

# Enterprise Risk Management (ERM) Framework:

The Dragon Oil ERM Framework consists of three core elements: governance, process and culture & compliance.

## Managing business risk

Dragon Oil recognises that management of risk is an integral part of our business and manages key risks within the ERM framework. The Group is impacted by a variety of risks, not all of which are within its control. We run our business ensuring the impact of such risks is mitigated wherever possible.

[Read more on page 52](#)

## Governance

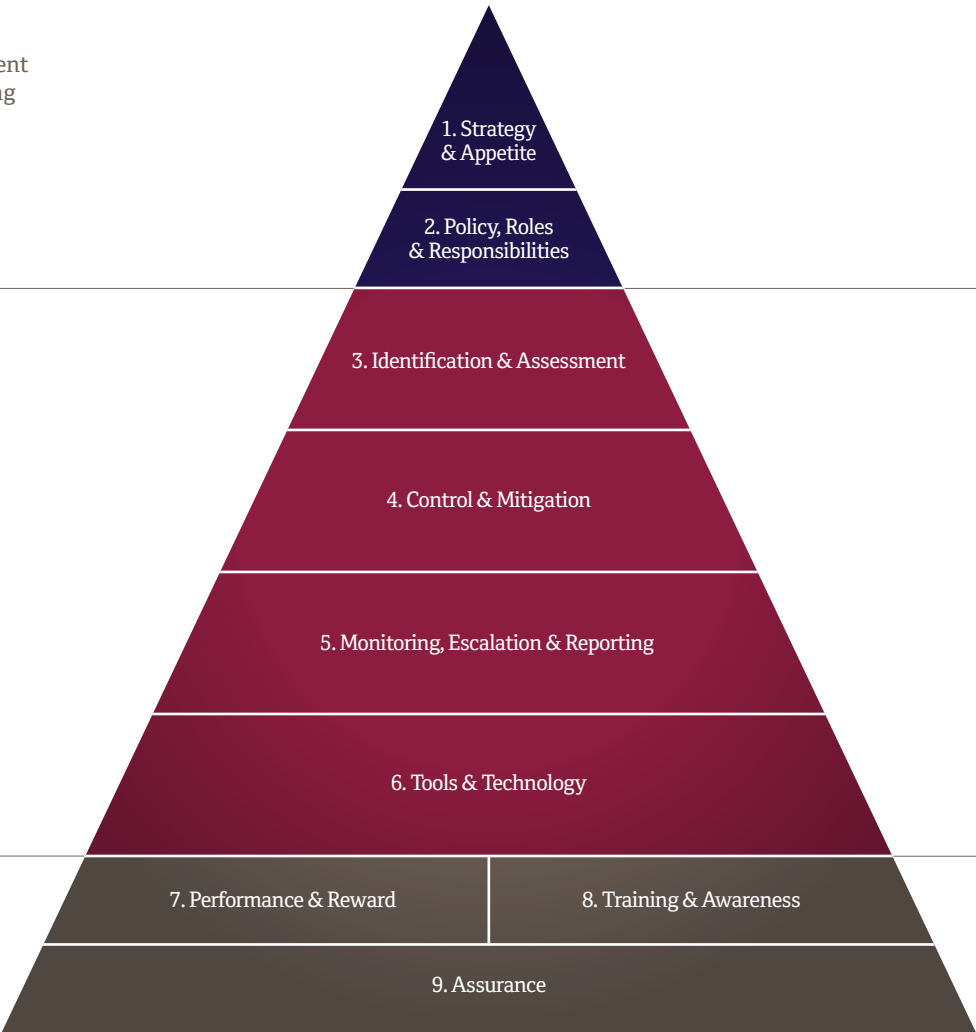
The Board is committed to risk management by setting up a clear structure and defining roles and responsibilities.

## Process

The ERM process provides a consistent approach to risk management from identification, mitigation to reporting.

## Culture & Compliance

Dragon Oil leadership drives a culture of risk management by a top-down commitment and seeks assurances that responses to critical risks are acceptable.



## 1 & 2. Risk Management Governance and Tone at the top

- Clear structure that defines and demonstrates Board and senior management involvement in and specific accountability for risk management.

## 3. Risk Identification and Assessment

- Robust processes in place to aggregate and prioritise risks at an enterprise level.
- Scope of assessment considers low probability/high impact risks specifically.
- Correlations and portfolio effects of risk exposures recognised.

## 4. Risk Control and Mitigation

- Risk treatment decisions are linked to risk appetite and target risk levels are clear.
- Specific consideration has been made as to whether the design and execution of key treatments are effective, and in turn whether such treatments are sufficient overall.

## 5. Risk Monitoring, Escalation and Reporting

- Risk monitoring and escalation processes are defined and embedded within business processes.
- Early warning systems in place to red flag emerging risks and identify change in existing risks.
- Risk reports are formally defined to provide adequate and timely intelligence to senior management and the business for oversight of risks.
- Clear risk management policies and procedures for managing all material risks.
- Availability of sufficient resources to support risk management needs.

## 6. Infrastructure (Tools and Technology)

- Risk Management technology and IT systems that support and enable the business to embed the risk management processes and deliver risk relevant data.

## 7 & 8. Awareness and Communication

- Culture that supports risk management effectiveness and reporting.
- Top-down commitment to risk management with leadership by example.
- Proactive risk management encouraged and rewarded.
- Awareness of organisation's risk management appetite and practices and decision making autonomy, with defined escalation paths and triggers in place.

## 9. Assurance over Significant Risks

- Assurance that mitigation and control responses to critical risks are appropriate or official acceptance that the risks are considered to be acceptable.

# Enterprise Risk Management

## Risk Management Process

Dragon Oil's business is potentially exposed to different risks. However, some business risks can be accepted by the Group provided that acceptance of such risks creates value and that the risks are properly managed.

### Risk overview

Dragon Oil's business is potentially exposed to different risks, oil & gas industry-specific risks as well as business-specific risks. However, some business risks can be accepted by the Group provided that acceptance of such risks creates value and that the risks are properly managed. We recognise that the effective management of the business risks is crucial to our continued growth and success. In 2012, we adopted an Enterprise Risk Management (ERM) framework. ERM consists of policies, procedures and the Group's organisational structure with clear roles, responsibilities and accountabilities aimed at risk identification, risk assessment, risk treatment and risk monitoring and reporting.

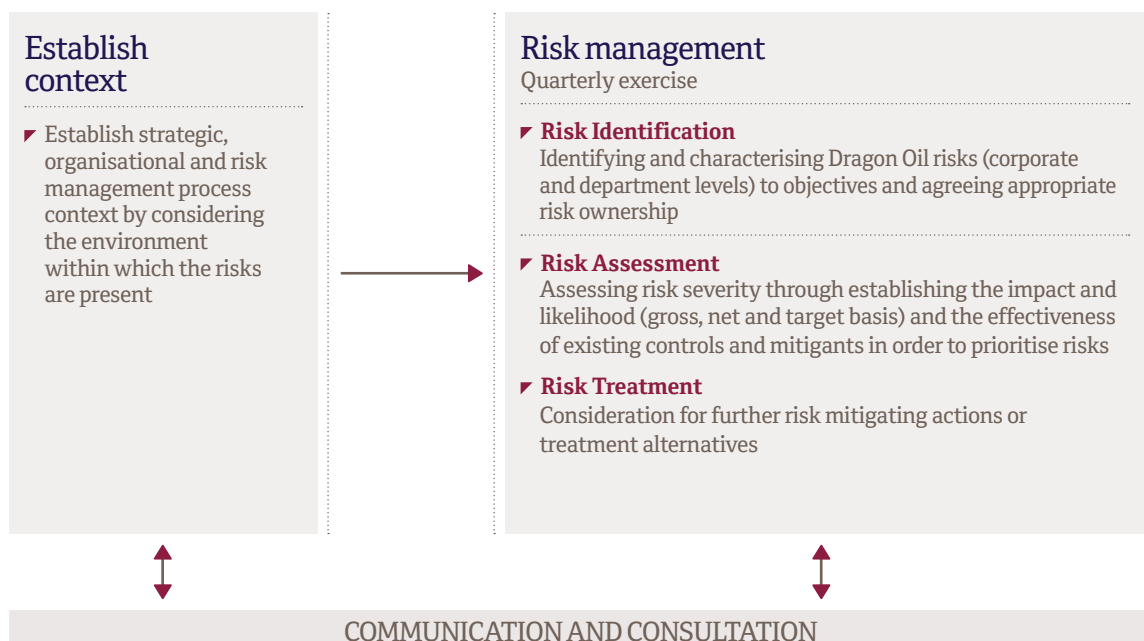
### The key objectives of the group's ERM are:

- to ensure that the significant business risks to which Dragon Oil is exposed are systematically identified, assessed and managed to acceptable levels based on risk tolerance and appetite levels as approved by the Board;
- to achieve an optimal risk-reward balance; and
- to ensure that risk management is embedded in all decision-making processes.

### Our approach to risk management

The Board is ultimately responsible for risk management within the Group in accordance with corporate governance requirements and provides an oversight of the strategic direction of the business. The business planning process extends over a five-year period and provides the principal parameters against which the performance of the Group is measured. These include annual objectives and targets covering production, development, exploration, HSE and financial performance. Business plans are approved by the Board together with defined operational targets and risks to delivery.

## Enterprise Risk Management process at Dragon Oil



Oversight of risk management at corporate level takes place through reporting to the Audit Committee and the Board annually. Risk Owners at department level assess the risks and evaluate the mitigation factors and progress of planned improvements quarterly while reporting to the Executive Committee semi-annually.

To manage risks and embed these into business activities and processes a Corporate Risk Register, comprising key Group level risks, and the Department Risk Registers, dealing with key activity risks, are created and reviewed periodically.

The CEO is the Group Risk Owner for the significant risks at corporate level and, along with the 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 the planned improvements.

A designated risk manager assists all Department Risk Owners in the ERM process to ensure that risk management complies with the relevant standards and that it is working effectively covering all aspects of the business.

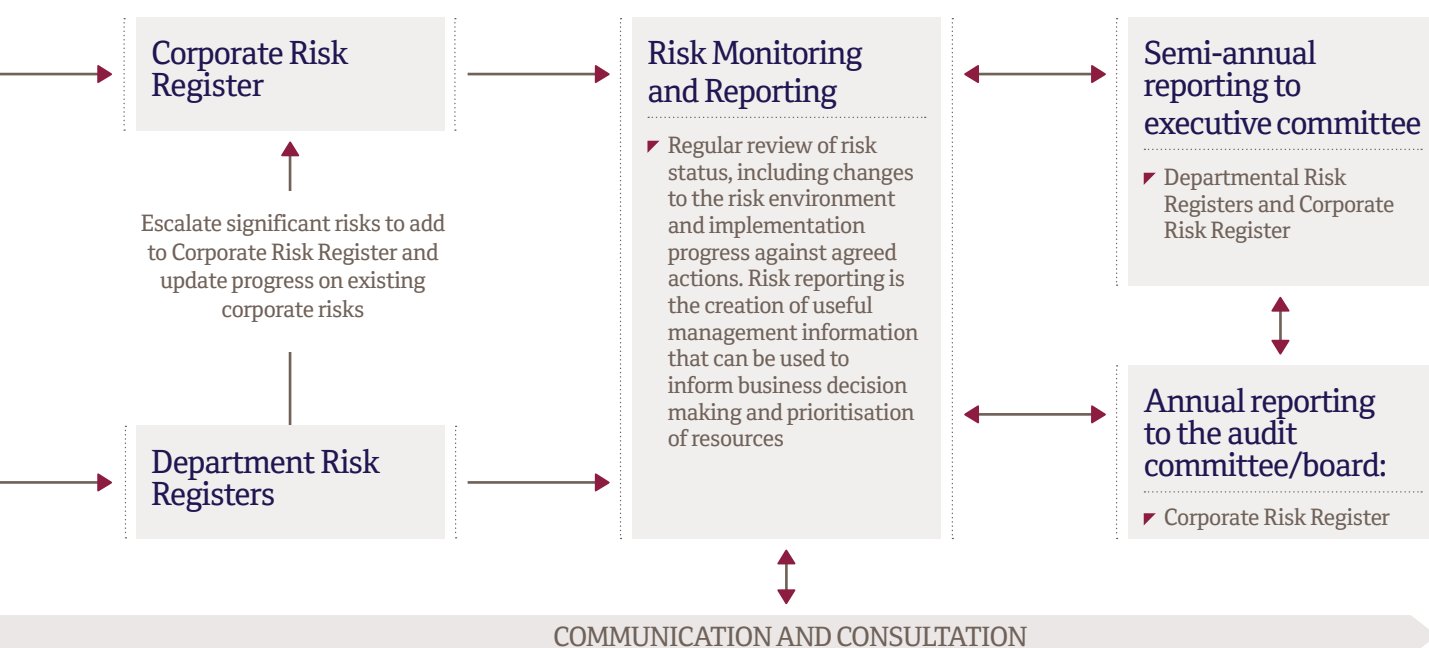
The Group adopts risk management strategies based on the nature and types of risks categorising them into: strategic, operational, financial and compliance risks.

In 2013, the programme of cascading the risk management process down to departments continued. Risks identified in the preceding year were reviewed in the current operating environment and updated in risk registers at corporate and department levels. The review of department risks arising from the risk assessment was focused on the critical risks that were considered in depth for mitigating measures.

Several training sessions were conducted on the use of improved tools aiming to standardise the documentation.

Despite significant improvements in documentation, targets have been set to modify the templates used to better reflect control over the changes between periodic assessments and mitigation plans.

The focus for the next year is embedding the ERM in the strategy and planning processes through a series of communication and consultation meetings across the Group.



# 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.