respect of change of control

In calculating the amount payable to a Director on termination of employment, the Board would take into account the commercial interests of the Company and apply usual legal and contractual principles, which includes payment of End of Service Benefits as required under UAE Labour Law.

The annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated for time and paid at the normal payout date.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the LTIP is that any outstanding awards lapse on cessation of employment. However, in certain circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, awards will normally vest on cessation, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that awards of share options or long term incentives vest at a later date and/or to disapply time pro-rating. The default treatment for deferred bonus awards is that any outstanding awards lapse on cessation of employment. However, in certain 'good leaver' circumstances, awards may vest in full on the date of cessation.

The Executive Director may accept outside appointments, with prior approval of the Chairman of the Board, provided these opportunities do not negatively impact on the individual's ability to perform his duties at the Company. Whether any related fees are retained by the individual or are remitted to the Company will be considered on a case by case basis.

Non-Executive Directors

The Independent Non-executive Directors have letters of appointment that can be terminated by either the Director or the Company on three months' notice. There is no legally binding commitment as to the term of office; however, any appointment or reappointment will be subject to the Company's Articles of Association that provide for re-election of directors at each year's AGM.

The remuneration of the Independent Non-executive Directors takes the form solely of fees, the level of which has been approved by the Chairman and the sole Executive Director, in consultation with key management personnel reflecting the time commitment required, the responsibility of each role and the fees paid in comparable companies and external market data. Each non-executive director is also entitled to reimbursement of necessary travel and other expenses. Current non-executive directors do not participate in any Group share, bonus or pension scheme.

Each letter of appointment and/or contract of employment sets out certain restrictions on the ability of the Director to participate in businesses which would conflict with the interests of the Company and/or to entice or solicit from the Group any senior employees of the Group in the 24 month period after cessation of the Director's appointment.

Annual Report on Remuneration

Consideration by the Directors of Matters Relating to Directors' Remuneration

The Company's approach to the Chairman's and executive Directors' remuneration is determined by the Board on the advice of the Remuneration Committee. The members of the Remuneration Committee during the year under review were as follows:

- Ahmad Al Muhairbi (Remuneration Committee Chairman)
- Mohammed Al Ghurair
- Justin Crowley
- Thor Kristian Haugnaess

Messrs. Al Muhairbi, Crowley and Haugnaess are independent Non-executive Directors and Mr. Al Ghurair is a nominee Director of the majority shareholder.

Biographical information on the Committee members and details of attendance at the Committee's meetings during the year are set out on pages 46 and 47 and 58.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the following subject matters:

- The framework and the broad remuneration policies for the Group;
- The specific terms for the remuneration of the Chairman, CEO, the COO and the General Manager of Petroleum Development;
- Agreeing incentive awards, including grant of share options to employees; and
- Reviewing the design of the share incentive plans for approval by the Board and shareholders.

During 2014, advice was provided to the Committee by Aon plc, both through New Bridge Street ('NBS'), a subsidiary of Aon, and Aon Hewitt in Dubai. NBS is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial. Aon Group also provides brokerage services for insurance of oil and gas assets in Turkmenistan.

The fees paid to Aon for providing advice in relation to executive remuneration over the financial year under review was US$133,826.

Implementation of the Remuneration Policy for the year ending 31 December 2015

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2015 is set out below.

Base compensation

In line with market norms, the Group determines an overall level of base compensation, which for reasons of market practice and local regulation is split between a salary and regular cash allowances. The whole base compensation is used as the reference point for calculating bonus and LTIP awards. The Remuneration Committee agreed to increase the base compensation level of the executive Director by 9% with effect from 1 January 2015. Current base compensation levels and those which applied during the year ended 31 December 2014 are as follows:

	2015 (US$'000)	2014 (US$'000)	% increase
Abdul Jaleel Al Khalifa	1,041	955	9%

The Group's employees, in general, are receiving pay rises ranging generally from 0% to 7.5% depending on promotional increases and individual performance.

Annual Bonus

The normal maximum bonus potential is 150% of base compensation. However, on a temporary basis for three years, commencing in the year 2014, an additional award of up to 50% of salary is available annually which will be paid during the year. The Committee expects this portion to end once the first tranche of the new long-term incentive plan approaches maturity. The split of performance measures for 2015 are outlined in the table below.

Specific targets relating to these will be disclosed retrospectively in next year's annual report.

Long Term Incentives

In 2015, the Committee intends to make awards under the 2014 LTIP. The extent to which LTIP awards which will be granted in 2015 will vest will be dependent on four performance metrics: earnings, production levels, cost of production and reserve replacement.

It is expected that the CEO will be made an award with a target value of 100% of base compensation.

% of award	% of award	% of salary maximum
Health, safety and environment	15%	22.5%
Production, operation targets and administration	35%	52.5%
Diversification	15%	22.5%
Reserve replacement	10%	15%
Cost management	15%	22.5%
Earnings	10%	15%
Total	100%	150%

Non-executive Directors

The Company's approach to non-executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of Board Committees. A summary of current fees is as follows:

	2015 US$'000	2014 US$'000	% increase
Chairman			
Base fee	365	320	14%
Meeting Allowance	3	3	0%
Non-Executive Directors			
Base fee	115	106	8%
Meeting Allowance	3	3	0%
Audit Committee Chair	23	22	5%
Remuneration Committee Chair	23	22	5%
Nominations Committee Chair	20	19	5%

The Board of Directors (without the Chairman) has approved an increase of 14% in the Chairman's annual base fee effective 16 February 2015. In this regard, the Board has noted that although this increase to the Chairman's fees for 2015 would be above the Executive Director's 2015 increment of 9%, it is considered appropriate given the increase in time commitment anticipated for acquisition of a development or producing asset along with opportunistic growth in the portfolio of exploration assets whilst implementing the diversification strategy of the Group.

In the current year, the cap of ten meetings per year on the meeting allowances has been removed. In addition, travel and expenses are paid to Non-Executive Directors.

The above table reflects details on Non-Executives' remuneration as provided by the Company in GBP. We have converted this into USD using an exchange rate prevailing on the dates of the transaction.

Implementation of the Remuneration Policy for the year ended 31 December 2014

Single Total Remuneration Received by Directors

Directors' remuneration for the year ended 31 December 2014 was as follows:

	Base Compensation & Fees (US$'000)		Benefits In kind (US$'000)		Annual Bonus (US$'000)		Long-Term Incentives (US$'000)		Total (US$'000)	Total (US$'000)
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Chairman										
1. Mohammed Al Ghurair	**379**	274	–	–	–	–	–	–	**379**	274
Executive Directors										
2. Abdul Jaleel Al Khalifa	**955**	879	**96**	69	**1480**	766	–	216	**2,531**	1,930
Non-Executive Directors										
3. Nigel McCue	–	28	–	–	–	–	–	–	–	28
4. Ahmad Sharaf	**168**	138	–	–	–	–	–	–	**168**	138
5. Ahmad Al Muhairbi	**175**	138	–	–	–	–	–	–	**175**	138
6. Saeed Al Mazrooei	**175**	130	–	–	–	–	–	–	**175**	130
7. Thor Kristian Haugnaess	**156**	119	–	–	–	–	–	–	**156**	119
8. Justin Philip Crowley	**152**	53	–	–	–	–	–	–	**152**	53
									3,736	2,810

Notes:

(i) Benefits in kind include educational assistance for up to 4 children, airfare allowance, medical health and life insurance, local transport and the value the individual receives from participation in the ESPP.

(ii) The total remuneration shown above are different from that shown in note 23(c) of the financial statements on account of the valuation of the long-term incentive.

(iii) The bonus for 2014 includes an additional award of 50% of annual base compensation.

The annual bonus payments presented in the table were based on the performance metrics as set out below and measured over the 2014 financial year. Details of actual performance against targets set is as follows:

	On-Target (% of base compensation)	On-Target level of performance	Actual Performance	Determined level of payout (% of base compensation)
Health, safety and environment	20%	• Achieve LTIF less than or equal to 1.22 • Zero Fatalities, Zero Major Incidents (Injuries, Assets, Environment)	• 0.6 • Zero Fatalities and Major Accidents	22.7%
Production and operation targets	25%	• Achieve Production Growth of 10% • Move wells from B Group to A Group	• Production growth of 6.8% • 10 wells moved from Group B to Group A	23.6%
Diversification and exploration	25%	• Drill Wells in Iraq, the Philippines, Tunisia • Acquisition of two exploration blocks • Present development acquisition, target 3	• Two wells drilled in Iraq, the Philippines, Tunisia • Two blocks acquired • Three development plans were presented	21.7%
Reserve replacement	10%	• Achieve Reserve Replacement Ratio of 28.8 million barrels	• 17 million barrels in Cheleken and 40 million barrels in Iraq	15%
Cost management	10%	• Operating costs, excluding one-off costs, at $4.5/bbl or less	• 4.4	10.2%
Earnings	10%	• Operating Cash/entitlement barrels (assuming crude equal or less than $100/bbl.) of $55/bbl.	• $65/bbl	11.8%
Total	100%			105%

Long-term incentive plans

Awards were granted in 2014 in accordance with, and governed by, the 2014 Long-Term Incentive Plan.

Dragon Oil plc previously awarded share options to its employees in accordance with the Group's 2009 Share Option Scheme. No further options will be granted under this scheme.

The Committee granted an LTIP award to the Executive Director in October 2014 over shares up to a value of 300% of base salary. Awards will vest, subject to the achievement of specific performance conditions and continued employment, in October 2017.

Scheme	Date of grant	Number of shares	Face value[1]	Face value as a percentage of salary	End of performance period	Performance conditions
2014 Long-Term Incentive Plan	22 October 2014	311,844	US$2,864,639	300%	31 December 2016	See table below

Notes:
[1] Award face value (and value as a percentage of salary) is calculated using the 3 month average share price at the grant date 22 October 2014, being £5.6926 per share. The number of shares has been calculated using an exchange rate of £1: US$1.6137.

Performance condition	Weighting	Threshold target (16.67% vesting)	Max. target (300% vesting)
Earnings Per Share: average EPS over performance period	25%	US$1.263	US$1.537
Production: average gross number of barrels of oil produced per day by the Company's group	25%	83,167	103,500
Cost Efficiency: average cost per barrel of oil produced by the Company's group	25%	No more than $5.00	$4.00 or less
Reserves Replacement Ratio: at least this level over the performance period	25%	50%	300%

The following awards under the 2009 Share Option Scheme vested during the year:

Scheme	Date of grant	Number of options	Performance conditions	Percentage of award that vested
2009 Share Option Scheme	6 April 2011	120,000	As mentioned in the below table	100%

Performance condition	Weighting	Performance targets	Actual performance	Percentage of element of award that vested
1/3rd of options vesting: Increase the level of average annual barrels of oil per day production rate by not less than 15% for three years prior to vesting	33.33%	15%	20%	100%
1/3rd of options vesting: Achieve an enterprise-wide Reserve Replacement Ratio for 2P reserves of equal to or greater than 1.0 for the three years prior to vesting	33.33%	1	1.49	100%
1/3rd of options vesting: Achieve or complete the individual performance targets or goals as confirmed by the Board	33.34%	Achieved	Achieved	100%

Since the exercise price of the vested options shown above was higher than the share price at the end of the year, the long term incentive is reflected as nil in the Single Total Remuneration table.

Outstanding Share Awards

The table below sets out details of outstanding share awards held by the executive Director, Abdul Jaleel Al Khalifa, under the 2009 Share Option Scheme, 2014 Long-Term Incentive Plan and 2011 Employee Share Purchase Plan.

Scheme	Grant date	Exercise price (Stg.p)	No. of shares 01-Jan-14	Granted during the year	Exercised during the year	Lapsed during the year	No. of shares 31-Dec-14	Vested during the year	Face value at 31-Dec-14 (US$'000)	% vesting at threshold perfor-mance	End of perfor-mance period	Vesting date	Exercis-able up to
2009 Share Option Scheme	06-09-11	465.5	120,000	–	–	–	120,000	120,000	$1,062	100%	05-09-14	07-09-14	05-09-21
2009 Share Option Scheme	09-04-12	608	160,000	–	–	–	160,000	–	$1,416	100%	10-04-15	10-04-15	08-04-22
2009 Share Option Scheme	07-08-13	614	160,000	–	–	–	160,000	–	$1,416	100%	08-08-16	08-08-16	06-08-23
2014 Long-Term Incentive Plan	22-10-14	–	–	103,948	–	–	103,948	–	$920	50%	31-12-16	22-10-17	–
Employee Share Purchase Plan	01-04-14	495.9	–	6,126	–	–	6,126	6,126	$54	N/A	N/A	07-04-14	–
			440,000					**550,074**					

2011 Employee Stock Purchase Plan

Following approval at the 2011 AGM, the Company established a new incentive plan called the 2011 Employee Stock Purchase Plan. Pursuant to the terms of the plan, all employees are entitled to participate in the share incentive plan, under which a proportion of their income is accumulated in a fund, which makes share subscriptions at a discount at designated times during the year. The Plan is structured with a view to encourage the alignment of employee and shareholder interests and thereby to deliver value to shareholders; it also enhances the Group's ability to attract, retain and incentivise employees at all levels of the Group (not just the management level). Executive Directors are invited to participate in the plan on the same terms as other employees.

Statement of Directors' Shareholdings and Share Interests

Director	Beneficially owned at 1 January 2014	Beneficially owned at 31 December 2014	Outstanding Option awards and LTIP shares with performance conditions	Outstanding Share save awards with performance conditions
Abdul Jaleel Al Khalifa	–	6,126	543,948	–

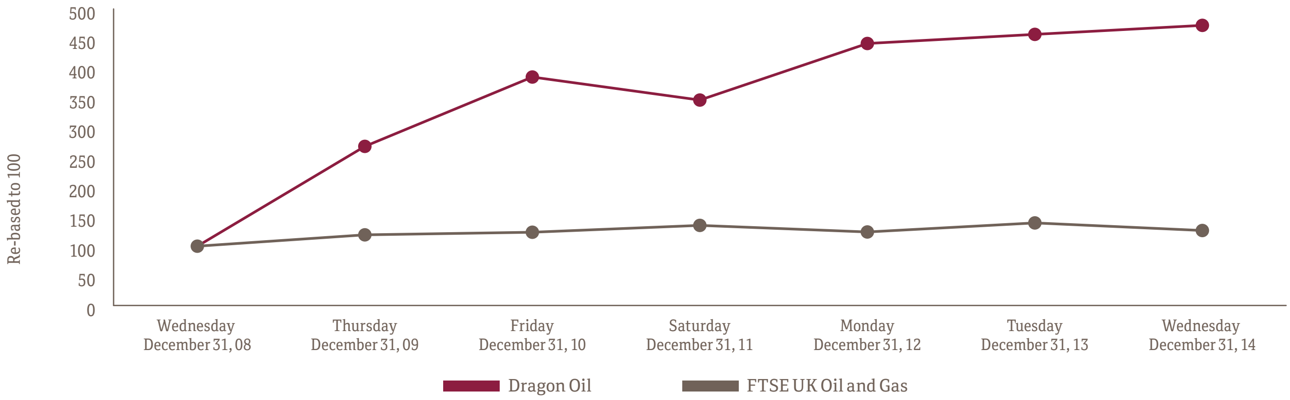
None of the remaining Directors held interests in the Company or any other Group Company at the beginning or end of the year, or at date of appointment (if later).

Performance Graph and Table

The following graph shows the cumulative Total Shareholder Return of the Company over the last five financial years relative to the FTSE UK Oil and Gas Index. The FTSE UK Oil and Gas Index has been selected as the Committee feels it is appropriate to measure performance against an index containing a number of its UK listed peers.

Total Shareholder Return

Source: Thomson Reuters Datastream



This graph shows the value, by 31 December 2014, of £100 invested in Dragon Oil plc on 31 December 2008 compared with the value of £100 invested in the FTSE UK Oil and Gas Index. The other points plotted are the values at intervening financial year ends.

The total remuneration figures for the Chief Executive during each of the last six financial years are shown in the table below. Abdul Jaleel Al Khalifa was in this position for all six years shown. The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three year performance periods ending in the relevant year. The LTIP vesting level as a percentage of the maximum opportunity is also shown for each of these years. As there is no prescribed annual bonus maximum, it is not possible to show the payout as a percentage of maximum.

	Year ending 31 December					
	2009	2010	2011	2012	2013	2014
Total Remuneration ($'000)	1,523	1,802	2,286	1,970	1,930	**2,531**
Annual bonus received (as % of maximum)	–	–	–	62%	54%	**70%**
LTIP Vesting (as a % of maximum)	100%	100%	100%	100%	100%	**100%**

Notes:

1. The Committee introduced a formal bonus maximum of 150% of base compensation in 2012, which has applied thereafter. As there is no prescribed annual bonus maximum for the years 2009 to 2011, it is not possible to show the payout as a percentage of maximum
2. The LTI awards recognised in the years 2009 to 2013 in the above table, satisfied the performance and other conditions in full. The award recognised in 2014 is in respect of the performance conditions satisfied.

Percentage Change in Chief Executive's Remuneration

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any LTIP and pension benefits receivable in the year) between the financial year ending 31 December 2013 and 31 December 2014, compared to that of the average for all Dubai based employees of the Group.

	Base compensation		% change	Benefits		% change	Annual Bonus		% change
	2014	2013		2014	2013		2014	2013	
Chief Executive ($'000)	955	879	9 %	96	69	39%	1,480	766	93%
Average Dubai based employees ($'000)	146	156	(6%)	10	12	(17%)	31	47	(34%)

The decrease in the average Dubai based employee base compensation in the year primarily reflects the change in composition of the workforce, with a number of new joiners over the past year in professional, rather than senior managerial, positions.

Relative Importance of Spend on Pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends.

	2014	2013	% change
Staff costs (US$'m)	104.5	90.6	15.3%
Dividends (US$'m)	177	162.2	9.1%

US$2.5mn of the staff costs figures relate to pay for the Executive Director. This is different from the Single Total Remuneration Received by Directors for the year under review as share based awards are presented differently.

The dividends figures relate to amounts payable in respect of the relevant financial year.

Persons Discharging Managerial Responsibilities

The Chief Operating Officer ("COO") and General Manager of Petroleum Development ("GM-PD"), employed by a subsidiary of the Company, are identified as Persons Discharging Managerial Responsibilities and their remuneration is given below:

	Salary (US$'000)	Bonus (US$'000)	Benefits (US$'000)	Long term incentives (US$'000)	Total 2014 (US$'000)	Total 2013 (US$'000)
Chief Operating Officer						
Hussain Al Ansari	671	1,097	48	–	1,816	1,169
GM – Petroleum Development						
Emad Buhulaigah	558	911	25	–	1,494	975
	1,229	**2,008**	**73**	–	**3,310**	**2,144**

COO & GM-PD's Interest

The interests of the COO & GM-PD in the share capital of the Company, all of which are beneficial, are as set out below. The tables include all interests up to and including 16 February 2015:

	At 01 Jan 2014			At 31 Dec 2014			At 16 Feb 2015		
COO & GM-PD Interests	Ordinary Shares	Share Options	LTIP shares with performance conditions	Ordinary Shares	Share Options	LTIP shares with performance conditions	Ordinary Shares	Share Options[1]	LTIP shares with performance conditions
Hussain Al Ansari	–	283,334	–	6,209	281,390	52,056	6,209	281,390	52,056
Emad Buhulaigah	–	300,000	–	6,328	300,000	43,257	6,328	300,000	43,257
	–	583,334	–	12,537	581,390	95,313	12,537	581,390	95,313

Note:
1. The share options are options for Ordinary Shares in Dragon Oil plc, granted in accordance with the 2009 Share Option Scheme, as may be applicable, and which are exercisable in accordance with the applicable Scheme.

COO – Hussain Al Ansari

Scheme	Grant date	Exercise price (Stg.p)	No. of shares 01-Jan-14	Granted during the year	Exercised during the year	Lapsed during the year	No. of shares 31-Dec-14	Vested during the year	Face value at 31-Dec-14 (US$'000)	% vesting at threshold perfor-mance	End of performance period	Vesting date	Exercisable up to
2009 Share Option Scheme	21-04-11	556.75	83,334	–	–	1,944	81,390	–	$720	100%	21-04-12, 21-04-13 & 21-04-14	21-04-12, 21-04-13 & 21-04-14	20-04-21
2009 Share Option Scheme	09-04-12	608	100,000	–	–	–	100,000	–	$885	100%	10-04-15	10-04-15	08-04-22
2009 Share Option Scheme	07-08-13	614	100,000	–	–	–	100,000	–	$885	100%	08-08-16	08-08-16	06-08-23
2014 Long-Term Incentive Plan	22-10-14	–	–	52,056	–	–	52,056	–	$461	50%	31-12-16	22-10-17	–
Employee Share Purchase Plan	01-10-14	481	–	6,209	–	–	6,209	6,209	$55	N/A	N/A	06-10-14	–
			283,334				339,655						

GM- Petroleum Development – Emad Buhulaigah

Scheme	Grant date	Exercise price (Stg.p)	No. of shares 01-Jan-14	Granted during the year	Exercised during the year	Lapsed during the year	No. of shares 31-Dec-14	Vested during the year	Face value at 31-Dec-14 (US$'000)	% vesting at threshold perfor-mance	End of performance period	Vesting date	Exercisable up to
2009 Share Option Scheme	21-04-11	556.75	100,000	–	–	–	100,000	–	$885	100%	22-04-14	22-04-14	20-04-21
2009 Share Option Scheme	09-04-12	608	100,000	–	–	–	100,000	–	$885	100%	10-04-15	10-04-15	08-04-22
2009 Share Option Scheme	07-08-13	614	100,000	–	–	–	100,000	–	$885	100%	08-08-16	08-08-16	06-08-23
2014 Long-Term Incentive Plan	22-10-14	–	–	43,257	–	–	43,257	–	$383	50%	31-12-16	22-10-17	–
Employee Share Purchase Plan	01-04-14	480.1	–	6,328	–	–	6,328	6,328	$56	N/A	N/A	07-04-14	–
			300,000				349,585						

Company Secretaries' Interest

The interest of the Company Secretaries in the share capital of the Company, all of which are beneficial, are as set out below. The tables include all interests up to and including 16 February 2015:

	At 01 Jan 2014	At 31 Dec 2014	At 16 Feb 2015
Company Secretaries' Interest	Ordinary Shares	Ordinary Shares	Ordinary Shares
Julian Hicks[1]	–	5,183	5,183
Farriz Mashudi[1]	–	–	–
	–	5,183	5,183

Note:
(1) Mrs Farriz Mashudi was appointed Company Secretary with effect from 14 January 2015 on resignation of Julian Hicks, who had advised the Board since February 2013.

The opening market price of the Ordinary Shares in Dragon Oil plc on 2 January 2014 was Stg. 565p, the closing price of the Ordinary Shares on 31 December 2014 was Stg. 538p and the market prices in the Ordinary Shares ranged between Stg. 460p and Stg. 633p during the year.

Pension Scheme

The Group complies with all applicable laws and regulations relating to pensions and end of service gratuities, in the countries in which it operates.

Statement of Voting at General Meeting

At last year's AGM, the Directors' Remuneration Policy and Remuneration Report received the following votes from shareholders:

	Directors' Remuneration Policy		Remuneration Report	
	Votes	%	Votes	%
Votes cast in favour	349,994,737	82.8%	327,066,763	77.4%
Votes cast against	72,534,282	17.2%	95,407,893	22.6%
Total votes cast	422,529,019	100%	422,474,656	100%
Abstentions	555,589		551,538	

In addition, the 2014 Long-Term Incentive Plan was approved by shareholders with the following votes cast:

	2014 AGM	%
Votes cast in favour	341,705,824	80.9%
Votes cast against	80,880,739	19.1%
Total votes cast	422,586,563	100%
Abstentions	556,077	

Audit Committee Report

Saeed Al Mazrooei
Non-Executive Director

The Audit Committee met seven times in 2014 to fulfil its responsibility in relation to financial reporting, Group's internal controls, risk management and internal audit. During these meetings, the Committee also reviewed and assessed matters of corporate governance and the whistle-blowing procedures.

The Audit Committee reviewed the reports and presentations from the Internal Audit Department on the audit reviews undertaken in 2014 and outstanding recommendations from these reviews in order for the Board to obtain assurance on the adequacy of the system of internal controls in the Group.

Composition

During the year to 31 December 2014, the members of the Audit Committee (the "Committee") were Mr Saeed Al Mazrooei (Chairman), Mr Ahmad Al Muhairbi, Mr Thor Haugnaess and Mr Justin Crowley, each of whom are considered by the Board to be independent. Messrs. Al Muhairbi and Al Mazrooei have both served on the Committee since 20 May 2007 and Messrs. Haugnaess and Crowley have served since 9 April 2012 and 6 November 2013, respectively.

As set out in the biographical details on pages 46 to 47, the members of the Committee have a strong mix of skills, expertise and experience to enable the Committee to discharge its responsibilities. The Board has determined that Mr Crowley, a partner at BDO Chartered Accountants and Advisors, has recent and relevant audit and financial experience, and is the Committee's financial expert. The Company Secretary acts as a secretary to the Committee.

Committee meetings

The Committee met seven times during the year ended 31 December 2014 (2013: four times). Individual attendance at these meetings is set on page 58 of the Directors' Report.

Meetings are attended by the independent non-executive directors and, by invitation as required, by the Director of Finance, the Head of Internal Audit and representatives of the external auditor. In addition, the Chairman of the Board and the Chief Executive Officer may attend meetings at the invitation of the Committee. The external auditor has the opportunity to meet with the Audit Committee without executive management present at least twice a year.

The Chairman of the Committee reports to the Board, as part of a separate agenda item at Board meetings, on all significant matters reviewed by the Committee.

Role and responsibilities

The Committee supports the Board in carrying out its responsibilities in relation to financial reporting and reviews the effectiveness of the Group's internal financial control and financial risk management systems. The Committee also monitors and reviews the effectiveness of the Group's internal audit function and, on behalf of the Board, manages the appointment and remuneration of the external auditor as well as monitoring their performance, independence and objectivity.

To support their obligation under the 2012 UK Corporate Governance Code, the Committee advised the Board that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The activities undertaken by the Committee in fulfilling its key responsibilities in respect of the year to 31 December 2014 are set out below.

Financial reporting

The Group's financial statements are prepared by finance personnel with the appropriate level of qualifications and expertise.

The Committee is responsible for monitoring the integrity of the Group's financial statements and reviewing the significant financial reporting judgements contained therein.

In respect of the year to 31 December 2014, the Committee reviewed the Group's interim report and results for the six months to 30 June 2014, and the 2014 full year results and annual report and preliminary announcement for the year to 31 December 2014. In carrying out these reviews, the Committee considered:

- whether the Group had applied appropriate accounting policies and practices;
- the consistency of accounting policies both on a year on year basis and across the Group;
- whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- the clarity and completeness of disclosures and compliance with relevant financial reporting standards and corporate governance and regulatory requirements; and
- the significant areas in which judgement had been applied in preparation of the financial statements in accordance with the accounting policies set out on pages 90 to 97.

The significant areas of judgement and accounting matters considered by the Committee in relation to the accounts for the year to 31 December 2014 and how these were addressed are outlined below.

In addition, each of these areas received particular focus from the external auditor, who provided detailed analysis and assessment of the matters in their reports to the Committee.

– Depreciation and depletion charge on development and production assets

The Committee considered the following key assumptions and judgements used by management in determining the depreciation and depletion charge for the year:

- oil and gas reserves;
- the long term oil and gas price;
- production profile of crude oil and gas over the period of the PSA;
- marketing prospects of gas sales; and
- future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.

The inclusion of oil reserves, recoverable gas and natural gas liquids reserves, the long-term oil and gas price and future development costs have a material impact on the Group's annual depreciation and depletion charge.

The Committee considered the result of the recent assessment by an independent energy consultant on hydrocarbon reserves, availability of the expanded physical infrastructure as well as the current plan for development of a gas treatment facility and the on-going discussions on the prospects to market the gas produced.

The Committee also discussed the analysis and the basis used by management to arrive at the long-term oil and gas price assumptions. It was noted that the long-term oil price assumptions were based on the analysis of the estimates used by analysts and peer groups as well as an outlook for oil and gas prices in the current environment.

The Committee reviewed the sensitivity analysis as referred to in note 4 to the financial statements.

– Revenue recognition

In January 2014, the crude oil sales agreement for the sale of all of the Group's export volumes until 31 December 2014 was re-negotiated with the existing customer, which amended the pricing terms to remove the provisional pricing mechanism which had been in place.

On expiry of the crude oil sales contract at the end of 2014, the Group reached a one-year agreement with two buyers for all of its export volumes until 31 December 2015. Negotiations on the new marketing agreements resulted in a better overall discount to monthly average Brent prices compared to the discount in the previous year, which is expected to be approximately US$14 per barrel.

The Committee is satisfied that management have performed appropriate due diligence in respect of the new buyers to satisfy themselves that they will be able to deliver on their contractual obligations.

– Carrying value of exploration and evaluation assets

The Committee considered management's assessment of the carrying value of exploration and evaluation assets of the Group under the current oil price environment. The Committee considered the basis and assumptions underlying the assessment, comprising, in particular, management's view on the long term oil and gas price, and the work programmes and budgets to continue the exploration and evaluation activities.

– Carrying value of production and development assets

Management considered the external and internal indicators for impairment of its production and development assets under IAS 36 'Impairment of Assets', and concluded that there were no indicators for impairment identified. However, a recoverability test was performed, which indicated that the recoverable amount, being the present value of future cash flows, is significantly higher than the carrying value of property, plant and equipment as at 31 December 2014, and as such, the production and development assets were not impaired. The Committee considered the basis and assumptions underlying the assessment and concurred with management.

– Applicable tax rate

As described in note 24 to the Group financial statements, the PSA was amended in December 2014 to make the tax rate consistent with the provisions of the Tax Code of Turkmenistan. The Group has determined its tax liabilities at the applicable rate as at 31 December 2014 and has accordingly released the provision for years prior to 2014 to the Group income statement.

The Committee agreed on the accounting treatment applied in the determining current income tax with reference to the reversal of the provision for prior years and re-measuring deferred taxes at the applicable rate.

– Contractual obligation on corporate social expenses

The amended PSA also provided for an annual contractual obligation on the Group to undertake social expenditure, including professional training of citizens of Turkmenistan, over the term of the PSA. The contractual obligation with respect to the social projects is unavoidable, and is therefore determined to be a financial liability within the scope of IAS 32 "Financial Instruments: Presentation". The liability is accordingly initially recognised in the Group balance sheet at fair value, and subsequently measured at amortised cost using the effective interest method. The Committee considered the basis and judgement applied to determine the accounting policy for an initial recognition and the subsequent measurement of the contractual obligation. The annual payments will reduce the liability over the life of the PSA.

– Retrospective restatement

In addition to the matters discussed above, the Committee also considered the changes made in the presentation of:

a) the abandonment and decommissioning fund along with the related liability on the Group balance sheet, and

b) the movement on term deposits within an accounting period, split between amounts withdrawn and placed on term deposits in the Group cash flow statement.

The changes have accordingly been applied retrospectively and the prior period comparatives have been restated in compliance with requirements of IAS 1 "Presentation of Financial Statements". Management believes that the amended presentation provides the users of the Group financial statements with a better understanding of the composition of the Group balance sheet and cash flow statement.

The Committee considered the benefits of the reclassifications to the users of the Group financial statements in terms of clarity, improved presentation and compliance with relevant financial reporting standards. Details of the reclassifications are provided in note 32 to the financial statements.

Internal control

The Committee is responsible, on behalf of the Board, for reviewing the effectiveness of the Group's internal financial controls and financial risk management systems.

In carrying out these responsibilities, the Committee reviewed reports issued by both internal audit and the external auditor and held regular discussions with the Head of Internal Audit and representatives of the external auditor. The Committee also reviewed the outcome of an assessment of the Group's internal financial controls, which had been coordinated by internal audit.

Internal audit (IA)

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the internal audit function including its focus, plans, activities and resources.

At the beginning of the financial year, the Committee reviews and approves the internal audit annual plan as part of the Group's three-year IA Work Cycle Plan having considered the adequacy of staffing levels and expertise within the function. The Committee monitors progress on the implementation of the action plans on significant findings to ensure these are completed satisfactorily.

During 2014, the IA Department undertook and completed 10 out of 11 planned assignments in the areas of Corporate Planning, Budgeting, Engineering, Treasury and Payment Process, Financial Accounting, Marine Operations, Field Development Plan and Oil and Gas Reserves Process, Rig Operations, Logistics and Inventory Management. Apart from the planned audits for 2014, the IA Department also undertook and completed assignments in respect of the Vendor Pre-Qualification Process, HR overtime as well as joint ventures in Tunisia and the Philippines.

As part of the ordinary reporting cycle for the IA Department, it presented to the Audit Committee on the reviews that it undertook during 2014 and reported its findings as well as outstanding recommendations.

As part of the 2015 approved audit plan, the IA department will conduct audit reviews in the areas of Well Development, Production and Core Operation, HSE, Contracts, Purchasing, Corporate Governance and Listing Requirements, UK Anti-Bribery Act Compliance, Petroleum Law and PSA Compliance, Abandonment and Decommissioning.

External audit

The Committee manages the relationship with the Group's external auditors on behalf of the Board.

The Committee is required to carry out an assessment of the external auditor for maintaining independence and objectivity and consideration of their approach to audit quality. The external auditor is required to rotate the audit partner responsible for the Group audit every five years. The current audit partner has been in place for four years following the appointment of Ernst & Young as auditor to the Company. The Committee also reviewed and approved the external audit plan as presented by the external auditor and assessed the qualifications and expertise of their resources in addition to considering the length of their tenure.

Following this assessment, the Committee concluded that the external auditor remained independent of the Group and that the audit process was effective. On this basis, the Committee recommended to the Board that Ernst & Young be re-appointed as the Group's auditor for a further year. This recommendation was accepted by the Board. During 2014, the Committee considered an increase in the remuneration of the external auditors in view of the changing scope and extent of audit resulting from an increase in business activities of the Group. Details of the remuneration of the external auditor are set out in note 23 (a) to the financial statements.

The Committee acknowledges the provisions contained in the 2012 UK Corporate Governance Code and a prospective UK Competition and Markets Authority Commission requirement in respect of audit tendering. Further, the Committee also considered the provisions of Regulation No 537/2014 (the "Regulation") adopted by the European Parliament and the Council on 16 April 2014 (with subsequent corrections) on the specific requirements regarding the statutory audit of public-interest entities (PIEs), requiring a 10 year external audit firm rotation for all PIEs. The maximum duration may be extended to the maximum of 20 years where a public tendering process for the statutory audit is conducted in accordance with the requirements as provided for in the Regulation. The Committee intends to consider the appropriate time frame within which to carry out a formal tender process in respect of the external audit of the Group's financial statements. There are no contractual obligations which restrict the Committee's choice of the external auditor.

Non-audit services

In 2014, the Group amended the policy governing the engagement of the external auditor to provide non-audit services, designed to safeguard the objectivity and independence of the external auditor in view of provisions of the Regulation on restriction on provision of non-audit services by the external auditor to all PIEs.

The amended policy establishes a cap on the amount of non-audit service fees that can be provided by the external auditor at 70% of the Group audit fees, including audit fees for the standalone financial statements of the subsidiaries. Further, the external auditor is permitted to provide only those non-audit services that are not, or are not perceived to be, in conflict with auditor independence, provided it has the skill, experience, competence and integrity to carry-out the work and is considered by the Committee to be the most appropriate to provide such services in the best interests of the Group. The engagement of the external auditor to provide non-audit services within a range of permitted non-audit services pursuant to provisions of the policy can be undertaken by management without any pre-approval by the Committee.

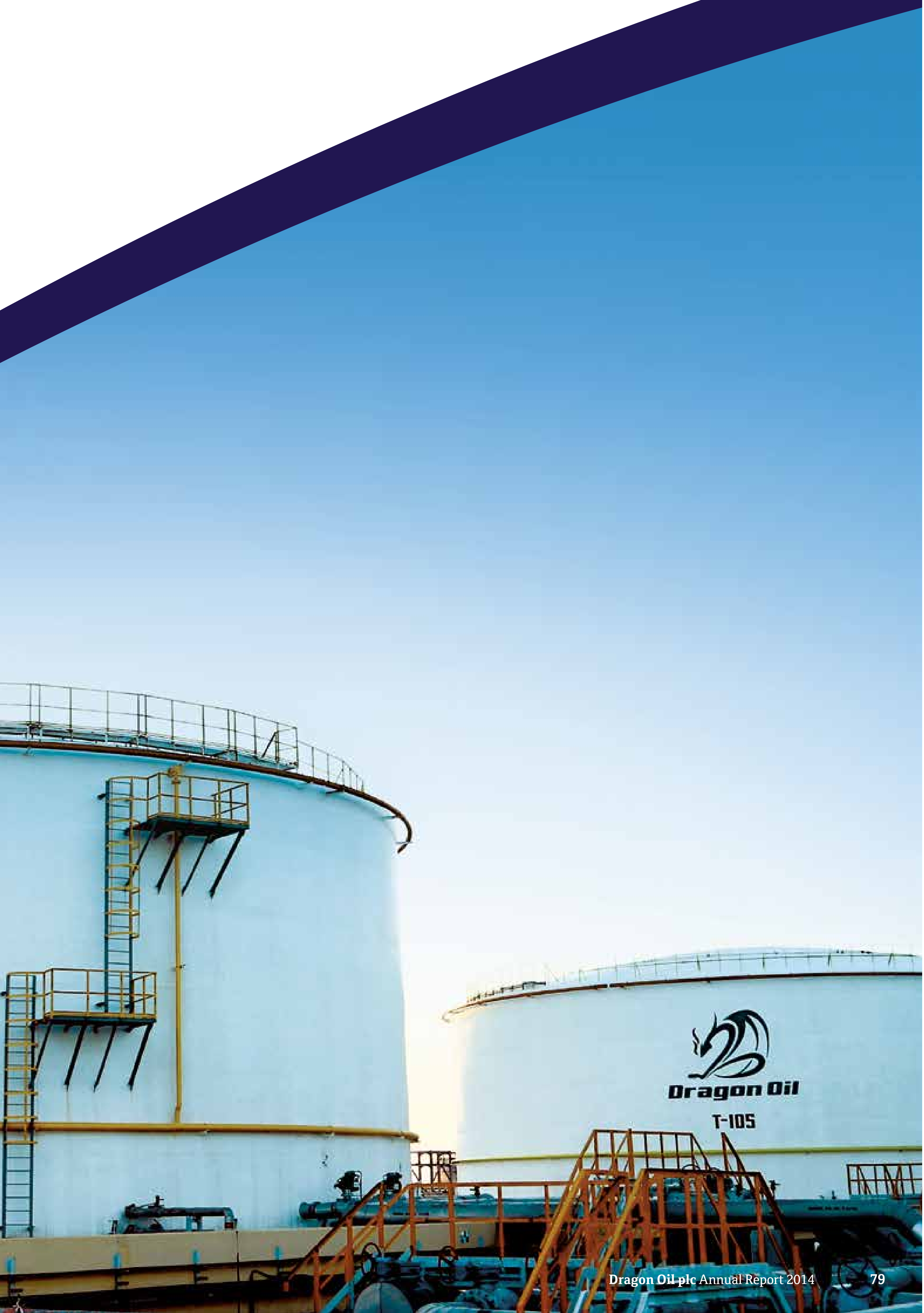
The Committee also acknowledged the provisions of the Regulation with respect to the restriction on non-audit services that includes a two year transition period, whereby the provisions are not binding until mid-2016.

Details of amounts paid to the external auditor for non-audit services are set out in note 23 (a) to the financial statements.

Whistle-blowing procedures

In line with best practice, the Group monitors the existing independent and confidential whistle-blowing procedure, which allows employees to raise any concerns about business practice. The Audit Committee supports the operation of this facility and concluded that the facility was operating effectively.

Financial Statements


Dragon Oil
T-105

Independent Auditor's Report to the Members Of Dragon Oil Plc

Opinion on financial statements

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2014 and of its profit for the year then ended;
- the Parent Company balance sheet gives a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the Parent Company's affairs as at 31 December 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the financial statements of Dragon Oil plc for the year ended 31 December 2014 which comprise the Group and Parent Company Balance Sheets, the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our assessment of focus areas

We identified the following risks that have had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. This is not a complete list of all the risks identified in our audit. Details of why we identified these issues as areas of focus and our audit response are set out below. This is not a complete list of the procedures we performed in respect of these areas.

- Estimation of the depreciation and depletion charge on development and production assets;
- Revenue recognition, including compliance with the terms of the Production Sharing Agreement ("PSA");
- Assessment of the applicable tax rate and accounting for the related corporate social expenses;
- Consideration of the existence of indicators of impairment in respect of development and production assets;
- Consideration of the existence of indicators of impairment in respect of exploration and evaluation assets;
- Restatement of the Group balance sheet and Group cash flow statement and related disclosure notes.

Our response to the risks identified above was as follows:

Estimation of the depreciation and depletion charge on development and production assets

We obtained an understanding of management's process for determining the depreciation and depletion charge for the year. We considered the inputs and assumptions used in determining the financial models, which include estimates of:

- oil and gas reserves;
- the long term oil and gas price;
- production profile of crude oil and gas over the period of the PSA;
- finalisation of a gas sales agreement and potential markets for gas;
- future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.

These estimates involve management placing reliance on an expert, Gaffney, Cline & Associates. As part of this consideration, we evaluated the competence, capabilities and objectivity of management's expert, and the work performed by them in assessing management's consideration of the economic viability of those reserves at given price assumptions, the development of the gas treatment plant facilities, and the potential market and supply channels. In addition we reviewed management's sensitivity analysis, which is described in note 4 to the Group financial statements, and performed our own sensitivity calculations.

The assumptions to which the depreciation and depletion charge on development and production assets are most sensitive are the inclusion of gas reserves, the long term oil and gas price, and the timing of gas sales.

Revenue recognition, including compliance with the terms of the PSA

- We examined the sales contracts in place, reviewed shipping manifests and records of production as approved by the State Agency, performed analytical procedures, tested management's calculation of crude oil underlifts and overlifts, and the calculation of entitlement barrels, to ensure compliance with IAS 18 *Revenue* and the PSA. Refer to note 2.17 to the Group financial statements.

Assessment of the applicable tax rate and accounting for the related corporate social expenses

- During the year the Group entered into an addendum to the PSA, which resulted in a reduction in the tax rate applicable to the Group's operations in Turkmenistan (refer to note 24 to the Group financial statements). This resulted in a release of a tax accrual in the amount of US$160 million that had been provided in prior years, along with the remeasurement of deferred tax.

Our audit procedures in respect of taxation included using internal tax specialists in evaluating the assumptions and methodologies used by the Group and its tax and legal advisors, reviewing documentation in relation to the agreement of the applicable tax rate, addendum to the PSA and considering the appropriateness of releasing the historical accrual.

As noted in note 18 to the Group financial statements, the addendum to the PSA requires the Group to make annual contributions to community social projects in Turkmenistan for the duration of the initial period of the PSA. Our audit procedures included reviewing the appropriateness of the accounting treatment adopted by the Group in classifying the obligation as a financial liability in accordance with IAS 32 *Financial Instruments: Presentation* and the recognition of a cost in the Group income statement. In addition, we assessed the appropriateness of the financial model and rate used to discount the provision to present value.

Consideration of the existence of indicators of impairment in respect of development and production assets

We obtained an understanding of management's process for identifying the existence of impairment indicators in respect of development and production assets in line with the provisions of IAS 36 *Impairment of Assets*, in addition to considering whether there were any factors not considered by management which could be considered indicators of impairment. Due to the manner in which the PSA operates, the declining oil price is not currently considered to be an impairment indicator.

Consideration of the existence of indicators of impairment in respect of exploration and evaluation assets

We obtained an understanding of the status of exploration and evaluation projects, and considered management's process in respect of the identification of impairment testing triggers, in particular in relation to the projects in Tunisia, Iraq and the Philippines. Sufficient data does not exist to indicate that the carrying amount of each asset is unlikely to be recovered in full from successful development or by sale, in line with the provisions of IFRS 6 *Exploration for and Evaluation of Mineral Resources*, other than in respect of the Philippines where an impairment charge is recognised (refer to note 8 to the Group financial statements).

Our assessment of focus areas (continued)

Restatement of the Group balance sheet and Group cash flow statement and related disclosure notes

Group management made two adjustments to comparative information to bring it in line with current year presentation. Refer to note 32 to the Group financial statements which highlights the separate presentation of abandonment and decommissioning related funds and liability and the grossing up of amounts withdrawn and placed on term deposit.

We reviewed the impact of the restatements on the Group balance sheet, the Group cash flow statement, and related disclosure notes, and the appropriateness of the restatements recorded by management in the context of the provisions of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Our application of materiality

We determined planning materiality for the Group to be US$33.7 million (2013: US$35 million), which is approximately 5% of profit before income tax and the once off charge in respect of corporate social expenses. We have used adjusted profit before tax on the basis that the corporate social expense is a once off charge to the income statement which is unlikely to be repeated in the future. We considered adjusted profit before tax to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the entity.

The table below reconciles the adjusted profit before tax:

	2014 US$ (millions)	2013 US$ (millions)
Profit before tax	589	699
Corporate social expenses	85	–
Adjusted profit before tax	**674**	**699**

This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing, and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of planning materiality, namely US$16.85 million (2013: US$17.5 million). Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$1.7 million (2013: US$1.75 million), as well as any differences below that threshold that in our view warrant reporting on qualitative grounds.

An overview of the scope of our audit

The overall scope of our audit has been assessed in line with the principles as described above in 'scope of the audit of the financial statements'.

Dragon Oil plc has three reporting segments, the accounting for which is managed in a single location, the Group's head office in Dubai. As a result, each reporting segment, in addition to corporate activities, together considered one component, was subject to full audit procedures. The effect of this approach covers 100% of Group revenue, more than 99% of Group profit before tax, and more than 99% of Group assets.

The Group audit team based in Dublin issues detailed instructions to the component auditor in Dubai for the Group audit, with specific audit requirements and confirmation requests across key areas. As substantially all the audit procedures involve performance by the component auditor, the Group audit team are actively involved in the performance of, and direction of, all stages of the audit process from planning, execution and wrap-up, to enable the Group audit team conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

Senior members of the Group audit team, including the engagement partner, regularly visit Dubai, for this purpose. The Group engagement partner attends the audit planning, interim review, and closing audit meetings with the Audit Committee. Senior members of the Group audit team also attend the audit planning and closing meetings with management via conference call, attend the auditor's discussion of the risks of fraud and error, and perform on site review of the component team's audit files.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Parent Company.
- The Parent Company balance sheet is in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.
- The net assets of the Parent Company, as stated in the Parent Company balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the parent company.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Acts 1963 to 2013 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Under the Listing Rules of the Irish Stock Exchange we are required to review:

- the directors' statement in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- the six specified elements of the disclosures in the report to shareholders by the Board on directors' remuneration.

George Deegan
for and on behalf of Ernst & Young
Dublin
16 February 2015

Financial Statements

Group balance sheet

As at 31 December

	Note	2014 US$'000	*Restated 2013 US$'000	*Restated As at 1 January 2013 US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	7	**1,891,346**	1,580,987	1,524,157
Intangible assets	8	**92,731**	64,172	5,466
		1,984,077	1,645,159	1,529,623
Current assets				
Inventories	11	**35,434**	24,450	12,387
Trade and other receivables	12	**301,697**	254,041	156,858
Term deposits	13a	**1,935,884**	1,894,410	1,459,888
Cash and cash equivalents	13a	**38,994**	29,168	276,619
Abandonment and decommissioning funds	13b	**663,970**	548,972	407,718
		2,975,979	2,751,041	2,313,470
Total assets		**4,960,056**	4,396,200	3,843,093
EQUITY				
Capital and reserves attributable to the Company's equity shareholders				
Share capital	14	**77,767**	77,731	77,474
Share premium	15	**247,264**	245,101	233,889
Capital redemption reserve	16	**80,644**	80,644	80,644
Other reserve	16	**9,936**	7,640	8,022
Retained earnings		**3,292,593**	2,828,383	2,459,287
Total equity		**3,708,204**	3,239,499	2,859,316
LIABILITIES				
Non-current liabilities				
Trade and other payables	18	**77,586**	523	1,290
Deferred income tax liabilities	24	**146,380**	175,633	141,789
		223,966	176,156	143,079
Current liabilities				
Trade and other payables	18	**230,401**	125,842	127,605
Abandonment and decommissioning liability	19	**669,367**	573,898	438,465
Current income tax liabilities	24	**128,118**	280,805	274,628
		1,027,886	980,545	840,698
Total liabilities		**1,251,852**	1,156,701	983,777
Total equity and liabilities		**4,960,056**	4,396,200	3,843,093

* Certain amounts shown here do not correspond to the 2013 financial statements and reflect the restatement made in 2014, refer to Note 32.

Approved by the Board on 16 February 2015

Mohammed Al Ghurair
Chairman

Saeed Al Mazrooei
Director

The notes on pages 90 to 117 are an integral part of these financial statements.

Group income statement

Year ended 31 December

	Note	2014 US$'000	2013 US$'000
Revenue	20	**1,093,057**	1,047,890
Cost of sales	21	**(356,618)**	(324,073)
Gross profit		**736,439**	723,817
Administrative expenses	21	**(48,832)**	(36,394)
Provision for impairment of exploration and evaluation assets	8	**(23,985)**	–
Corporate social expenses	18	**(85,289)**	–
Other income		**283**	309
Operating profit		**578,616**	687,732
Finance income	22	**10,819**	10,838
Profit before income tax		**589,435**	698,570
Income tax credit/(expense)	24	**61,093**	(185,947)
Profit attributable to equity holders of the Company		**650,528**	512,623
Earnings per share attributable to equity holders of the Company	25		
Basic		**132.32c**	104.44c
Diluted		**132.26c**	104.36c

Group statement of comprehensive income

Year ended 31 December

	2014 US$'000	2013 US$'000
Profit attributable to equity holders of the Company	**650,528**	512,623
Total comprehensive income for the year	**650,528**	512,623

Approved by the Board on 16 February 2015

Mohammed Al Ghurair
Chairman

Saeed Al Mazrooei
Director

The notes on pages 90 to 117 are an integral part of these financial statements.

Group cash flow statement

Year ended 31 December

	Notes	2014 US$'000	*Restated 2013 US$'000
Cash generated from operating activities before tax and transfer to abandonment and decommissioning funds	26	**1,057,675**	939,338
Income tax paid		**(120,847)**	(145,926)
Amounts transferred to abandonment and decommissioning funds	13b	**(114,998)**	(141,254)
Net cash generated from operating activities		**821,830**	652,158
Cash flows from investing activities			
Additions to property, plant and equipment	7,18	**(546,510)**	(281,105)
Additions to intangible assets	8	**(49,873)**	(58,706)
Interest received on bank deposits	22	**10,819**	10,838
Amounts withdrawn from term deposits (with original maturities of over three months)	13a	**3,745,826**	3,136,729
Amounts placed on term deposits (with original maturities greater than three months)	13a	**(3,787,300)**	(3,571,251)
Net cash used in investing activities		**(627,038)**	(763,495)
Cash flows from financing activities			
Proceeds from issue of share capital	14,15	**2,199**	11,469
Dividends paid	29	**(186,821)**	(147,289)
Employee contribution towards ESPP	17(ii)	**1,908**	1,557
Shares purchased for ESPP	17(ii)	**(2,252)**	(1,851)
Net cash used in financing activities		**(184,966)**	(136,114)
Net increase/(decrease) in cash and cash equivalents		**9,826**	(247,451)
Cash and cash equivalents at beginning of year		**29,168**	276,619
Cash and cash equivalents at end of year	13a	**38,994**	29,168

*Comparative information presented above has been amended to accord to the current year presentation (refer to Note 32).

Company balance sheet

As at 31 December

	Note	2014 US$'000	2013 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	9a	**21,738**	18,595
Current assets			
Loans to subsidiary undertakings	9b	**1,005,129**	691,992
Other receivables	12	**562**	631
Cash and cash equivalents	13a	**833**	1,701
		1,006,524	694,324
Total assets		**1,028,262**	712,919
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	14	**77,767**	77,731
Share premium	15	**247,264**	245,101
Capital redemption reserve	16	**80,644**	80,644
Other reserve	16	**9,936**	7,640
Retained earnings		**612,151**	301,306
Total equity		**1,027,762**	712,422
LIABILITIES			
Current liabilities			
Other payables	18	**500**	497
Total liabilities		**500**	497
Total equity and liabilities		**1,028,262**	712,919

Approved by the Board on 16 February 2015

Mohammed Al Ghurair
Chairman

Saeed Al Mazrooei
Director

The notes on pages 90 to 117 are an integral part of these financial statements.

Company cash flow statement

Year ended 31 December

	Notes	2014 US$'000	2013 US$'000
Net cash used in operating activities	26	**(2,765)**	(2,717)
Cash flows from investing activities			
Loans advanced to subsidiary undertakings	9b	**(313,137)**	(114,793)
Dividends received from a subsidiary undertaking		**500,000**	–
Net cash provided by/(used in) investing activities		**186,863**	(114,793)
Cash flows from financing activities			
Loan advanced by a subsidiary undertaking	10a	**–**	4,484
Proceeds from issue of share capital	14,15	**2,199**	11,469
Dividends paid	29	**(186,821)**	(147,289)
Employee contribution towards ESPP	17(ii)	**1,908**	1,557
Shares purchased for ESPP	17(ii)	**(2,252)**	(1,851)
Net cash used in financing activities		**(184,966)**	(131,630)
Net decrease in cash and cash equivalents		**(868)**	(249,140)
Cash and cash equivalents at beginning of year		**1,701**	250,841
Cash and cash equivalents at end of year	13a	**833**	1,701

The notes on pages 90 to 117 are an integral part of these financial statements.

Statement of changes in equity

Group

	Notes	Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2014		**77,731**	**245,101**	**80,644**	**7,640**	**2,828,383**	**3,239,499**
Total comprehensive income for the year		–	–	–	–	650,528	650,528
Shares issued during the year	14,15	36	2,163	–	–	–	2,199
Employee share option scheme:							
– value of services provided	17(i)	–	–	–	3,143	–	3,143
Transfer on exercise of share options		–	–	–	(847)	847	–
Dividends	29	–	–	–	–	(186,821)	(186,821)
Employee share purchase plan contribution	17(ii)	–	–	–	–	(344)	(344)
Total transactions with owners		36	2,163	–	2,296	(186,318)	(181,823)
At 31 December 2014		**77,767**	**247,264**	**80,644**	**9,936**	**3,292,593**	**3,708,204**
At 1 January 2013		77,474	233,889	80,644	8,022	2,459,287	2,859,316
Total comprehensive income for the year		–	–	–	–	512,623	512,623
Shares issued during the year	14,15	257	11,212	–	–	–	11,469
Employee share option scheme:							
– value of services provided	17(i)	–	–	–	3,674	–	3,674
Transfer on exercise of share options		–	–	–	(4,056)	4,056	–
Dividends	29	–	–	–	–	(147,289)	(147,289)
Employee share purchase plan contribution	17(ii)	–	–	–	–	(294)	(294)
Total transactions with owners		257	11,212	–	(382)	(143,527)	(132,440)
At 31 December 2013		77,731	245,101	80,644	7,640	2,828,383	3,239,499

Company

	Notes	Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At 1 January 2014		**77,731**	**245,101**	**80,644**	**7,640**	**301,306**	**712,422**
Total comprehensive income for the year		–	–	–	–	497,163	497,163
Shares issued during the year	14,15	36	2,163	–	–	–	2,199
Employee share option scheme:							
– value of services provided	17(i)	–	–	–	3,143	–	3,143
Transfer on exercise of share options		–	–	–	(847)	847	–
Dividends	29	–	–	–	–	(186,821)	(186,821)
Employee share purchase plan contribution	17(ii)	–	–	–	–	(344)	(344)
Total transactions with owners		36	2,163	–	2,296	(186,318)	(181,823)
At 31 December 2014		**77,767**	**247,264**	**80,644**	**9,936**	**612,151**	**1,027,762**
At 1 January 2013		77,474	233,889	80,644	8,022	447,755	847,784
Total comprehensive loss for the year		–	–	–	–	(2,922)	(2,922)
Shares issued during the year	14,15	257	11,212	–	–	–	11,469
Employee share option scheme:							
– value of services provided	17(i)	–	–	–	3,674	–	3,674
Transfer on exercise of share options		–	–	–	(4,056)	4,056	–
Dividends	29	–	–	–	–	(147,289)	(147,289)
Employee share purchase plan contribution	17(ii)	–	–	–	–	(294)	(294)
Total transactions with owners		257	11,212	–	(382)	(143,527)	(132,440)
At 31 December 2013		77,731	245,101	80,644	7,640	301,306	712,422

The notes on pages 90 to 117 are an integral part of these financial statements.

Notes to the financial statements

1 General information

Dragon Oil plc ("the Company") and its subsidiaries (together "the Group") are engaged in upstream oil and gas exploration, development and production activities primarily in Turkmenistan under a Production Sharing Agreement (PSA) signed between Dragon Oil (Turkmenistan) Limited and The State Agency for Management and Use of Hydrocarbon Resources at the President of Turkmenistan ("the Agency"). The production of crude oil is shared between the Group and the Government of Turkmenistan as determined in accordance with the fiscal terms as contained in the PSA.

The Group's exploration interests are located in Tunisia, Iraq, Afghanistan, Egypt, the Philippines and Algeria.

The Company is incorporated and domiciled in Ireland and the address of its registered office is given on the inside back cover. The Group headquarters is based in Dubai, United Arab Emirates (UAE).

The Company's ordinary shares have a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange.

These financial statements have been approved for issue by the Board of Directors on 16 February 2015.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and those parts of the Irish Companies Act, 1963 to 2013 applicable to companies reporting under IFRS and Article 4 of the International Accounting Standards (IAS) Regulation. The financial statements have been prepared under the historical cost convention except for the measurement at fair value of underlift receivables/overlift payables, provisionally priced trade receivables and employee share incentive schemes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) New and amended standards and interpretations adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year (except for the presentation of the abandonment and decommissioning fund and related liability, and the gross presentation of movements in term deposits as set out in Note 32).

The following amended standards and interpretations became effective for the current financial year but had no impact on the Group's financial position or performance:

- IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32;
- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets;
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39;
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);
- FRIC 21 Levies (IFRIC 21);
- Annual Improvements 2010-2012 Cycle;
- Annual Improvements 2011-2013 Cycle.

The following new standards also became effective for the current financial year. While they did not have any impact on the Group's financial position or performance, they have resulted in additional disclosures.

- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements;
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures;
- IFRS 12 Disclosure of Interests in Other Entities.

(b) Standards and amendments issued that are not yet effective and have not been early adopted by the Group

Certain applicable standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards when they become effective, subject to EU endorsement.

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of this standard.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and amendments issued that are not yet effective and have not been early adopted by the Group (continued)

The below Standards and amendments issued that are not yet effective and have not been early adopted by the Group are not expected to have an impact on the Group's financial position and performance.

- IFRS 14 Regulatory Deferral Accounts: effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 19 Defined Benefit Plans – Employee Contributions: This amendment is effective for annual periods beginning on or after 1 July 2014.
- IFRS 15 Revenue from Contracts with Customers: effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.
- Amendments to IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures – Accounting for Acquisitions of Interests in Joint Operations: effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation – effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.
- Amendments to IAS 16 and IAS 41 Agriculture Bearer Plants – effective for annual periods beginning on or after 1 January 2016 with early adoption permitted.
- Amendments to IAS 27: Equity Method in Separate Financial Statements – effective for annual periods beginning on or after 1 January 2016 with early adoption permitted.

2.2 Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (a subsidiary). The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary (including special purpose entity) begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. If the Group loses control over a subsidiary, it derecognises the related assets, liabilities and other components of equity while any resultant gain or loss is recognised in profit or loss.

Investments in subsidiaries in the Company balance sheet are accounted at cost less provision for impairment.

All intra-group transactions, balances, income and expenses and dividends are eliminated on consolidation. Accounting policies of subsidiaries are consistent with those adopted by the Group.

2.3 Segment reporting

The Group is focused on three principal reporting segments and the financial performance is reported in the internal reporting provided to the Chief Operating Decision-maker (CODM). The Board of Directors (BOD), which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CODM that makes strategic decisions.

The financial information reviewed by the CODM is based on the IFRS financial information for the Group.

2.4 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in US Dollars (US$) rounded to the nearest thousand, which is the Company's functional and presentation currency. Functional currency is the currency of the primary economic environment in which the Company operates. The functional currency of all subsidiaries is US$.

(b) Transactions and balances

Transactions in a foreign currency are initially recorded in the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. Foreign exchange gains or losses on non-monetary assets and liabilities measured at fair value in a foreign currency are taken to the income statement when the gains or losses on the underlying item are taken to the income statement. If the gain or loss on the underlying item is taken to equity then the foreign currency gain or loss also goes to equity.

2.5 Intangible assets

(a) Exploration and evaluation (E&E) assets

E&E costs are initially capitalised within 'Intangible assets'. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing and other directly attributable costs. Pre-license costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

E&E assets related to each exploration licence/prospect are not amortised and are carried forward until the existence (or otherwise) of commercial reserves has been established or the determination process has not been completed. If commercial reserves have been discovered, the related E&E assets are assessed for impairment and any loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment and is amortised as per the Group's depletion policy. No depletion is charged during the exploration and evaluation phase.

2 Summary of significant accounting policies (continued)

2.5 Intangible assets (continued)

(a) Exploration and evaluation (E&E) assets (continued)
Tangible assets acquired for use in E&E activities are classified as property, plant and equipment. The depreciation on such a tangible asset is recorded as part of the cost of E&E assets.

(b) Acquired computer software licenses
Acquired computer software licences are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use. Direct expenditure including employee costs, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense when incurred. These costs are amortised to profit or loss using the straight-line basis over their estimated useful lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

2.6 Property, plant and equipment

(a) Development and production assets
Development and production assets represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in Note 2.5(a). Costs of development and production assets also include licence acquisition costs, drilling, infrastructure projects and other directly attributable costs.

Inventory of drilling spares is classified under 'Property, plant and equipment' and is not depleted until it is put to use as development and production assets.

(b) Other
Property, plant and equipment, other than development and production assets, are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life.

2.7 Depletion and impairment

Depletion of development and production assets is computed using the unit-of-production (UOP) method, as their useful life is closely related to the availability of commercial reserves. The depletion charge is a ratio of the oil and gas production during the period to the estimated quantities of commercial reserves of oil and gas taking into account development expenditures necessary to bring those reserves into production. Gas reserves are converted into barrels of oil equivalent (boe) based on the energy conversion rate for the purposes of determining the depletion charge. Changes in estimates of commercial reserves or future field development costs affecting the UOP calculations for depletion are accounted for prospectively.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. For the purposes of assessing impairment, assets are grouped as a single cash generating unit, generally a field or a group of fields, based on economic interdependency such as common infrastructure. Any material impairment loss is recognised in the income statement as additional depletion and separately disclosed. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Joint arrangements

IFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control, in accordance with the respective joint operating arrangements.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Group participates in several joint operations engaged in oil and gas exploration and accounts for only its share of assets, liabilities, income and expenditure relating to joint operations in which the Group holds an interest. The Group does not have any interest in joint ventures.

2.9 Financial assets and liabilities

The Group classifies its financial assets as those at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired, and is determined at initial recognition. Financial assets are derecognised when the right to receive cash flows from the assets has expired or has been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial liabilities as those at fair value through profit or loss and other financial liabilities and determines the classification at initial recognition. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires.

2.9.1 Financial assets

(a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include amounts receivable resulting from crude oil underlifts. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. The treatment of embedded derivatives arising from provisionally-priced commodity sales contracts is set out in further detail in Note 2.18 (a) relating to revenue. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment using the effective interest method except for short-term receivables when the recognition of interest would be immaterial. A provision is established when there is objective evidence that the Group will not be able to collect amounts due.

2 Summary of significant accounting policies (continued)

2.9.1 Financial assets (continued)

(c) Cash and cash equivalents and term deposits

Cash and cash equivalents comprise cash in hand and short-term deposits held with banks with an original maturity of three months or less. Deposits with an original maturity of greater than three months but less than 12 months are classified as term deposits and presented separately.

2.9.2 Financial liabilities

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include amounts payable resulting from crude oil overlifts. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

(b) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less; otherwise, they are classified as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, except for short-term payables when the recognition of interest would be immaterial.

(c) Other financial liabilities

Other financial liabilities, including costs for corporate social obligations which arise principally under current contractual terms, are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. The liability is included in the balance sheet as Corporate social obligations, within 'Trade and other payables'. Payments towards corporate social obligations are apportioned between finance charges and reduction of the obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Such costs for corporate social obligations which arise upon the inception of a contract are initially capitalised within intangible assets at cost or at the present value of future payments. Where such costs arise subsequently to the inception of the contract they are expensed to income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and comprises direct purchase costs and cost of production. Net realisable value of crude oil is the estimated price less selling expenses. Net realisable value for inventory, other than crude oil, is determined by reference to the prices existing at the balance sheet date.

2.11 Crude oil underlifts and overlifts

Crude oil underlifts and overlifts arise on differences in quantities between the Group's entitlement production and the production either sold or held as inventory by the Group. Underlifts and overlifts of entitlement to crude oil production are measured at market value and recorded as a receivable and payable, respectively. The movement within an accounting period is adjusted through cost of sales such that the gross profit is recognised on an entitlement basis.

2.12 Share capital and share premium

Ordinary shares issued are classified as equity and recorded at par. The excess of the proceeds received over the aggregate par value is recognised as share premium, net of incremental costs directly attributable to the issue of new shares.

Where the Company purchases its own equity shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. Cancellation of ordinary shares reduces the number of outstanding shares in issue but not the Company's authorised share capital.

2.13 Taxation

The tax expense for the period comprises current and deferred taxes and is provided for using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities or the expected value (weighted average probability) approach.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the Group financial statements. However, deferred income tax is not recognised if it arises from the initial recognition of goodwill, or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are measured on a non-discounted basis.

2 Summary of significant accounting policies (continued)

2.13 Taxation (continued)

(b) Deferred income tax (continued)
Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 End of service benefits

The provision for end of service benefits for all employees is made in accordance with local labour legislation or the employment contracts in the relevant countries of operations.

Under the laws of Turkmenistan, the Group contributes under the State Plan towards social insurance in respect of local employees, which is recorded in the income statement.

Under the laws of the UAE, the Group contributes a proportion of the salary of UAE nationals towards the pension fund to the General Pension Authority, which is recorded in the income statement.

2.15 Share-based compensation plans

The Group operates share based awards that are equity-settled as defined by IFRS 2.

Equity-settled transactions
Certain key employees including Executive Directors of the Group receive remuneration in the form of share-based payments, whereby the employees render services as consideration for equity instruments of the Company. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model and is expensed uniformly over the vesting period with a corresponding increase in equity. Non-market vesting performance conditions are included in assumptions that determine the number of awards that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest and recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The grant by the Company of share awards to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to other reserve.

2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that the Group would be required to settle the obligation and the amount has been reliably estimated. Provisions are recorded at management's best estimate of expenditure required to settle the obligation at the balance sheet date. Provisions are not recognised for future operating losses.

2.17 Revenue recognition

(a) Sales of crude oil
Revenue represents sale of crude oil and related income and comprises the fair value of the consideration received or receivable for the sale of crude oil by the Group in the ordinary course of business to customers. Revenue arising from the sale of crude oil is recognised when the significant risks and rewards of ownership have passed, usually upon delivery, to the buyer and the amount of revenue can be reliably measured.

Crude oil sale agreements may provide for provisional pricing of sales, with final pricing based on average oil prices during or at the end of the specified pricing periods. Such a provisional sale contains an embedded derivative, which is required to be separated from the host contract. Revenue under the host contract is recorded at the spot price on the date of delivery and not subsequently remeasured. The embedded derivative is the forward contract for which the provisional sale price is adjusted and subsequently remeasured at mark-to-market at each reporting date, with any gains or losses being recorded in revenue in the income statement and in trade debtors in the balance sheet.

Revenue excludes abandonment and decommissioning barrels under the terms of the PSA.

(b) Finance income
Finance income is recognised on a time-proportion basis using the effective interest method.

2.18 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. Agreements under which payments are made to lessors in return for the right to use an asset for a period are accounted for as leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease or if directly attributable, capitalised as a part of development and production assets.

2.19 Abandonment and decommissioning costs

The PSA provides for a fixed proportion of the proceeds of the Group's oil production to be set aside in an escrow account, to meet abandonment and decommissioning costs of wells, platforms and other facilities and is not therefore available for other purposes. Under the current arrangement, the abandonment and decommissioning funds are held in designated accounts controlled by the Group and can be transferred upon demand to the escrow account and therefore are classified, together with the related liability, as current in the balance sheet.

In accordance with the terms of the PSA, abandonment and decommissioning obligations are limited to the accumulated abandonment and decommissioning funds.

2.20 Dividend distribution

Interim dividends are considered to be declared when approved and paid by the Board. In the case of final dividends, these are declared when approved by the shareholders at the AGM.

2 Summary of significant accounting policies (continued)

2.21 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the finance income or finance expense over the period to maturity or repayment. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the instrument.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk, which can adversely affect the Group's expected future cash flows or the Group's assets and liabilities. These risks are evaluated by management on an ongoing basis to assess and manage critical exposures.

The Group manages its exposure to key financial risks in accordance with its enterprise-wide risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are market risks, credit risks and liquidity risks. Management reviews and agrees policies for managing each of these risks that are summarised below.

(a) Market risk

(i) Price risk

Crude oil prices are subject to volatility due to market forces and a significant drop in crude oil prices can impact on the Group's cash flows, profitability and on its ability to fund its development plans and operations. Crude oil prices also impact the measurement of underlifts and overlifts. The Group actively reviews oil price risks and does not use derivative products to manage exposures for changes in crude oil prices.

There were no derivative financial instruments held during 2013 or 2014 or at the balance sheet date, other than the derivatives arising under the provisionally priced sales agreement (refer to note 2.17).

At the balance sheet date, if the market price of crude oil had been US$10 per barrel higher/lower, the crude oil underlifts would have been higher/lower by US$20.7 million (2013: crude oil overlifts would have been higher/lower by US$1.2 million).

(ii) Foreign exchange risk

The Group does not have significant exposure to foreign exchange risk and has adequate policies and controls in place to ensure that exposures to currencies other than the Company's functional currency are adequately managed. Generally the exposure has been limited given that receipts and payments have mostly been in US Dollars.

(iii) Interest rate risk

The Group has significant interest bearing term deposits but is not dependent on the interest income as the Group generates adequate cash from its operations.

The Group has no debt and hence, it is not exposed to interest rate risk on borrowings.

During the year ended 31 December 2014, if interest rates on the deposits had been 0.5% higher/lower, the interest income would have been higher/lower by US$9.4 million (2013: US$8.3 million).

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, term deposits, abandonment and decommissioning funds and trade and other receivables.

The Group places cash surplus to its immediate requirements on deposit with various local and international banks having operations in the UAE. The deposits are held with reputable independently rated banks with a Moody's minimum rating of 'Baa1'. The credit quality of the amounts held on deposits is set out in Note 10(c).

Oil export routes from the Caspian Sea are limited and currently all of the Group's exports are to Baku, Azerbaijan and Makhachkala, Russia until 31 December 2015 and counterparty risks are minimised through crude oil sales contracts on secured credit terms. Management does not expect any losses from non-performance by the counterparty.

The Group had one customer (2013: one customer) representing the trade receivable at the year end. There have been no instances of default in the past on the trade receivables from this customer.

An amount of US$32 million (2013: US$32 million) is prepaid to a contractor towards rig rental and management charges. This amount will be amortised over the contractual lease period commencing on the delivery of the rig.

(c) Liquidity risk

The Group is involved in oil and gas exploration, development and production that requires high capital expenditure for field development. The Group closely monitors and manages its liquidity risk by forecasting the Group's short and long-term cash position on the basis of expected cash flows taking into account volatility in oil prices, delays in development projects, changes in production profile and increases in costs. The Group seeks to ensure that it has an adequate funding capacity to safeguard its ability to continue as a going concern.

The Group is currently financed entirely from shareholders' equity with no debt.

3 Financial risk management (continued)
3.1 Financial risk factors (continued)
(c) Liquidity risk (continued)
The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amount US$'000	Contractual cash flows US$'000	Less than 1 year US$'000	1 to 5 years US$'000	Over 5 years US$'000
31 December 2014					
Trade and other payables	307,987	307,987	230,401	36,197	41,389
Abandonment and decommissioning liability	669,367	669,367	669,367	–	–
	977,354	977,354	899,768	36,197	41,389
31 December 2013 (Restated)					
Trade and other payables	126,365	126,365	125,842	523	–
Abandonment and decommissioning liability	573,898	573,898	573,898	–	–
At 31 December 2012	700,263	700,263	699,740	523	–

3.2 Capital risk management
The Group defines capital as the total equity of the Group. The Group's objectives when managing capital are to provide returns for shareholders and benefits for stakeholders and to safeguard the Group's ability to continue as a going concern. The Group is not subject to any externally-imposed capital requirements.

The Group monitors the long-term capital requirements of the business in order to assess the need for changes to the capital structure to meet these objectives and to maintain flexibility. The Board manages the capital structure and may vary the dividend payment to shareholders, return capital, issue new shares or acquire new debt facilities to maintain or adjust capital structure, as appropriate.

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2014.

The Group had no debt during the current and previous year and therefore the gearing ratio has not been calculated.

3.3 Fair value estimation
IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;

Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable); and

Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

At 31 December 2014, the underlift receivable was measured at fair value based on quoted market price of crude oil (Level 2). Refer to Note 10(b) on 'Fair Value Hierarchy'. The Group did not have any other financial assets or liabilities that are measured at fair value as at 31 December 2014.

4. Critical accounting judgements and estimates
The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as well as contingent assets and liabilities at the date of the balance sheet, and the reported amounts of revenues and expenses during a reporting period. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The critical accounting judgements and estimates used in the preparation of financial statements that could result in material adjustments to the income statement and the carrying amounts of assets and liabilities are discussed below:

(a) Depreciation and depletion charge on development and production assets
In arriving at the carrying value of the Group's development and production assets, significant assumptions in respect of the depletion charge have been made. These significant assumptions include estimates of oil and gas reserves, future oil and gas prices, finalisation of a gas sales agreement and future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.

If the gas sales were delayed to 2019, the depletion charge would increase by US$6.1 million for 2014. Should there be a significant delay in signing of the gas sales agreement at appropriate commercial terms beyond 2019, it would change the timing of the recognition of the depletion charge. Inclusion of the gas reserves has deferred a current year depletion charge in the amount of US$86.4 million over the remaining life of the PSA.

4. Critical accounting judgements and estimates (continued)

(a) Depreciation and depletion charge on development and production assets (continued)

The Group revised its estimated long-term view of oil prices from US$90 per barrel to forward curve for 2014-16 and then US$90 per barrel thereafter, from 1 January 2014 and forward curve for 2015-17 and then US$85 per barrel thereafter, from 1 August 2014. The Group's estimated long-term view of netback prices for gas was revised from US$3.5 per Mscf to US$0.5 per Mscf, based on the Group's current assessment, from 1 August 2014. The effect of a downward revision in the estimated long-term oil price is to increase the level of reserves attributable to the Group and to decrease the depletion charge per barrel.

- If the estimate of the long-term oil price had been US$40 per barrel higher and the netback price of gas had been US$ 2 per Mscf higher from 1 January 2014, the reserves attributable to the Group would decrease, with a consequent increase in the depletion charge of US$35.2 million for the year.
- If the estimate of the long-term oil price had been US$40 per barrel lower and the netback price of gas had been US$0.25 per Mscf lower from 1 January 2014, the reserves attributable to the Group would increase, with a consequent decrease in the depletion charge of US$100.7 million for the year.

The depletion computation assumes the continued development of the field to extract the assessed oil and gas reserves and the required underlying capital expenditure to achieve the same. For this purpose, it assumes that a gas sales agreement will be signed and that the PSA, which is valid up to 2025, will be extended on similar terms up to 2035 under an exclusive right to negotiate for an extension period of not less than 10 years, provided for in the PSA.

(b) E&E assets (Note 2.5)

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits will arise, from either exploitation or sale, or whether activities have not reached a stage, which permits a reasonable assessment of the existence of reserves.

(c) Classifications of joint arrangements (Note 2.8)

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, as stated in the joint operating agreement such as approval of the capital expenditure program for each year. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries (refer to Note 2.2). Classifying a joint arrangement requires the Group to assess its rights and obligations arising from the arrangement. Specifically, the Group considers whether it is structured through a separate vehicle.

5 The Company income statement

In accordance with section 148(8) of the Companies Act, 1963 and section 7(1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual income statement to the annual general meeting and from filing it with the Companies Registration Office. The Company's profit for the financial year determined in accordance with IFRS is US$497.2 million (2013: loss of US$2.9 million).

6 Segment information

In accordance with IFRS 8 'Operating Segments', the Group has three principal reporting segments which are as follows:

- Central Asia: Development and production assets located in Turkmenistan in the Caspian region
- North Africa: Exploration and evaluation assets in Tunisia, Egypt and Algeria
- South East Asia and Middle East: Exploration and evaluation assets in Philippines, Iraq and Afghanistan

In the prior year, the Group was managed as a single business unit and therefore a single segment was presented.

In the current year, the segment information presented is based on the financial performance as reported in the internal reporting provided to the Chief Operating Decision-maker (CODM). The Board of Directors (BOD), which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CODM that makes strategic decisions.

The financial information reviewed by the CODM is based on the IFRS financial information for the Group.

'Corporate' primarily includes cash resources held by the Group, interest income earned and other operational expenditure incurred by the Group which are not specifically attributable to identified operating segments.

6 Segment information (continued)

	Central Asia US$'000	North Africa US$'000	South East Asia and Middle East US$'000	Corporate US$'000	Eliminations US$'000	Total US$'000
Revenue						
External customers	1,093,057	–	–	–	–	1,093,057
Segment result before tax	642,676	(1,997)	(27,487)	–	–	613,192
Unallocated Corporate expenses						(34,859)
Other income						283
Operating profit						578,616
Finance income						10,819
Profit before tax						589,435
Income tax credit						61,093
Profit after tax						650,528
Total assets	2,980,043	66,013	27,010	3,557,549	(1,670,559)	4,960,056
Total liabilities	(2,710,094)	(68,493)	(54,912)	(88,912)	1,670,559	(1,251,852)

	Central Asia US$'000	North Africa US$'000	South East Asia and Middle East US$'000	Corporate US$'000	Eliminations US$'000	Total US$'000
Other Segment information						
Capital expenditure for the period:						
Property, plant and equipment	626,333	–	–	433	–	626,766
Intangible exploration & evaluation assets	–	14,060	37,891	–	–	51,951
Computer Software	593	–	–	–	–	593
Impairment losses recognised in income statement	–	–	(23,985)	–	–	(23,985)

Comparative information as at 31 December 2013 is not provided as the only assets not in the Central Asia segment were the exploration and evaluation assets of US$63.7 million and other intangible assets of US$0.5 million.

Revenue includes an amount of US$1,093 million (2013: US$1,047.8 million) arising from the sale of crude oil to one customer through Azerbaijan (2013: one customer). In 2014 US$0.1 million (2013: US$0.1 million) was recognised from other sales.

7 Property, plant and equipment

	Development and production assets US$'000	Other US$'000	Total US$'000
Cost			
At 1 January 2013	2,723,524	2,463	2,725,987
Additions for the year	271,818	142	271,960
At 31 December 2013	2,995,342	2,605	2,997,947
Additions for the year	626,333	433	626,766
At 31 December 2014	**3,621,675**	**3,038**	**3,624,713**
Depletion and depreciation			
At 1 January 2013	1,199,796	2,034	1,201,830
Charge for the year	214,977	153	215,130
At 31 December 2013	1,414,773	2,187	1,416,960
Charge for the year	316,214	193	316,407
At 31 December 2014	**1,730,987**	**2,380**	**1,733,367**
Net book amount			
At 31 December 2014	**1,890,688**	**658**	**1,891,346**
At 31 December 2013	1,580,569	418	1,580,987

The recoverability of amounts recorded as development and production assets is dependent upon the satisfactory development of the field and extraction of the oil and gas reserves in Turkmenistan. The depletion charge is dependent upon significant assumptions including oil and gas reserves, future oil and gas prices, finalisation of a gas sales agreement and future development costs.

Inventory of drilling supplies is included under 'Property, plant and equipment'. This inventory is not depleted until it is put to use as development and production assets.

8 Intangible assets

	Exploration and evaluation assets US$'000	Computer software US$'000	Total US$'000
Cost			
At 1 January 2013	5,466	–	5,466
Additions for the year	58,189	517	58,706
At 31 December 2013	63,655	517	64,172
Additions for the year	51,951	593	52,544
At 31 December 2014	**115,606**	**1,110**	**116,716**
Depletion and depreciation			
At 1 January 2013 and 31 December 2013	–	–	–
Provision for impairment of exploration and evaluation assets	23,985	–	23,985
At 31 December 2014	**23,985**	**–**	**23,985**
Net book amount			
At 31 December 2014	91,621	1,110	92,731
At 31 December 2013	63,655	517	64,172

The intangible assets include exploration and evaluation assets, signature bonuses and corporate social obligations representing the Group's interest in certain exploration blocks in Tunisia, Iraq, Egypt, Afghanistan, Algeria and the Philippines.

A provision for impairment of US$24 million (2013: nil) was recognised in relation to the Baragatan-1A well, offshore the Philippines, in the Group income statement bringing the carrying value of the asset to nil, being its assessed recoverable amount. The exploration well did not discover commercial hydrocarbons and has been plugged and abandoned. The future interest in the block remains to be assessed.

8 Intangible assets (continued)

Details of the Group's participating interests are as below:

Country	Participating interest
(i) Tunisia	
Hammamet West-3 offshore exploration well	55%
(ii) Iraq	
Block 9 onshore exploration well	30%
(iii) Egypt	
East Zeit Bay offshore exploration well	100%
(iv) Afghanistan	
Sanduqli block onshore exploration well	40%
Mazar-i-Sharif block onshore exploration well	40%
(v) Algeria	
Tinrhert Nord perimeter onshore exploration well	34.3%
Msari Akabli perimeter onshore exploration well	14.7%
(vi) Philippines	
Baragatan-1A offshore exploration well	40%

9 Investments in and loans to subsidiary undertakings

Company

(a) Investments in subsidiary undertakings

	US$'000
Cost	
At 1 January 2013	37,831
Fair value of share options granted to employees of a subsidiary undertaking	3,674
At 31 December 2013	41,505
Fair value of share options granted to employees of a subsidiary undertaking	3,143
At 31 December 2014	**44,648**
Provision for impairment	
At 1 January 2013 and 31 December 2013 and 2014	22,910
Net book amount	
At 31 December 2014	**21,738**
At 31 December 2013	18,595

(b) Loans to subsidiary undertakings

	US$'000
Cost	
At 1 January 2013	1,074,230
Settled with a subsidiary undertaking	(491,441)
Advanced during the year, net	114,793
At 31 December 2013	697,582
Advanced during the year, net	313,137
At 31 December 2014	**1,010,719**
Provision for impairment	
At 1 January 2013 and 31 December 2013 and 2014	5,590
Net book amount	
At 31 December 2014	**1,005,129**
At 31 December 2013	691,992

The loans to subsidiary undertakings are non-interest bearing and are repayable on demand. During 2013, the Company settled a loan of US$491.4 million with a subsidiary undertaking.

10 Financial instruments

(a) Financial instruments by category

Group

The accounting policies for financial instruments have been applied to the line items below:

	2014 US$'000	2013 US$'000
Assets as per balance sheet		
Loans and receivables		
Trade and other receivables excluding prepayments, advances to suppliers and embedded derivatives	235,866	199,049
Term deposits	1,935,884	1,894,410
Cash and cash equivalents	38,994	29,168
Abandonment and decommissioning funds	663,970	548,972
	2,874,714	2,671,599
Fair value through profit or loss		
Crude oil underlift receivable	84,867	–
Embedded derivatives	–	2,080
	84,867	2,080

	2014 US$'000	2013 US$'000
Liabilities as per balance sheet		
Liabilities at amortised cost		
Trade and other payables	307,987	115,358
Abandonment and decommissioning liability	669,367	573,898
	977,354	689,256
Fair value through profit or loss		
Crude oil overlift payable	–	11,007
Company		
Assets as per balance sheet		
Loans and receivables		
Loans to subsidiary undertakings	1,005,129	691,992
Other receivables	562	631
Cash and cash equivalents	833	1,701
	1,006,524	694,324
Liabilities as per balance sheet		
Liabilities at amortised cost		
Other payables	500	497

The carrying value of the financial instruments is a reasonable approximation of their fair value. There were no provisionally priced sales as at 31 December 2014 (31 December 2013: provisionally priced sales of US$160.5 million which are marked-to-market).

During 2013, a subsidiary undertaking settled a loan of US$491.4 million with the Company.

Comparative information presented above has been amended to accord to the current year presentation (refer to Note 32).

10 Financial instruments (continued)

(b) Fair value hierarchy

	2014 US$'000	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
Financial assets measured at fair value				
Fair value through profit and loss – Crude oil underlift receivable	**84,867**	–	84,867	–

	2013 US$'000	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000
Financial assets measured at fair value				
Fair value through profit and loss – Embedded derivatives	**2,080**	–	2,080	–
Financial liabilities measured at fair value				
Fair value through profit and loss – Crude oil overlift payable	**11,007**	–	11,007	–

(c) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparties default rates.

Trade receivables that are fully performing are due from an existing customer, for whom no credit rating is available. This customer has no history of defaults. Further details are provided in Note 12.

The majority of the cash at bank, term deposits and abandonment and decommissioning funds are held with counterparties with Moody's credit ratings, as set out below:

	2014 US$'000	2013 US$'000
Aa3	**568,656**	277,705
A1	**629,578**	815,426
A2	**439,912**	735,037
A3	**150,372**	–
Baa1	**847,337**	640,365
Non-rated	**2,936**	3,986
Cash at bank, term deposits and abandonment and decommissioning funds	**2,638,791**	2,472,519
Cash in hand	**57**	31
Cash and cash equivalents, term deposits and abandonment and decommissioning funds	**2,638,848**	2,472,550

Cash and cash equivalents of the Company are held with banks with Moody's credit rating of A1 and A2 (2013: A1 and A2).

11 Inventories

	2014 US$'000	2013 US$'000
Crude oil	**945**	939
Other supplies	**35,771**	24,776
	36,716	25,715
Provision for obsolete inventories	**(1,282)**	(1,265)
	35,434	24,450

The cost of producing crude oil recognised as an expense and included in cost of sales amounted to US$440.6 million (2013: US$311.7 million).

12 Trade and other receivables

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Trade receivable	**149,637**	199,670	**–**	–
Crude oil underlift receivable	**84,867**	–	**–**	–
Other receivables	**1,291**	806	**509**	571
Receivable from a related party	**71**	653	**53**	60
Prepayments and advances to suppliers	**65,831**	52,912	**–**	–
	301,697	254,041	**562**	631

The carrying value of the trade and other receivables approximate their fair values.

The classification of trade receivables of the Group is as follows:

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Fully performing	**149,637**	199,670	**–**	–

At 31 December 2014, the Group faced a concentration of credit risk with one (2013: one) customer accounting for 100 % (2013: 100%) of the trade receivables at that date. This customer, a state-owned oil and gas corporation, has an established record of promptly settling its financial commitments to the Group. At 31 December 2014, the Group had letters of credit amounting to US$149.6 million (2013: US$199.7 million) as collateral against the trade receivable.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value less collateral security of receivables mentioned above.

13 Cash and bank balances

(a) Term deposits and cash and cash equivalents

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Cash at bank and in hand	**38,994**	29,168	**833**	1,701
Cash and cash equivalents	**38,994**	29,168	**833**	1,701
Term deposits with an original maturity of over 3 months	**1,935,884**	1,894,410	**–**	–
	1,974,878	1,923,578	**833**	1,701

(b) Abandonment and decommissioning funds

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Cash at bank	**8,810**	5,040	**–**	–
Term deposits with an original maturity of over 3 months	**655,160**	543,932	**–**	–
	663,970	548,972	**–**	–

13 Cash and bank balances (continued)

(b) Abandonment and decommissioning funds (continued)

Group

There were no amounts held on deposit with original maturities of three months or less during the year (2013: interest earned from deposits with original maturities of three months or less was 0.30% per annum).

Term deposits with original maturities of over three months earned interest during the year at rates between 0.08% and 1.25% (2013: 0.25% and 1.87%) per annum.

Deposits and other balances are held with 18 banks (2013: 16). Details of deposits and other balances with banks under common control of the Government of Dubai are disclosed in Note 28(a).

The maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents and term deposits mentioned above. The carrying value of cash and cash equivalents and term deposits approximate their fair value.

The related abandonment and decommissioning liability is shown under Note 19. Comparative information presented above has been amended to accord to the current year presentation (refer to Note 32).

Company

Balances are held with two banks (2013: two).

14 Share capital

	Number of shares '000	Ordinary shares US$'000
At 1 January 2013	489,462	77,474
Issue of shares:		
– Share option scheme	1,983	257
At 31 December 2013	491,445	77,731
Issue of shares:		
– Share option scheme	260	36
At 31 December 2014	**491,705**	**77,767**

The total authorised number of ordinary shares is 700 million shares (2013: 700 million shares) with a par value of €0.10 per share (2013: €0.10 per share). All issued shares are fully paid. The Company did not have a share buyback and cancellation program in 2014 and 2013.

15 Share premium

	2014 US$'000	2013 US$'000
At 1 January	245,101	233,889
Premium on shares issued during the year	2,163	11,212
At 31 December	247,264	245,101

16 Capital redemption reserve and other reserve

The capital redemption reserve arises from a reorganisation of the Company's share capital in 2002. This reserve is non-distributable.

Other reserve comprises amounts expensed in the income statement in connection with awards made under the Company's share option schemes less any exercises or lapses of such awards.

17 Share based payments

(i) Employee Share Option Plan (ESOP)

Share options are granted to directors and to selected employees of a subsidiary company under the 2002 and 2009 Share Option Schemes. Share options granted under the 2002 Share Option Scheme were conditional upon the completion of continuing service with the Group for a specified period. Share options granted under the 2009 Share Option Scheme were conditional upon the completion of continuing service and fulfilment of certain non-market performance conditions. The exercise price of the share options is in accordance with the approved Share Option Scheme. The details of the options granted are given below.

	Date of grant	Options '000	Vesting conditions
Grants in 2004	31-Dec-04	3,160	Vested
Grants in 2006	14-Dec-06	1,840	Vested
	4-Apr-08	540	Cancelled/Forfeited
	4-Apr-08	460	Cancelled/Forfeited
Grants in 2008		1,000	
	6-Apr-09	100	Vested
	6-Apr-09	400	Vested
	6-Apr-09	1,210	Vested
Reissue 1	6-Apr-09	153	Vested
Reissue 2	6-Apr-09	180	Vested
Grants in 2009		2,043	
	13-Apr-10	840	Vested
	13-Apr-10	650	Vested
Grants in 2010		1,490	
	21-Apr-11	790	Vested
	21-Apr-11	820	Vested
	06-Sep-11	120	Vested
Grants in 2011		1,730	
	09-Apr-12	1,250	10-Apr-15
	09-Apr-12	740	1/3 annually
Grants in 2012		1,990	
	07-Aug-13	1,330	08-Aug-16
	07-Aug-13	590	1/3 annually
Grants in 2013		1,920	

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2014		2013	
	Weighted average exercise price £	Options '000	Weighted average exercise price £	Options '000
Outstanding at 1 January	**5.8248**	**5,115**	4.9600	5,392
Granted	**–**	**–**	6.1400	1,920
Forfeited	**6.0168**	**(234)**	5.7812	(214)
Exercised	**5.0338**	**(260)**	3.7835	(1,983)
Outstanding at 31 December	**5.8595**	**4,621**	5.8248	5,115
Exercisable at 31 December	**5.4727**	**1,742**	4.9328	799

17 Share based payments (continued)

(i) Employee Share Option Plan (ESOP) (continued)

No share option grants were made in 2014. The significant inputs to the Black Scholes option pricing model for 2013 grants are:

	2013
Grant date	07-Aug-13
Share price at grant date	£6.14
Exercise price	£6.14
Expected volatility	36%
Expected risk free rate per annum	0.45% to 1.06%
Interval in years for measurement of volatility	2.35, 3.35 and 4.35
Dividend yield per annum	3.1%

The expected volatility estimates used in the valuation have been calculated based on the historical volatilities of the Company's share price over various historical periods, weighing the historical volatility over periods commensurate with the expected term of the options.

The weighted average fair value of options granted during 2013 determined using the Black Scholes option pricing model was £1.03 per option.

The weighted average share price at the dates of exercise for the options exercised during the year was £6.0677 (2013: £6.2933).

Share options outstanding at the year end have the following expiry dates and exercise prices:

	Exercise price	Options	
Expiry date	£	2014 '000	2013 '000
05 April 2019	1.7700	**60**	80
11 April 2020	4.7825	**175**	255
20 April 2021	5.5675	**914**	1,120
05 September 2021	4.6550	**120**	120
08 April 2022	6.0800	**1,576**	1,620
06 August 2023	6.1400	**1,776**	1,920
		4,621	5,115

During the year, a total fair value charge of US$3.1 million (2013: US$3.7 million) for the ESOP, ESPP and LTIP, was recorded in staff costs (Note 23(b)) and a corresponding amount recorded in the other reserve.

(ii) Employee share purchase plan (ESPP)

The Group introduced an ESPP in October 2011. The ESPP is an all-employee plan, which enables eligible employees including Executive Directors to make contributions, through payroll deductions, toward the purchase of the Company's shares in accordance with the plan. Under the plan, employees are granted the Company's shares at a 15% discount on the market price, either at the start or the end of a six-month accumulation period. The contribution made by the Group representing the 15% discount is US$0.3 million (2013: US$0.3 million).

An ESPP trust has been created to hold the Company's ordinary shares purchased, which are transferred to the participating employees at the end of the accumulation period. No performance conditions are imposed in the ESPP plan. The ESPP trust is controlled by the Company and has been consolidated in the financial statements.

The Group recognised a total charge of US$0.3 million (2013: US$0.4 million) for the ESPP.

(iii) Long Term Incentive Plan (LTIP)

The Group introduced the LTIP in October 2014, under which conditional share awards over ordinary shares in the Company are made to certain key employees including Executive Directors. No consideration is paid for the grant of an award which only vest upon satisfaction of certain non-market performance conditions which are measured over a three-year period starting on 1 January prior to grant. No dividends are paid over the vesting period. The vesting period is the later of the third anniversary of grant and the determination of the performance conditions, subject to continued service. At the vesting of an award, the Remuneration Committee may issue and allot the relevant number of ordinary shares or make a cash payment equivalent to the market value of such ordinary shares.

17 Share based payments (continued)

(iii) Long Term Incentive Plan (LTIP) (continued)

The details of LTIP shares granted are given below:

	Date of grant	LTIP shares '000	Vesting conditions
Grants in 2014	22-Oct-14	**735**	23-Oct-17

Movements in the number of shares granted under the LTIP outstanding are as follows:

	2014 LTIP shares '000
Outstanding at 1 January	**–**
Granted	**735**
Outstanding at 31 December	**735**
Exercisable at 31 December	**–**

The significant inputs to the Black Scholes model for 2014 grants are:

	2014
Grant date	**22-Oct-14**
Share price at grant date	**£5.20**
Exercise price	**Nil**
Expected volatility	**Not applicable**
Expected risk free rate per annum	**Not applicable**
Expected term	**3 years**
Dividend yield per annum	**4.65%**

The Group recognised a total charge of US$0.2 million (2013: nil) for the LTIP.

The weighted average fair value of shares granted under the LTIP during 2014 determined using the Black Scholes model was £4.537 per share.

18 Trade and other payables

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Trade payables	**88,384**	49,183	**–**	–
Accruals	**125,538**	60,232	**347**	496
Crude oil overlift payable	**–**	11,007	**–**	–
Corporate social obligations	**87,856**	–	**–**	–
Other creditors	**6,209**	5,943	**153**	1
	307,987	126,365	**500**	497
Less: Non-current portion				
Less: Trade and other payables	**(544)**	(523)	**–**	–
Less: Corporate social obligations	**(77,042)**	–	**–**	–
	230,401	125,842	**500**	497

Trade payables and accruals include amounts of US$64.7 million (2013: US$40.5 million) and US$91.6 million (2013: US$35.6 million) respectively, relating to additions to property, plant and equipment – development and production assets. The carrying value of trade and other payables approximate their fair values.

18 Trade and other payables (continued)

Corporate social obligations

Group

	2014 US$'000	2013 US$'000
At 1 January	–	–
Provision made during the year	87,856	–
At 31 December	87,856	–
Current	10,814	–
Non-current portion	77,042	–
	87,856	–

In December 2014, the Group and the state authorities in Turkmenistan agreed to amend the provisions of the PSA to clarify the tax rate applicable to the Group (refer to Note 24) and to include certain contractual obligations for community social expenses. Under the terms of the amendment, the Group is committed to corporate social obligations and training programmes in Turkmenistan of approximately US$10 million per year over the remaining initial period of the PSA. A number of the joint operations in which the Group participates have similar contractual obligations. These obligations are measured at the present value of future payments (refer to Note 2.9.2(c)). The present value was determined using a discount rate of 4.5%.

Corporate social obligations include US$85.3 million (2013: nil) relating to Turkmenistan, which is recognised as an expense in the income statement and US$2.6 million (2013: nil) relating to operations in Iraq, Egypt and Algeria, which are classified within intangible assets.

19 Abandonment and decommissioning liability

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Abandonment and decommissioning liability	669,367	573,898	–	–

The abandonment and decommissioning liability represents amounts relating to the sale of crude oil to cover abandonment and decommissioning liabilities under the terms of the PSA. The related abandonment and decommissioning fund is shown under Note 13 (b).

20 Revenue

	2014 US$'000	2013 US$'000
Sales of crude oil	1,093,057	1,047,890

21 Cost of sales and administrative expenses

	2014 US$'000	2013 US$'000
Cost of sales	356,618	324,073
Administrative expenses	48,832	36,394
	405,450	360,467

21 Cost of sales and administrative expenses (continued)

Analysed as follows:

Expiry date	2014 US$'000	2013 US$'000
Depletion and depreciation (Note 7)	316,407	215,130
Field operating costs	80,989	58,873
Field staff costs	55,105	52,633
Other staff costs	22,157	21,942
Crude oil marketing costs	–	846
Net foreign exchange losses/(gain)	260	(654)
Crude oil underlifts	(84,867)	–
Crude oil overlifts	(11,007)	(2,910)
Other administrative costs	26,406	14,607
	405,450	360,467

22 Finance income

	2014 US$'000	2013 US$'000
Interest on bank deposits	10,819	10,838

23 Profit before income tax

(a) Included in profit before income tax are the following:

	2014 US$'000	2013 US$'000
Staff costs (Note 23(b))	77,262	74,575
Depletion and depreciation (Note 7)	316,407	215,130
Provision for impairment of exploration and evaluation assets	23,985	–
Operating lease expenses	1,478	1,393
Auditor's remuneration – Group		
– Statutory audit of Group accounts	222	175
– Other assurance services	173	157
– Tax advisory services	31	219
– Other non-audit services	69	11
	495	562
Auditor's remuneration – Company		
– Statutory audit of parent individual accounts	10	10
– Tax advisory services	5	50
– Other non-audit services	–	11
	15	71

23 Profit before income tax (continued)

(b) Staff costs

	2014 US$'000	2013 US$'000
Wages and salaries	**90,744**	78,391
Social security costs	**7,861**	6,505
End of service benefits	**2,713**	1,986
Employee share options – value of services provided (Note 17)	**3,143**	3,674
	104,461	90,556
Less : Capitalised as part of development and production assets	**(27,199)**	(15,981)
	77,262	74,575

	2014 Number	2013 Number
Average monthly number of persons employed by the Group during the year:		
Petroleum operations	**1,452**	1,225
Support functions including finance, human resources and others	**323**	279
	1,775	1,504

(c) Directors' emoluments (included in staff costs)

	2014 US$'000	2013 US$'000
Fees for services as directors	**1,206**	880
Other emoluments	**2,540**	1,976
	3,746	2,856

24 Current and deferred income tax

The income tax (credit)/charge represents the sum of current tax and deferred tax, and includes a credit in respect of the reversal of an overprovision made in prior years up to 2013, no longer payable, and recognition of deferred tax assets described further below. The tax currently payable is based on taxable profit for the year.

Analysis of income tax (credit)/expense:	2014 US$'000	2013 US$'000
Current tax		
– Amounts relating to current year	**128,116**	152,103
– Overprovision in respect of prior years up to 2013	**(159,956)**	–
Net deferred tax	**(29,253)**	33,844
	(61,093)	185,947

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits in the primary jurisdiction, in which the Group operates.

24 Current and deferred income tax (continued)

	2014 US$'000	2013 US$'000
Profit before income tax	**589,435**	698,570
Tax calculated at domestic tax rates applicable to profits in the primary jurisdiction of 20% (2013: 25%)	**117,887**	174,642
Tax effect of expenses not deductible	**14,002**	10,755
Effect of different tax rates in countries in which the Group operates	**(2,002)**	(2,640)
Remeasurement of deferred tax-change in tax rate to 20%	**(35,127)**	–
Overprovision in respect of prior years up to 2013	**(159,956)**	–
Others	**4,103**	3,190
	(61,093)	185,947
Analysis of the net deferred tax liability:		
Deferred tax liability to be settled after more than 12 months	**146,465**	178,386
Deferred tax asset to be recovered after more than 12 months	**(17,058)**	–
Deferred tax liability to be settled within 12 months	**16,973**	–
Deferred tax asset to be recovered within 12 months	**–**	(2,753)
	146,380	175,633

The effective tax rate, excluding the credit in respect of reversal of excess tax provision of 5%, is 22.73% (2013: 26.62%).

At the year end, current income tax of US$128.1 million (2013: US$280.8 million) was payable.

Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority. The movement in deferred income tax liabilities and assets during the year is as follows:

Deferred tax liabilities	**Production and development asset depletion US$'000**	**Crude oil underlifts US$'000**	**Total US$'000**
At 1 January 2013	145,268	–	145,268
Charged to the income statement	33,118	–	33,118
At 31 December 2013	178,386	–	178,386
(Credited)/charged to the income statement	(31,921)	16,973	(14,948)
At 31 December 2014	**146,465**	**16,973**	**163,438**

Deferred tax assets	**Crude oil overlifts US$'000**	**Others US$'000**	**Total US$'000**
At 1 January 2013	3,479	–	3,479
Credited to the income statement	(726)	–	(726)
At 31 December 2013	2,753	–	2,753
Credited/(charged) to the income statement	(2,753)	17,058	14,305
At 31 December 2014	**–**	**17,058**	**17,058**

The Group has unutilised tax losses carried forward at 31 December 2014 from two entities amounting to US$30.7 million (2013: US$33.7 million). There is no time limit on the carry forward of such losses. A deferred income tax asset has not been recognised as the Group does not expect that future taxable profits will be available from these entities to utilise these losses.

During 2008, the effective tax rate applicable to the Group's operations in Turkmenistan was increased by 5% to 25% by the Hydrocarbon Resources Law of 2008. The Group had applied this rate in determining its tax liabilities in prior years.

In December 2014, the Group and the state authorities in Turkmenistan agreed to amend the provisions of the PSA to bring the tax rate into line with the provisions of the Tax Code of Turkmenistan. The rate of 20% is now applicable to the Group in respect of its petroleum operations in Turkmenistan. The Group has applied this rate in determining its tax liabilities as at 31 December 2014. The impact of the reduction in the tax rate is a reversal of US$160 million in respect of an overprovision for prior years up to 2013, no longer payable, and a corresponding credit resulting from remeasurement of deferred taxes at 20% .

25 Earnings per share

	2014 US$'000	2013 US$'000
Profit attributable to equity holders of the Company	**650,528**	512,623

	Number '000	Number '000
Weighted average number of shares:		
Basic	**491,629**	490,836
Assumed conversion of potential dilutive share options	**221**	393
Diluted	**491,850**	491,229
Earnings per share attributable to equity holders of the Company:		
Basic	**132.32c**	104.44c
Diluted	**132.26c**	104.36c

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive options over ordinary shares and shares granted under the LTIP.

26 Cash generated from operating activities

	Notes	2014 US$'000	Restated 2013 US$'000
Group			
Profit before income tax		**589,435**	698,570
Adjustments for:			
– Depletion and depreciation	7	**316,407**	215,130
– Crude oil underlifts	12,21	**(84,867)**	–
– Crude oil overlifts	18,21	**(11,007)**	(2,910)
– Employee share options – value of services provided	17,23(b)	**3,143**	3,674
– Interest on bank deposits	22	**(10,819)**	(10,838)
– Write-off of intangible assets	8	**23,985**	–
– Abandonment and decommissioning liability	32	**95,469**	135,433
– Corporate social expenses	18	**85,289**	–
Operating cash flow before changes in working capital		**1,007,035**	1,039,059
Changes in working capital:			
– Inventories	11	**(10,984)**	(12,063)
– Trade and other receivables	12	**37,211**	(97,183)
– Trade and other payables	18	**24,413**	9,525
Cash generated from operating activities before tax and transfer to abandonment and decommissioning funds		**1,057,675**	939,338
Company			
Profit/(loss) before income tax		**497,163**	(2,922)
Adjustments for:			
– Dividend income from a subsidiary undertaking		**(500,000)**	–
Operating cash flow before changes in working capital		**(2,837)**	(2,922)
Changes in working capital:			
– Other receivables	12	**69**	(39)
– Other payables	18	**3**	244
Cash used in operating activities		**(2,765)**	(2,717)

27 Commitments and contingent items

(a) Capital commitments

The capital commitments at the year end were as follows:

	Group		Company	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Contracted for but not yet incurred	**1,033,574**	1,226,409	**–**	–
Other commitments	**150,353**	89,890		
	1,183,927	1,316,299	**–**	–

(b) Other financial commitments

The Group's commitments under non-cancellable property operating leases were as follows:

	2014 US$'000	2013 US$'000
Due within one year	**–**	148

(c) Letters of credit

The following commitments were outstanding as at 31 December 2014:

Letters of credit of US$112.4 million were in issue at 31 December 2014 (2013: US$43.7 million) towards the supply of equipment and services.

At 31 December 2014, the Company had a continuing guarantee for US$172 million (2013: US$65 million) for undrawn trade finance facilities of subsidiary undertakings.

(d) Others

The Group's operations in Turkmenistan, conducted through Dragon Oil (Turkmenistan) Ltd., are undertaken in accordance with the terms of the PSA, which became effective on 1 May 2000 between Dragon Oil (Turkmenistan) Ltd. and the Government of Turkmenistan. The agreement determines the rights and obligations of Dragon Oil (Turkmenistan) Ltd, inter alia, to carry out development activities through work plans and annual budgets. It also grants various tax, currency control and related concessions.

Other commitments includes the Group's share of signature bonus, minimum work and expenditure obligations in Iraq, Afghanistan, Egypt and Algeria.

There are no financial commitments, other than those disclosed above.

However, the Group's operations in the above countries are ultimately subject to the political, socio-economic and legal uncertainties arising from the respective political and legal systems.

28 Related party transactions

a) The Company's largest shareholder is Emirates National Oil Company Limited (ENOC) LLC (ENOC). At the year-end, two members of the Board, Mr. Ahmad Sharaf (appointed 25 April 2007) and Mr Mohammed Al Ghurair (appointed 25 April 2007) are nominees of ENOC.

(i) The following transactions are with ENOC and its subsidiaries:

	2014 US$'000	2013 US$'000
Trading transactions:		
Sale of services	392	338
Purchase of services	2,995	1,299
Year end balances		
Receivables	71	653
Payables	1,076	8

(ii) The following transactions are with financial institutions under common control and associates:

	2014 US$'000	2013 US$'000
Other transactions:		
Finance income	1,532	905
Year end balances		
Term deposits	181,428	90,368
Abandonment and decommissioning funds	663,970	548,972
Cash and cash equivalents	1,939	1,025

Related party transactions of the Company mainly relates to loans to/from subsidiary undertakings, which are disclosed under Note 9(b) and Note 10(a). Comparative information presented above has been amended to accord to the current year presentation.

b) Key management compensation

	2014 US$'000	2013 US$'000
Non-executive directors fees	1,206	880
Salaries and short-term benefits	9,017	5,837
Short-term benefits	10,223	6,717
End of service benefits	314	210
Share-based payments	1,093	976
Payables	11,630	7,903

Key management includes Non-executive Directors and members of the Executive Committee.

29 Dividends paid

	2014 US$'000	2013 US$'000
Declared and paid during the year:		
Dividends on ordinary shares:		
Final dividend for 2013: US cents 18 per share (2012: Final dividend of US cents 15 per share)	88,480	73,586
Interim dividend for 2014: US cents 20 per share (2013: Interim dividend of US cents 15 per share)	98,341	73,703
	186,821	147,289

30 Group companies

The Company is a subsidiary of ENOC, a company incorporated in the United Arab Emirates. ENOC is ultimately a wholly owned entity of the Government of Dubai.

Principal Group investments

The Company holds 100% of the equity capital of the following companies unless otherwise stated. Investments, which are not significant, are not included in this list.

Name	Country of incorporation or registration and operation	Principal activity	Issued and fully paid share capital
Dragon Oil (Turkmenistan) Ltd** Victoria place, 31 Victoria Street, Hamilton, HM10 Bermuda	Bermuda & Turkmenistan	Oil and gas production	80,000 ordinary shares of US$1 each
Dragon Oil (Holdings) Limited.* 4, V. Dimech Street Floriana, FRN 1504 Malta	Malta	Investment holding company	2,000 ordinary shares of £1 each
Dragon Resources (Holdings) plc* 17 Old Park Lane London W1K 1QT England	England	Oil and gas production related activities	8,434,317 ordinary shares of £1 each
Dragon Oil (International) Limited.** 12 Castle Street, St. Helier, JE2 3RT, Jersey	Jersey	Investment holding company	10,000 ordinary shares of US$1 each
Dragon Oil (Bargou Tunisia) Ltd.** Victoria place, 31 Victoria Street Hamilton, HM10, Bermuda	Bermuda	Oil and gas production related activities and Investment holding company	10,000 ordinary shares of US$1 each
Dragon Oil (Block 9) Limited** 12 Castle Street, St. Helier, JE2 3RT, Jersey	Jersey	Oil and gas production related activities and Investment holding company	10,000 ordinary shares of US$1 each

* held by the Company

** held by a subsidiary undertaking of the Company

31 Subsequent events

At a meeting held on 15 February 2015, the Board of Directors of the Company have proposed a final dividend of USc16 per share (2013: USc18 per share) be paid to the shareholders in respect of the full year 2014. The total dividend to be paid is US$78.7 million (2013: US$88.5 million). In accordance with the accounting policy under IFRS set out in Note 2.21, this dividend has not been included as a liability in these financial statements. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

32 Retrospective restatement

During the second half of 2014, the Group has changed the presentation of the abandonment and decommissioning fund and the related liability on the balance sheet. Funds held in designated accounts towards abandonment and decommissioning activities and the related liability previously included in Term deposits and Cash and cash equivalents and Trade and other payables respectively are now shown separately on the balance sheet. The Group has unrestricted access and control over these funds.

Previously, the abandonment and decommissioning funds and the related liability were presented within Term deposits and Cash and cash equivalents, and Trade and other payables respectively. The presentation has since been amended to reflect the specific nature of the fund and the related liability and accordingly the change has been applied retrospectively and the prior period comparatives have been restated. Since these are presentation changes within the balance sheet, it did not have any effect on the Group income statement, Group statement of comprehensive income and Group statement of changes in equity.

The impact of the restatement is summarised below:

	2013 Previously stated US$'000	Impact of restatement US$'000	2013 Restated US$'000	2012 Previously stated US$'000	Impact of restatement US$'000	2012 Restated US$'000
Effect on Group balance sheet						
ASSETS						
Current assets						
Inventories	24,450	–	24,450	12,387	–	12,387
Trade and other receivables	254,041	–	254,041	156,858	–	156,858
Term deposits	2,438,342	(543,932)	1,894,410	1,866,228	(406,340)	1,459,888
Cash and cash equivalents	34,208	(5,040)	29,168	277,997	(1,378)	276,619
Abandonment and decommissioning funds	–	548,972	548,972	–	407,718	407,718
Total current assets	**2,751,041**	**–**	**2,751,041**	**2,313,470**	**–**	**2,313,470**
LIABILITIES						
Current liabilities						
Trade and other payables	699,740	(573,898)	125,842	566,070	(438,465)	127,605
Abandonment and decommissioning liability	–	573,898	573,898	–	438,465	438,465
Current income tax liabilities	280,805	–	280,805	274,628	–	274,628
Total current liabilities	**980,545**	**–**	**980,545**	**840,698**	**–**	**840,698**

The change in presentation of the abandonment and decommissioning funds and the related liability within the balance sheet did not have any impact on the total assets, total liabilities or equity.

32 Retrospective restatement (continued)

In 2014, the movement of term deposits within an accounting period in the Group cash flow has been split between amounts withdrawn and placed on term deposits. Comparative information for 2013 has been restated to split movements between amounts withdrawn from term deposits and amounts placed on term deposits.

The impact of the split between amounts withdrawn from term deposits and amounts placed on term deposits and the change in presentation of the abandonment and decommissioning fund and the related liability are shown below:

	2013 Previously stated US$'000	Impact of restatement US$'000	2013 Restated US$'000
Effect on Group cash flow statement			
Profit before income tax	698,570	–	698,570
Adjustments for:			
– Depletion and depreciation	215,130	–	215,130
– Crude oil overlifts	(2,910)	–	(2,910)
– Employee share options – value of services provided	3,674	–	3,674
– Interest on bank deposits	(10,838)	–	(10,838)
– Abandonment and decommissioning liability	–	135,433	135,433
Operating cash flow before changes in working capital	903,626	135,433	1,039,059
Changes in working capital:			
– Inventories	(12,063)	–	(12,063)
– Trade and other receivables	(97,183)	–	(97,183)
– Trade and other payables	144,958	(135,433)	9,525
Cash generated from operating activities before tax and transfer to abandonment and decommissioning funds	939,338	–	939,338
Income tax paid	(145,926)	–	(145,926)
Amounts transferred to abandonment and decommissioning funds	–	(141,254)	(141,254)
Net cash generated from operating activities	**793,412**	**(141,254)**	**652,158**
Cash flows from investing activities			
Additions to property, plant and equipment	(281,105)	–	(281,105)
Additions to intangible assets	(58,706)	–	(58,706)
Interest received on bank deposits	10,838	–	10,838
Amounts placed on term deposits (with original maturities greater than three months)	(572,114)	572,114	–
Amounts withdrawn from term deposits (with original maturities of over three months)	–	3,136,729	3,136,729
Amounts placed on term deposits (with original maturities of over three months)	–	(3,571,251)	(3,571,251)
Net cash used in investing activities	(901,087)	137,592	(763,495)
Net cash used in financing activities	(136,114)	–	(136,114)
Net decrease in cash and cash equivalents	(243,789)	(3,662)	(247,451)
Cash and cash equivalents at beginning of year	277,997	(1,378)	276,619
Cash and cash equivalents at end of year	**34,208**	**(5,040)**	**29,168**

Supplementary information

Supplementary information – Movement in oil, condensate and gas reserves (unaudited)

PROVED AND PROBABLE COMMERCIAL RESERVES (unaudited)

Commercial reserves

	Turkmenistan							
	Working interest				Entitlement			
	2014			2013	2014			2013
	Oil and condensate mmbbl	Gas bscf	Total petroleum mmboe	Total petroleum mmboe	Oil and condensate mmbbl	Gas bscf	Total petroleum mmboe	Total petroleum mmboe
As at 1 January	675	1,422	912	920	309	561	403	401
Revisions	17	(93)	1	19	39	23	42	14
Production	(29)	–	(29)	(27)	(16)	–	(16)	(12)
As at 31 December	663	1,329	884	912	332	584	429	403

Notes:

1. Dragon has a 100% working interest in the Cheleken Contract Area in Turkmenistan.
2. Commercial reserves are estimated quantities of proven and probable oil and gas reserves that available data demonstrate, with a specified degree of certainty, to be recoverable in future from known reservoirs that are considered commercially producible. The working interest of the proved and probable commercial reserves is based on a reserves report produced by an independent engineer. Reserves estimates are reviewed by the independent engineer based on significant new data or a material change with a review of the field undertaken generally every year. The Group's entitlement to the proved and probable commercial reserves is derived based on the terms of the PSA and certain assumptions made by the management in respect of estimates of oil and gas reserves, future oil and gas prices, future development costs including the cost of drilling, infrastructure facilities, signing of the gas sales agreement and other capital and operating costs.
3. Based on the results of the recent assessment by an independent energy consultant, the Group has revised its reserves to a net 663 million barrels of oil and condensate at the year-end and 1.3 TCF of gas reserves corresponding to 221 million boe. Recognition of gas reserves is based on a plan for development, a reasonable expectation of a market for the expected sales quantities of gas, availability of infrastructure in place or planned to be installed.
4. Revision in entitlement barrels of oil and condensate is attributable to the change in cost estimates and long-term price assumptions in accordance with the fiscal terms of the PSA. The revision in the oil and condensate reserves during the year includes a volume of 19 million barrels of condensate reserves to be recovered from the gas stream.

The Group provides for depletion of tangible fixed assets on a net entitlements basis using proven and probable commercial oil and gas reserves, which reflects the terms of the PSA.

Five-year financial summary

	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000	2010 US$'000
Group income statement					
Revenue	**1,093,057**	1,047,890	1,155,143	1,150,513	780,409
Cost of sales	**(356,618)**	(324,073)	(329,168)	(266,539)	(264,683)
Gross profit	**736,439**	723,817	825,975	883,974	515,726
Administrative expenses, net of other income	**(48,549)**	(36,085)	(35,067)	(27,769)	(28,003)
Provision for impairment of exploration and evaluation assets	**(23,985)**	–	–	–	–
Corporate social expenses	**(85,289)**	–	–	–	–
Operating profit	**578,616**	687,732	790,908	856,205	487,723
Net finance income	**10,819**	10,838	18,279	15,533	26,952
Profit before income tax	**589,435**	698,570	809,187	871,738	514,675
Income tax expense	**61,093**	(185,947)	(209,141)	(223,322)	(128,592)
Profit after tax	**650,528**	512,623	600,046	648,416	386,083
Earning per share (US cents)					
Basic	**132.32**	104.44	119.49	125.95	74.94
Diluted	**132.26**	104.36	119.26	125.61	74.69
Group balance sheet					
Non-current assets	**1,984,077**	1,645,159	1,529,623	1,353,978	1,176,361
Net current assets	**1,948,093**	1,770,496	1,472,772	1,351,005	999,816
Non-current liabilities	**223,966**	176,156	143,079	116,438	(83,231)
Equity attributable to the Company's equity shareholders	**3,708,204**	3,239,499	2,859,316	2,588,545	2,092,946

Note:
Certain periods are not updated for a change in accounting policy in 2012 (i.e. periods prior to 2012).

Shareholder information

Dividends

The Board of Directors of Dragon Oil recommends the payment of a final dividend of 16 US cents per share. Together with the interim dividend of 20 US cents, the total dividend for the year ended 31 December 2014 is 36 US cents. The final dividend of 16 US cents is subject to shareholder approval at the Annual General Meeting to be held in London, UK on 27 April 2015. If approved, the final dividend of 16 US cents is expected to be paid on 30 April 2015 to shareholders on the register as of 7 April 2015.

The dividend is declared in US dollars, the Group's functional currency. The exchange rate for the pound sterling or euro amounts payable will be determined by reference to the exchange rates applicable to the US dollar on the closest practicable date to the dividend payment date. The new shareholders, who bought Dragon Oil shares in the last 12 months, will receive instructions regarding currency elections, dividend withholding tax (DWT) and bank mandate forms in the post. These forms are also available on the Group's corporate website, www.dragonoil.com.

The closing date for receipt of currency elections is 7 April 2015. By default shareholders (other than shareholders holding their shares within CREST) with registered addresses in the UK will be paid their dividends in pounds sterling. Those with registered addresses in European countries, which have adopted the euro, will be paid in euro. Shareholders with registered addresses in all other countries will be paid in US dollars. Shareholders may, however, elect to be paid their dividends in a currency other than their default currency, and will have a choice of US dollars, euro or pounds sterling provided such election is received by our registrars by the record date for the dividend. As the above arrangements can be inflexible for institutional shareholders, where shares are held in CREST, dividends are automatically paid in US dollars unless a currency election has been made. CREST members should use the facility in CREST to make currency elections. Currency elections must be made in respect of entire holdings and partial elections are not permitted.

Dividends can be paid directly into a UK bank account to shareholders who elect for their dividend to be paid in pounds sterling. Shareholders who are paid their dividends in euro and have a bank account in a country, which is in the Single European Payment Area (SEPA) can elect to have their dividend paid into their bank account. A dividend reinvestment plan is not available under the Company's dividend policy.

Irish DWT must be deducted from all dividends paid by an Irish resident company, unless a shareholder is entitled to an exemption and has submitted a properly completed exemption form to the Company's Registrar, (by post) Capita Asset Services, Shareholder solutions (Ireland), PO Box 7117, Dublin 2, Ireland (or by hand) Capita Asset Services, Shareholder solutions (Ireland), 2 Grand Canal Square, Dublin 2, Ireland, by the dividend record date. DWT is deducted at the standard rate of Income Tax (currently 20%). Non-resident shareholders and certain Irish companies, trusts, pension schemes, investment undertakings and charities may be entitled to claim exemption from DWT. Copies of forms applicable to all exemption types may be obtained online from Irish Revenue (www.revenue.ie/en/tax/dwt/forms/index.html).

Individuals who are resident in Ireland for tax purposes are not generally entitled to an exemption from Irish DWT.

Glossary/Definitions/Abbreviations

2C
Proved and probable contingent gas resources

AGM
Annual General Meeting

Assessment of reserves
Reserves certification based on a seismic survey conducted by an independent reserves auditor

boe
barrels of oil equivalent

bn
billion

bopd
barrels of oil per day

CEO
Chief Executive Officer

CIS
Commonwealth of Independent States

The Code
The 2012 UK Corporate Governance Code

COO
Chief Operating Officer

CPF
Central Processing Facility

Dragon Oil/the Group
Dragon Oil plc and its various subsidiary companies

Dual completion
Two pay zones in the same well that produce independent flow paths in the same well

DWT
Dividend Withholding Tax

EIA
U.S. Energy Information Administration

E&P
Exploration and Production

ENOC
Emirates National Oil Company Limited (ENOC) L.L.C.

EPS
Earnings per share

ERP
Enterprise Resource Planning

EU
European Union

FEED
Front End Engineering Design

FSU
Former Soviet Union

GBP
Pound Sterling

GBp
Pence

GM-PD
General Manager of Petroleum Development

GTP
Gas Treatment Plant

HR
Human Resources

HSE
Health, Safety and Environment

IAS
International Accounting Standards

IA Department
Internal Audit Department

IEA
International Energy Agency

IFRS
International Financial Reporting Standards

kg
kilogram

km
kilometre

KPI
Key Performance Indicators

LSE
London Stock Exchange

LTIF
Lost time incident frequency

LTIP
Long Term Incentive Plan

Listing Rules
The listing rules of the Irish Stock Exchange and the UK Listing Authority

MENA
Middle East and North Africa

mmscfd or mmscf/day
million standard cubic feet per day

mn
million

OGP
The Association of Oil & Gas Producers

OECD
The Organisation for Economic Co-operation and Development

OPEC
The Organization of the Petroleum Exporting Countries

Overlifts and underlifts
Crude oil overlifts and underlifts arise on differences in quantities between the Group's entitlement production and the production either sold or held as inventory

Platform
Large structure used to house employees and machinery needed to drill wells in a reservoir to extract oil and gas for transportation to shore

Probable reserves (2P)
Reserves based on median estimates, and claim a 50% confidence level of recovery

PSA
Production Sharing Agreement is a contractual arrangement for exploration, development and production of hydrocarbon resources in the Cheleken Contract Area

TCF
Trillion Cubic Feet

UAE
United Arab Emirates

UK
The United Kingdom of Great Britain and Northern Ireland

US cents
United States Cents

US$
United States Dollars

Workover
Well intervention involving invasive techniques, such as wireline, coiled tubing or snubbing

Dragon Oil

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