

driving production growth

Dragon Oil plc

Annual Report for the year
ended 31 December 2009

Stock code: **DGO**

Turning vision and expertise into value

➤ A message from the Chairman

I am pleased to report that Dragon Oil has delivered solid results in 2009 despite a challenging economic environment and that the stage has been set for stronger growth in 2010 and beyond. Stable oil prices enable us to confidently plan ahead and invest for growth. We are channelling our efforts into securing drilling and infrastructure projects to ensure even stronger performance in the coming year.

Last year was a turning point for Dragon Oil internally, with the Company becoming a stronger organisation driven by a new management team working to the highest ethical standards. Corporate governance was improved, notably with the launch of a new Code of Conduct, while the Board also spent considerable time with the management team, shaping the Group's mission and vision. We also pursued our objectives to improve continuously health and safety levels with notable results while Corporate Social Responsibility remained high on our agenda, reflecting Dragon Oil's belief that it is our duty and responsibility to take care of the community in which we operate.

I would like to emphasise that the Board is committed to increasing returns to all its shareholders and intends to leverage the Group's balance sheet strength by investing in growing oil production, the monetisation of its significant gas resources and in growth through the acquisition of new assets to underpin its future growth. On behalf of the Board, I would like to thank the shareholders for their continued support and the management and our employees for their work and commitment throughout the past year.



MOHAMMED AL GHURAIR
Chairman



Investment Statement

The management and the Board are committed to the Group's mission to explore and develop oil and gas resources by leveraging technology and a talented workforce whilst acting as a reliable, ethical and conscientious partner.

Dragon Oil has invested US\$1.5 billion in development and production assets in Turkmenistan up to 31 December 2009. Our medium term strategy to drive production growth for the next three years anticipates the completion of up to 40 new wells, including 5 appraisal wells, to support a production growth averaging 10% to 15% per annum with an infrastructure spend of approximately US\$600 to US\$700 million over the period. We are also focusing on diversifying our production base with new assets which add competitive advantage and provide a strategic fit with the Group. Furthermore we aim to progress the commercialisation of our considerable gas resources by continuing to put the necessary infrastructure in place to support this and by initiating formal discussions with the Turkmenistan Government on gas pricing this year.

Dragon Oil has a strong and dedicated management team supported by a highly-qualified employee resource base in Dubai and Turkmenistan. We will continue to invest for growth and work hard to translate strategy into value for the business for the benefit of our shareholders, our employees and our host governments.

Ask Dragon . . .

Question:

What areas are going to consume management's attention during the year ahead?

Answer:

We are focused on achieving the plans that are in place to continue to develop and build on the existing quality of our asset base in the Caspian Sea in order to drive production growth. As a result, we will continue to leverage the world class reservoir that we have developed over recent years by ensuring a good supply of rigs, using advanced technology and continuing to develop our infrastructure there. Management will also be focused on making further progress with regard to the monetisation of our gas resources and the future diversification of our asset base according to strict criteria.

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for more information
on Dragon Oil plc and
CSR activities go to
www.dragonoil.com

Operational Overview

Our Performance

Operational Highlights

Landmark Production Achieved

Dragon Oil's production hit the landmark level of 50,000 bopd at the turn of 2009-10. The average daily rate of production in 2009 rose 9% to 44,765 bopd compared to 40,992 in 2008. This was driven by the Group completing eight development wells during the year with two rigs employed full-time.

[Read more on pg.16](#)

Production Growth

Dragon Oil had a particularly successful year for procuring additional drilling rigs. We secured a two-year contract extension to May 2011 for our existing jack-up rig, the Iran Khazar, and awarded contracts for the use of three more rigs to support our drilling programme. We also awarded a contract to Yantai Raffles Offshore Ltd, for the lease and management of a new build Super M2 jack up rig for delivery in Q4 2011.

[Read more on pg.17](#)



Above: LAM A platform in the Dzeheitune (LAM) field.

Building Infrastructure

The new Dzeheitune (Lam) B platform was installed in December 2009, marking the second production platform to be built and installed in the Cheleken Contract Area since Dragon Oil became the operator in 2000. The Dzeheitune (Lam) 63 platform was refurbished and upgraded while the construction of the 30", 40 km oil and gas trunkline and Phase 2 expansion of the Central Processing Facility continued and is expected to be completed during H2 2010.

[Read more on pg.17](#)

Marketing

Dragon Oil sold 10.5 million barrels of crude oil in 2009 representing a 40% increase in volume compared to 2008. Approximately 90% of crude oil was exported under the swap agreement with Iran, with the balance exported via Baku, Azerbaijan.

[Read more on pg.16](#)

Our People

The Group increased its average headcount in 2009 to 1,015 representing an 11% increase over 2008. We continued with our objective of strengthening our expertise, cultural diversity and talent through hiring experienced and competent people.

[Read more on pg.19](#)

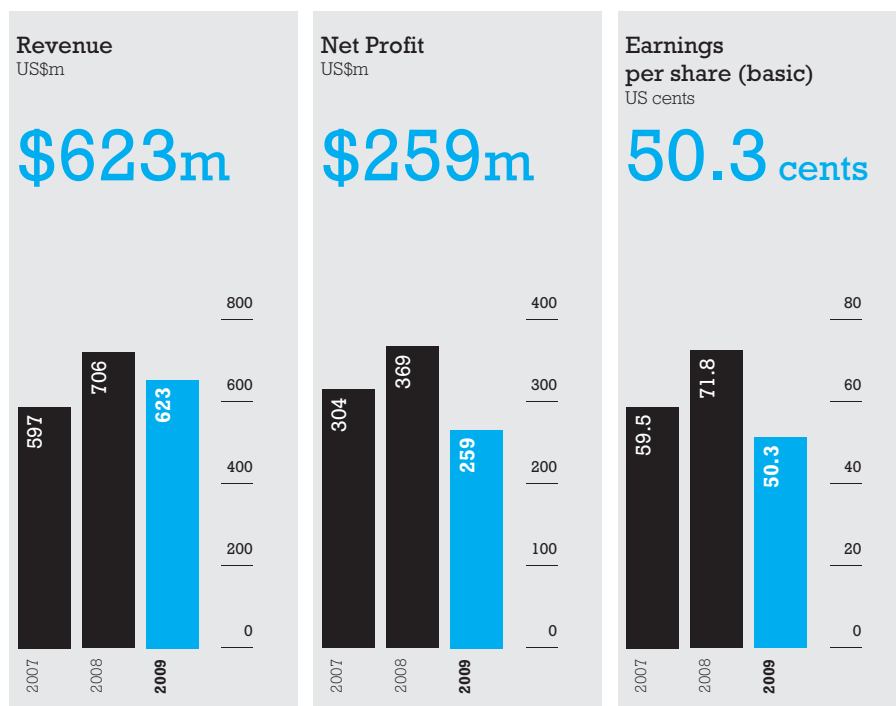
10th Anniversary

2009 marked the 10th anniversary of Dragon Oil's Production Sharing Agreement (PSA) for the Cheleken Contract Area. From its signing in 1999, we have successfully increased average gross daily production from about 7,000 bbls per day to about 50,000 bbls per day of oil at the end of 2009, achieving a production growth reflecting the mutually beneficial cooperation between Dragon Oil and the State Agency for Management and Use of Hydrocarbon Resources in Turkmenistan. Between 1999 and 2009 Dragon Oil has invested a total of approximately US\$1.5 billion in the Cheleken Contract Area, drilling 40 new wells and working-over 38 existing wells, upgrading seven, and building two, new production platforms and laying over 80 kms of infield pipelines.



Above: Drilling operation.

Financial Highlights



Ask Dragon . . .

Question:

Is Dragon Oil's size an advantage or a disadvantage?

Answer:

Our size is clearly an advantage and is helping to drive the progressive pace of growth within the business. Our financial strength allows us to 'punch above our weight' and our entrepreneurial spirit allows us to seek out opportunities that others in our sector may pass by. We are small enough to be flexible but large enough in terms of expertise and financial strength to add real value to our partners on projects where we choose to team up. Overall our size should be seen as an opportunity to those that we collaborate with.

Our Strategy

Driving Production Growth

We are looking to maximise the returns from our high quality asset base through maintaining a good supply of rigs. The recently contracted Super M2 jack-up rig is critical to this strategy as it will be a newly built powerful rig, capable of drilling new wells faster and more efficiently.

Investing in Infrastructure

We are currently planning two additional wellhead and production platforms to be built and installed within the next two to three years to maximise crude recovery, while the new trunkline and upgrade of the Central Processing Facility are due to be completed later this year.

Investing in People

We will continue to focus on strengthening our employee base through both high quality recruitment and developing local personnel in Turkmenistan through a new staff training programme and a new Centre of Excellence to be completed later this year.

Leveraging Technology

Dragon Oil is leveraging technology to drive production growth and achieve our targets. We use both dual completion and high angle, extended reach wells to maximise production potential combined with sophisticated tools such as 3-D seismic imaging and reservoir simulation models.

Commercialising our Gas Resources

We continue to put the necessary infrastructure in place to commercialise our gas resources with the new trunkline, the Central Processing Facility upgrade and FEED study for a gas treatment plant. We expect to progress formal discussions on gas pricing with the Turkmenistan Government during 2010.

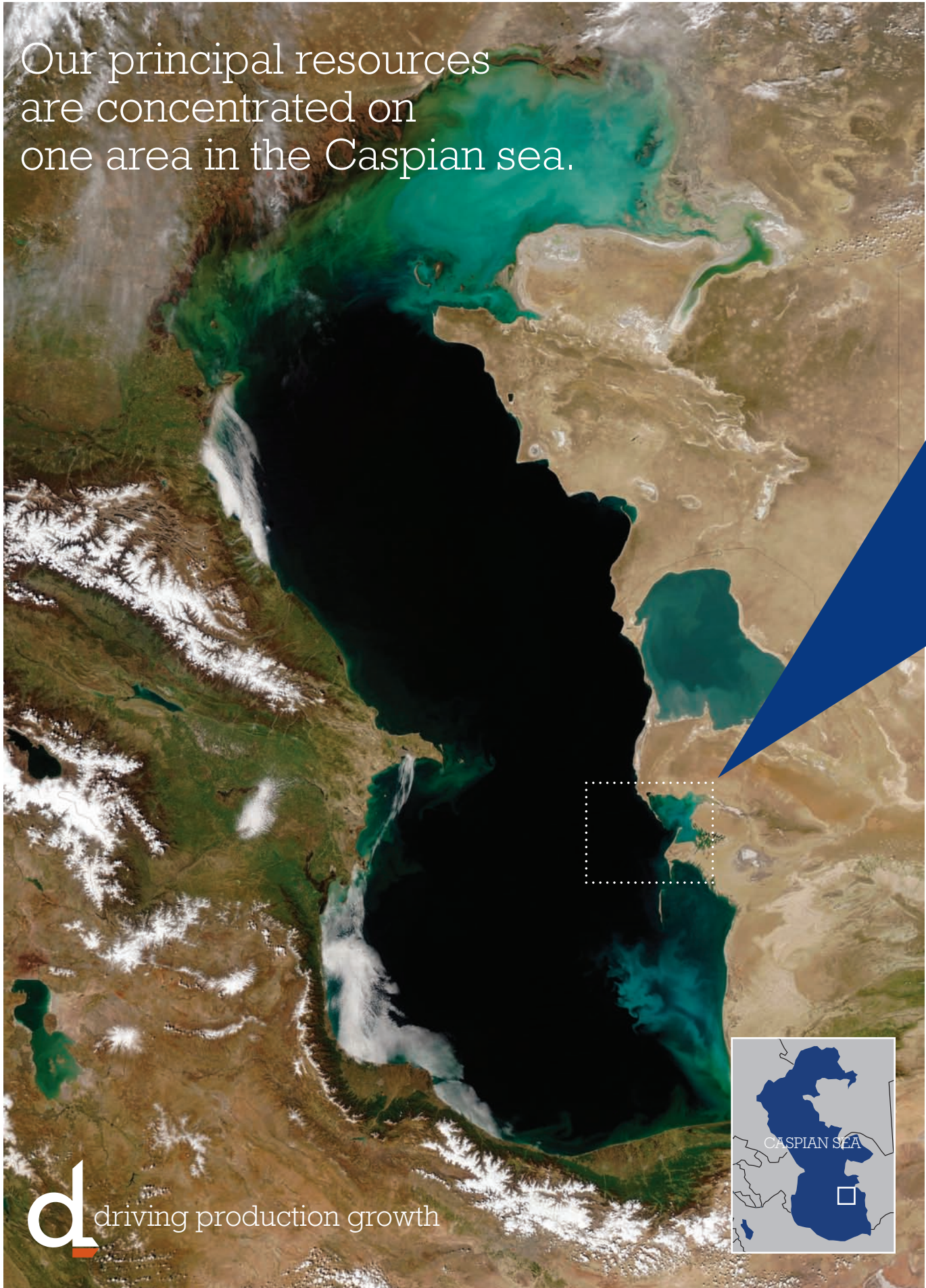
Securing New Assets

We continue to progress our diversification strategy looking to find new assets which add competitive advantage and provide a strategic fit with the Group. This will continue to be a key activity for us in 2010.

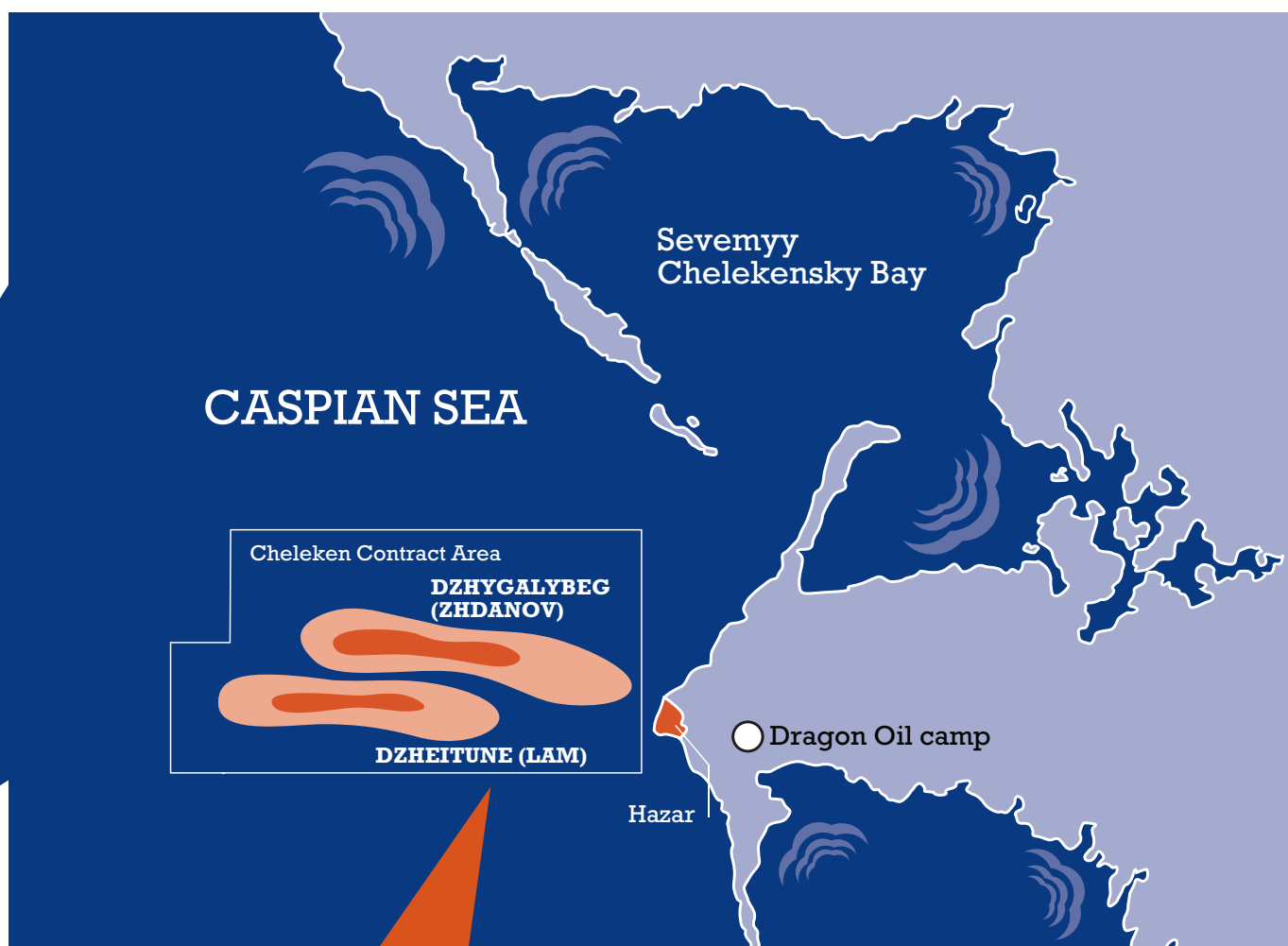
Operational Overview

Our Region of Operation

Our principal resources are concentrated on one area in the Caspian sea.



d driving production growth



Cheleken Field Areas

Introduction

The Dzheitune (Lam) and Dzhygalybeg (Zhdanov) Fields are located in the Cheleken Contract Area, offshore Turkmenistan, west of the coastal town of Hazar. The fields comprise two elongate anticlines situated at the eastern end of the Apsheron Ridge. The Apsheron Ridge is a prolific hydrocarbon play extending from the Apsheron Peninsula in Azerbaijan to the Cheleken Peninsula in Turkmenistan, and divides the South Caspian Basin from the Middle Caspian Basin.

Dzheitune (LAM)

The Dzheitune (Lam) Field is located to the South-West of Dzhygalybeg (Zhdanov) Field. Since signing the PSA in 2000, Dragon Oil has drilled numerous new wells on the Dzheitune (Lam) Field, constructed and installed two entirely new platforms, refurbished and upgraded existing platforms and performed many

successful work-overs. Production is mainly from the productive Red Series.

- First well spud 1967
- First production 1978
- 54 Soviet era wells including numerous wells still in production
- Drilled 40 new wells and worked-over 38 existing wells
- Two new production platforms installed
- The first appraisal well based on 3-D seismic drilled on the Dzheitune (Lam) West structure
- 3D Seismic survey acquired in 2004/2005, interpretation completed, continuous additional studies and refinement ongoing

Dzhygalybeg (Zhdanov)

The Dzhygalybeg (Zhdanov) Field is located to the North-East of Dzheitune (Lam). The initial exploration and prospecting of the Dzhygalybeg (ZH) structure began in 1965. The first well with commercial oil and gas was drilled in



Above: Rig on offshore platform.

1966. The field has produced oil and gas from a series of numerous, stacked early to middle Pliocene Red Series sandstone reservoirs. Dragon Oil has completed a number of successful work-overs.

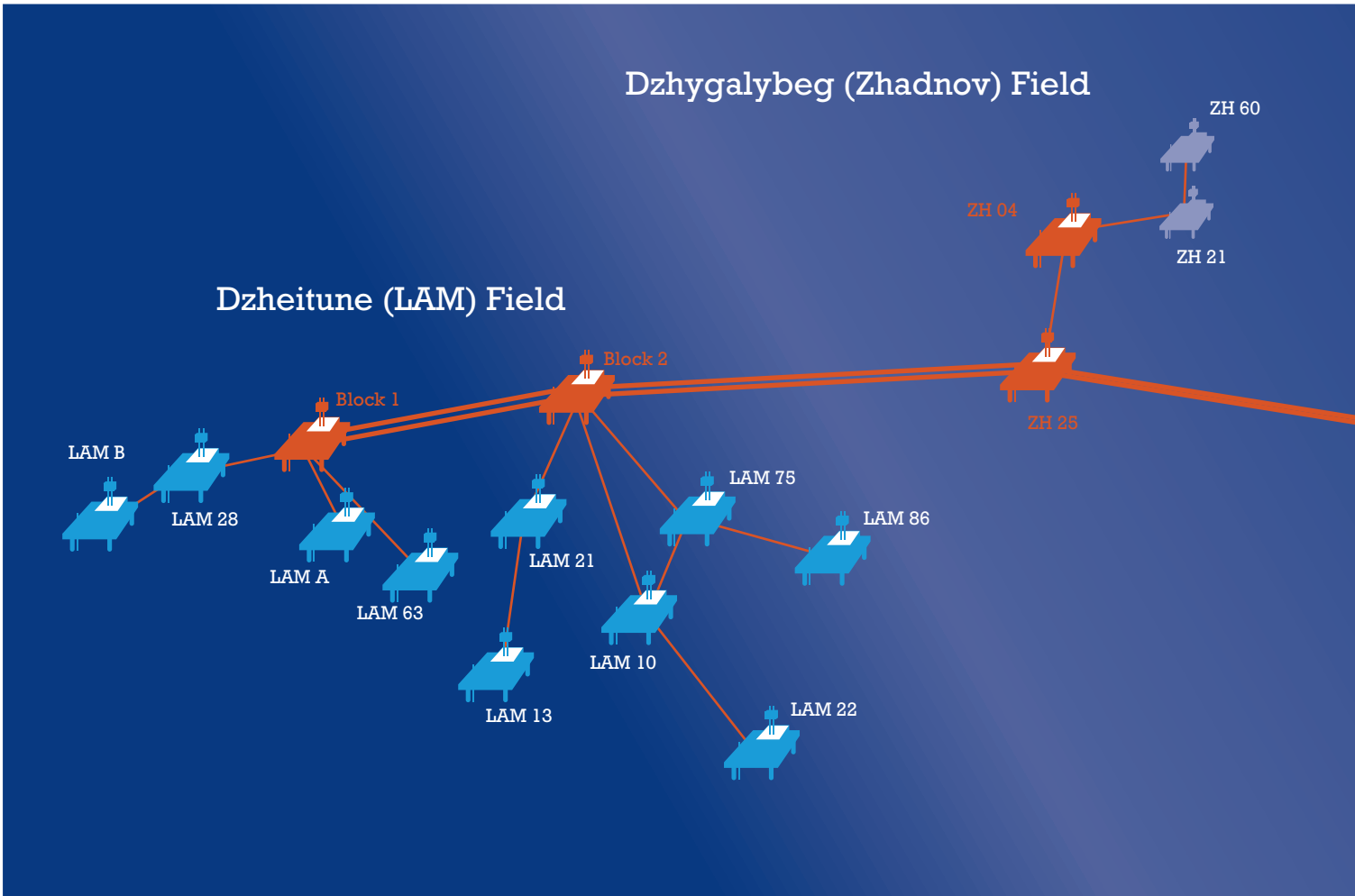
- Discovered 1966
- First production 1972
- 59 Soviet era wells
- 3D Seismic survey acquired in 2005, interpretation completed, additional studies in progress

Operational Overview

Our field area explained

The Dragon Oil Group operates its principal asset offshore in the Caspian Sea from its onshore base in Turkmenistan. The base is near the town of Hazar, which is located on the western coast of Turkmenistan.

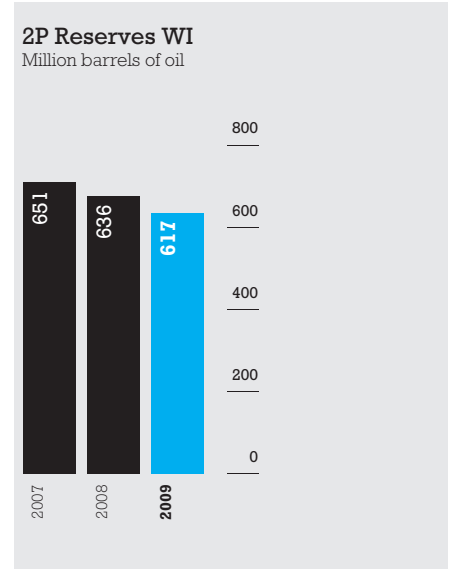
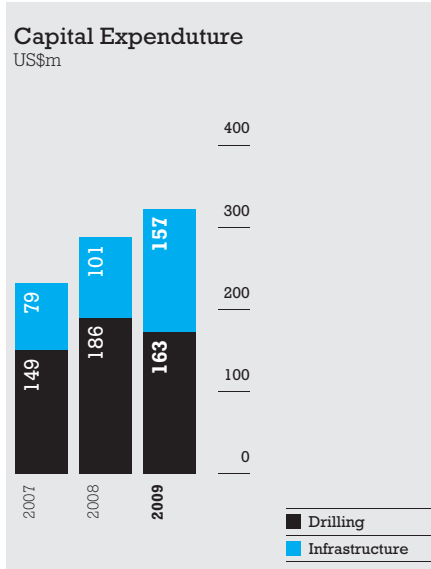
In addition, Dragon Oil has offices in the capital of Turkmenistan, Ashgabat, where both Country Managers are located.



Our infrastructure

Dragon Oil continued its infrastructure programme adding additional capacity, removing bottlenecks and expanding processing, storage and export capacity.

- Total of 11 platforms in production including two new production platforms.
- Central processing facility to handle fluids up to 60,000 boepd.
- Upgraded export jetty to facilitate simultaneous loading of two tankers.



Ask Dragon . . .

Question:

In which areas of the business will Dragon Oil continue to build momentum?

Answer:

The next three years represent a key growth phase for the business. The new trunk line, the expansion of the central processing facility, the delivery of the new Super M2 jack-up rig and the addition of further capacity to our existing infrastructure will allow us to step up to the next level of production. This will enable the aggressive development of the Cheleken Contract Area as well as the broader growth of the Group to create value to our Shareholders.

Ask Dragon . . .

Question:

What progress have you made in developing your activities beyond the Caspian Sea region?

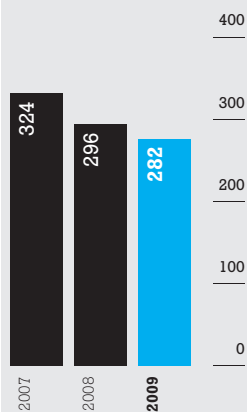
Answer:

To date, our diversification strategy has been limited by the intense competition for preferred assets and by our own strict criteria to consider only those potential acquisitions which can add competitive advantage to, and provide a strategic fit with, our business whilst ensuring value for money. We have been looking at preferred geographic locations with various possible partners; however, we have a stated desire that diversification will not occur at any price or simply from the pressure of being seen to do something for its own sake. The fact that we haven't announced anything over the last couple of years is testament to our commitment to make investment decisions that in the longer term add value to the Group.



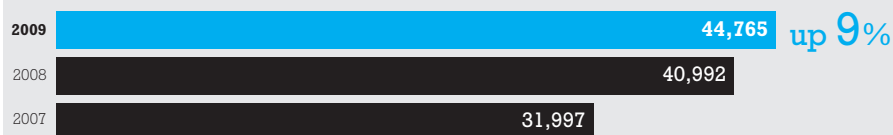
2P Reserves Entitlement

Million barrels of oil

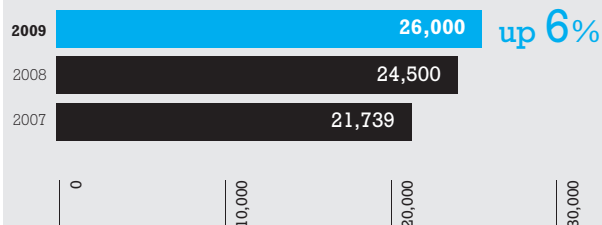


Average production, bopd

Working interest



Entitlement (approx.)



Delivering our Strategy

How we Deliver

Strong operational performance is driven by a committed management team with focus on production growth, drilling activities and infrastructure investment.





Ask Dragon . . .

Question:

Is ENOC a committed long term shareholder?

Answer:

We cannot speak on behalf of ENOC but Dragon Oil has operated extremely well for a number of years with the support of ENOC as a majority shareholder. We have appreciated ENOC's long term support and have no reason to doubt that the Company will continue to receive such assistance. Indeed ENOC publicly stated during the offer process that it would continue to be a long-term, strategic investor in Dragon Oil.

Ask Dragon . . .

Question:

Why did Dragon Oil set up an Independent Committee to assess last year's ENOC Offer and how can shareholders be sure that the Committee was indeed independent?

Answer:

Under the Irish Takeover Rules, if any of the directors of a target company's board are conflicted by an approach or offer from a potential acquirer, then only a Committee made up of Independent Directors should evaluate that approach or offer, engage in negotiations with the potential acquirer and provide a recommendation as to the fairness of that offer to minority shareholders.

For Dragon Oil, two Directors are ENOC nominees and one Director is also the CEO (i.e. part of the management team), so the Independent Committee could only comprise the remaining Independent Non-executive Directors, thereby excluding any influence by the ENOC representatives. Further, the Independent Committee was advised jointly by two sets of external financial advisors on the offer who also oversaw the integrity of the overall offer and recommendation process. The Independent Committee was approved by the High Court and Irish Takeover Panel.

We believe the Committee fulfilled its role impartially and with high integrity – they provided the minority shareholders with a recommendation on the fair value of the offer without influence in any way from ENOC's Board representatives. It was then for the shareholders to make their own decision on the recommendation. The Independent Committee's role was publicly acknowledged and praised by some of the leading opponents of the Proposed Acquisition.

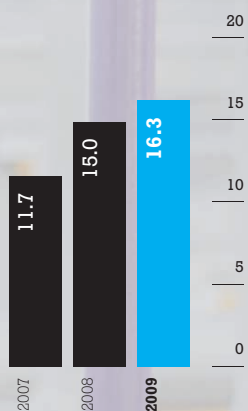
Delivering our Strategy

What we have achieved

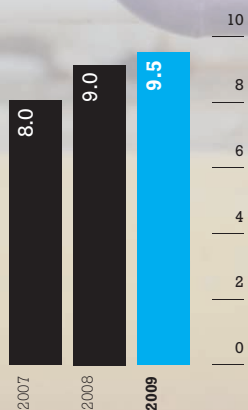
Growing our business from oil development areas that we know and understand

What we have achieved in 2009

Gross field production
Million barrels of oil



Entitlement barrels
Million barrels of oil



Quarter One

- Average daily production rate reached 43,787 bopd in Q1 2009, an increase of 19% over the comparable period in 2008
- 27 March 2009 – Results announced of the latest reserves certification for the Cheleken Contract Area with proved and probable (2P) reserves of 645 million barrels of oil and condensate and 3.2 tcf of gas resources as at 30 June 2008
- Iran Khazar rig underwent planned maintenance at the beginning of the year and was then mobilised to the Dzheitune (Lam) 28 platform where it commenced drilling at the end of March 2009.
- Rigless workover operation conducted on Dzheitune (Lam) 13/96 well that resulted in incremental production of 783 bopd.

Quarter Two

- 11% increase in average daily production at 42,808 bopd achieved in the first six months of 2009 compared to the first half of 2008.
- 9 April 2009 – Contract for the Iran Khazar jack-up rig was successfully extended for a further two years until May 2011
- 19 May 2009 – Dzheitune (Lam) 13/133A well completed yielding a combined rate of 2,628 bopd with a depth of 2,975 metres representing the first well to be drilled using Dragon Oil's own platform-based drilling rig, Rig 40, since its refurbishment and upgrade.
- 3 June 2009 – Dzheitune (Lam) 28/134 well completed yielding a combined rate of 3,554 bopd with a depth of 3,280 metres using the Iran Khazar jack-up rig and representing the second well to be completed from the refurbished Dzheitune (Lam) 28 platform.
- 18 June 2009 – Contract signed with BKE Shelf Limited to hire the Astra jack-up rig for a period of six months commencing in November 2009 on favourable terms with plans to use this rig to drill two wells during the contract term.
- Additional slots on the Dzheitune (Lam) A platform were added.

Quarter Three

- Average daily production rate in Q3 was 46,060 bopd, an increase of 9% over Q3 2008.
- July 2009 – Commenced installation of the Dzheitune (Lam) B platform representing Dragon Oil's second new platform to be built and installed in the field since becoming the operator in 2000
- 29 July 2009 – Dzheitune (Lam) 28/136 well completed yielding a combined rate of 3,291 bopd with a depth of 3,075 metres using the Iran Khazar jack-up rig and representing the third well to be completed from the refurbished Dzheitune (Lam) 28 platform.
- 5 August 2009 – Dzheitune (Lam) 13/135 well completed yielding a combined rate of 1,320 bopd with a depth of 3,302 metres using the platform-based Rig 40.
- Commenced the tendering process for two additional wellhead and production platforms that are planned to be built in the next 2-3 years.
- Tendering for FEED study commenced to advance gas commercialisation plans.

Quarter Four

- Dragon Oil hits landmark production level of 50,000 bopd at the turn of 2009
- 14 October 2009 – Dzheitune (Lam) 28/137 well completed yielding a combined rate of 2,141 bopd with a depth of 3,301 metres using the Iran Khazar jack-up rig. Dzheitune (Lam) 13/138 well completed yielding a combined rates of 2,511 bopd with a depth of 3,268 metres using Rig 40.
- 15 December 2009 – Installation of the Dzheitune (Lam) B platform completed in the Western part of the Dzheitune (Lam) field with plans to drill eight wells from this new platform. The Astra jack-up rig was successfully mobilised to this platform spudding its first well, the Dzheitune (Lam) B/141.
- 15 December 2009 – Dzheitune (Lam) A/139 well completed yielding a combined rate of 2,647 bopd with a depth of 3,360 metres using the Iran Khazar jack-up rig.
- 23 December 2009 – Two-year contract awarded to Naftna Industrija Srbige (NIS) Naftagas for the lease and management of the NIS land rig, formerly known as CIS Rig1, with plans to drill seven wells during its contract term.
- 24 December 2009 – Dzheitune (Lam) 13/140 well completed yielding a rate of 1,317 bopd with a depth of 3,320 metres using Rig 40.

Our plans for 2010 to 2012

2010

- Plans to complete up to 11 wells
- Target annual production growth of 15%
- US\$250 million allocated for capital expenditure in oil infrastructure projects
- Continue progress made in commercialisation of gas resources
- Pursue diversification of asset base with focus maintained on quality and strategic fit

2010 to 2012

- Plans to complete up to a total of 40 development wells, including five appraisal wells
- Target annual production growth of 10% to 15% on average
- Plans to install two additional wellhead and production platforms over next 2-3 years
- Total capital expenditure for oil infrastructure projects estimated at US\$600-700 million
- Continue progress made in commercialisation of gas resources
- Pursue diversification of asset base with focus maintained on quality and strategic fit

Message from the Chief Executive Officer



“In 2009, we completed eight wells and our goal for 2010 is to complete 11 wells. The average gross production growth in 2009 was 9% over 2008. With more rigs operating we expect to achieve a 15% growth in the average gross production rate in 2010.”

Dragon Oil delivered solid results in 2009 driven by a strong operational performance against the backdrop of a steady recovery in oil prices during the year. I am proud to report that at the turn of 2009–10, Dragon Oil's production hit the landmark level of 50,000 bopd. This is a significant achievement and is a testament to the hard work and dedication of all of our employees. The management team remains committed to growing the business with a strong focus on production levels, drilling operations and infrastructure investment.

Sales volumes of crude oil increased 40% in 2009 over the prior year, although revenues were 12% lower primarily reflecting the much lower comparative oil price. However, net cash generated from operations continued to be strong at US\$500 million with an earnings per share of 50.30 US cents for the year. We have a strong balance sheet with a cash balance of over US\$1 billion at year-end 2009 which provides us with significant financial flexibility going forward. Capital expenditure on drilling and infrastructure projects in Turkmenistan for 2009 was US\$317 million, of which 50% was attributable to drilling and the remaining balance spent on infrastructure projects.

I am pleased to note that having fallen to a five year low of US\$30 per barrel at the end of 2008, oil prices have since improved and appear to have reached some relative stability in the US\$70–US\$80 per barrel level.

Driving Production Growth

I am pleased to report that Dragon Oil had a particularly successful year for procuring additional drilling rigs. During 2009 and in early 2010, we managed to secure a two-year contract extension for our existing jack-up rig, the Iran Khazar, and awarded contracts for the use of three more rigs to support our medium and long-term drilling programme.

The contract for the Iran Khazar jack-up drilling rig, which we have been successfully employing since 2005, has been extended until May 2011. Dragon Oil also secured the platform-based NIS Rig for the 2010–11 period starting from December 2009. Additionally, the Astra jack-up drilling rig is operating for us on a six month basis and commenced

operations in December 2009. Our aim is to continue to employ it during the latter part of the year depending on its availability and terms.

In early 2010, Dragon Oil also awarded a contract to Yantai Raffles Offshore Ltd. for the lease and management of a new build Super M2 jack-up rig (the “M2 jack-up rig”). This is an excellent opportunity for the Group to employ a newly built powerful jack-up rig that will be constructed as a self-elevating drilling unit in accordance with international marine construction standards. We expect the M2 jack-up rig to be constructed and mobilized to the Cheleken Contract Area in Q4 2011. Dragon Oil intends to use the M2 jack-up rig for an initial duration of five years, with an option to extend it for a further period of up to two years.

Our strategy is to secure new rig contracts or roll forward existing contracts to ensure that we always have an adequate number of rigs operating for us to progress the development of the Cheleken Contract Area and deliver on our objectives.

In 2009, we completed 8 wells and our goal for 2010 is to complete 11 wells. The average gross production growth in 2009 was 9% over 2008. With more rigs operating in 2010, we expect to achieve a 15% growth in the average gross production rate in 2010.

Investing in Future Production

A new platform, the Dzheitune (Lam) B, was installed in December 2009 in the Western part of the Dzheitune (Lam) field. It marks the second platform to be built and installed in the Cheleken Contract Area since Dragon Oil became the operator in 2000. More broadly, our field development plan includes the phased installation of additional platforms during the course of the PSA to maximise recovery of crude oil from these fields. To this end we are currently planning for two additional wellhead and production platforms that we expect to be built and installed in the next two to three years.

Securing New Assets and Commercialising our Gas Resources

We continue to progress our strategies of diversification and gas monetisation. It remains a challenging task to find assets

that add competitive advantage and provide a strategic fit with the Group. This will be a key activity for us during 2010 as our New Ventures Team actively focuses on opportunities in North Africa, the Middle East and Central Asia where we believe we have the best strategic fit.

We are hopeful that we will be given an opportunity to commercialise our gas resources. With this aim, we are putting the necessary infrastructure in place with a new trunkline whilst we expect to progress further the formal discussions on gas pricing with the Turkmenistan Government during 2010.

Significant Corporate Developments

2009 was an eventful year for Dragon Oil on the corporate front. We swiftly launched an investigation into irregularities in the Marketing and Contracts Departments which came to light in February 2009. We dealt quickly with the issues putting in place a new Code of Conduct. All procurement policies and procedures are now operating effectively.

In early 2009, the Company announced a corporate restructuring whereby a Bermuda-incorporated company would be established as the new holding company of the Group. Following the approach received from ENOC the restructuring was put on hold. The Board is currently re-examining the proposal and reviewing options.

Strengthening the Team

We continued with our objective within the Human Resources field to strengthen our expertise, cultural diversity and talent through hiring experienced and competent people. In 2009, we introduced a number of key roles, including the General Manager of Petroleum Development. In preparation for greater activity levels, the Group has increased its staff by 11% over the previous year taking the average number of staff to 1,015 during 2009. In 2010 we are launching a new staff training programme together with the establishment of a new Centre of Excellence for local staff training in Turkmenistan.

Giving Back to the Community

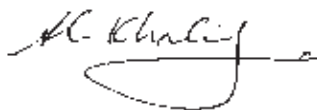
As our business in Turkmenistan continues to grow substantially, we recognise the mounting importance of our social responsibility towards the welfare of the communities close to our operations. I am proud to announce that a 1,500m³ desalination plant is being commissioned in Hazar, Turkmenistan. From this plant, a large and stable volume of potable water will be supplied to the local community in Hazar. We continue to support the local Hazar community through the construction and refurbishment of sports and health facilities. As a major step towards this objective, we plan to build a new clinic in order to enhance the available local health facilities.

Delivering Growth

The management and the Board are committed to the Group's mission to explore and develop oil and gas resources by leveraging technology and a talented workforce whilst acting as a reliable, ethical and conscientious partner.

Our medium-term strategy, for the period from 2010 to 2012, anticipates the completion of up to 40 new wells, including 5 appraisal wells, to support a target rate of production growth averaging 10% to 15% per annum over that three year period with an aggregate infrastructure spend of approximately US\$600-700 million over the period.

Dragon Oil has a strong and dedicated management team supported by a highly qualified employee resource base in Dubai and Turkmenistan. We will continue to invest for growth and work hard to translate strategy into value for the business for the benefit of our shareholders, our employees and our hosts. We look forward to the years ahead and to delivering that value.



Dr ABDUL JALEEL AL KHALIFA
Chief Executive Officer



Above: Offshore field operations.



Above: Dragon Oil camp in Hazar

Ask Dragon . . .

Question:

As part of your new venture aspirations, how would you describe the 'sweet spot' for any potential acquisition target?

Answer:

Location is always going to be important but to some extent will be driven by the fact that future oil and gas opportunities are going to be in the more difficult, remote parts of the world. We recognise the 'low hanging fruits' of the oil and gas sector are few and far between. However, we pride ourselves in our ability to get value from our hydrocarbon assets – late exploration through to early production is clearly where our interest lies. Our track record is testament to our ability to improve production levels in challenging areas. Over the last decade we have focused on our core asset and increased our production levels significantly, clearly taking the business to the next stage of development. Obviously we have a strong culture within the business so future opportunities within the Caspian Sea or Middle East regions would provide for a great cultural fit. However, our strengths lie in our ability to take production assets to the next level and any acquisition will need to demonstrate a clear fit with our core competencies.

Chairman's Statement



“Dragon Oil delivered solid results in 2009 despite this challenging environment and the stage has been set for stronger growth in 2010 and beyond.”

We entered 2009 against a background of recessionary fears brought about by the crisis in the financial markets and a global economic downturn. Towards the end of 2008 oil prices had fallen to a five year low of US\$30 per barrel. By the end of 2009, more positive signals were emerging from economies around the world and oil prices were stabilising around US\$70 per barrel. The volatility of oil prices not only affects revenues and operations but also the outlook for companies operating within the industry. Stable prices enable us to confidently plan ahead and invest for growth.

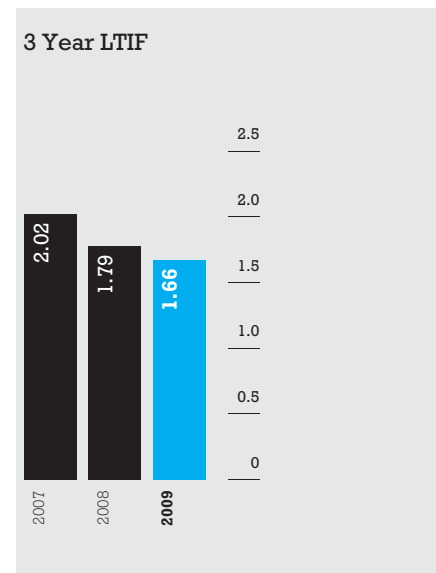
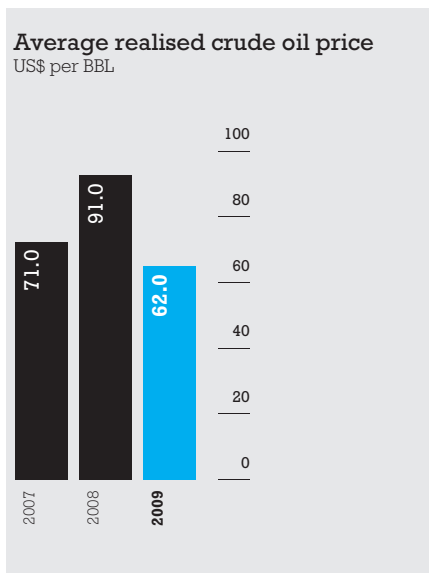
Dragon Oil delivered solid results in 2009 despite this challenging environment and the stage has been set for stronger growth in 2010 and beyond.

Last year was a turning point for Dragon Oil. The Group has undergone significant changes, following the launch of the investigation within the Marketing and Contracts Departments early in 2009. Dragon Oil is now a stronger organisation driven by a new management team working to the highest ethical standards. The management possesses the knowledge, expertise and experience to take Dragon Oil to the next level of development.

In 2009, the Board members spent considerable time with the management team, shaping the Group's mission and vision. The Board is committed to increasing returns to all its shareholders and intends to leverage the Group's balance sheet strength by investing in growing oil production, the monetisation of its significant gas resources and in growth through the acquisition of new assets which provide a strategic fit with the Group. This is designed to create substantial value within the Group and underpin its future growth.

During the second half of 2009, an approach and subsequently a formal offer was made by Emirates National Oil Company Limited (ENOC) L.L.C. (“ENOC”) to acquire the shares in Dragon Oil that ENOC did not already own. An Independent Committee of the Board was formed to evaluate the proposed acquisition. The formal offer from ENOC was recommended to the minority shareholders on 11 December 2009, which was not approved by the minority shareholders. The Board fully respects that decision.

I am pleased to note that notwithstanding the above mentioned corporate events that required time and commitment from management, the management team's focus remained steadfast on the operations and development of the Cheleken Contract Area. The Group delivered solid results in an uncertain market environment and channelled its efforts into securing drilling and infrastructure contracts to ensure even stronger performance in the coming years.



Strengthened Corporate Governance

Corporate governance remains an area of key focus for us and we have seen progress there as well, notably in the launch of a new Code of Conduct. Dragon Oil can only build and grow on solid foundations of integrity and strong ethics. The new Code is intended to assist all employees in meeting high standards of personal and professional integrity.

Improvements to Health and Safety

We have pursued our objectives to improve continuously health and safety levels with the recorded Lost Time Incident Frequency Rate falling to 1.66 in 2009 from 1.79 in 2008. This is primarily attributable to a strengthened Health and Safety team and an ongoing improvement of the Health, Safety and Environment ("HSE") facilities and processes.

We have plans to expand the staff training programme and launch a Centre of Excellence based in Turkmenistan which is expected to be completed by the year-end. In addition, HSE manpower will be increased with emphasis placed on training and recruiting local people to these roles.

An Active Corporate Social Responsibility Programme

The Corporate Social Responsibility ("CSR") team, whose responsibilities include planning, managing and monitoring all the Group's ongoing and future CSR activities, has been very active during 2009. As a result, the Company was involved in a number of initiatives which reflect Dragon Oil's belief that it is our duty and responsibility to take care of the community in which we operate.

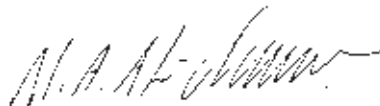
Key projects included the completion of the desalination plant in Hazar, Turkmenistan that would supply a substantial proportion of potable water to the Hazar town benefiting local residents, a substantial number

of whom are employed by Dragon Oil. In 2009, the Group launched its first CSR programme in the UAE. It extended support to a Center for Care and Rehabilitation, an organisation that focuses on educational care and training for children with special needs from the Gulf Co-operation Council countries.

Forging Stronger Relations with the Government of Turkmenistan

The relationship between the Government of Turkmenistan, the State Agency for the Management and Use of Hydrocarbon Resources ("Agency") and Dragon Oil remains strong with frequent high-level meetings and positive interaction. My recent visits to Turkmenistan included attendance at the annual Turkmenistan International Oil and Gas Conference in Ashgabad in November 2009 arranged by the Agency and the Ministry of Oil and Gas Industry and Mineral Resources of Turkmenistan. This conference clearly demonstrated the Turkmenistan Government's openness and strategy to attract foreign companies with modern technologies as well as its readiness to implement new oil and gas projects in the country. More recently, in January 2010 Dragon Oil participated in the Turkmenistan Investment Forum held in Abu Dhabi and then had the pleasure to host Turkmenistan Government officials who attended the forum.

On behalf of the Board, I would like to thank the shareholders for their continued support and the management and our employees for their work and commitment throughout the past year.



MOHAMMED AL GHURAIR
Chairman



Above: Export lines to Aladja jetty.

Ask Dragon . . .

Question:

How would you describe the core strengths of the Dragon Oil management team?

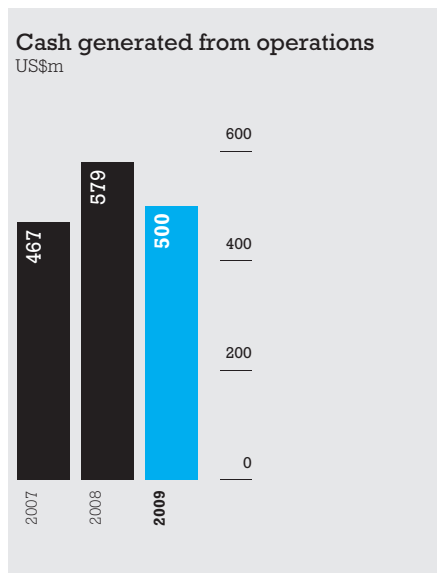
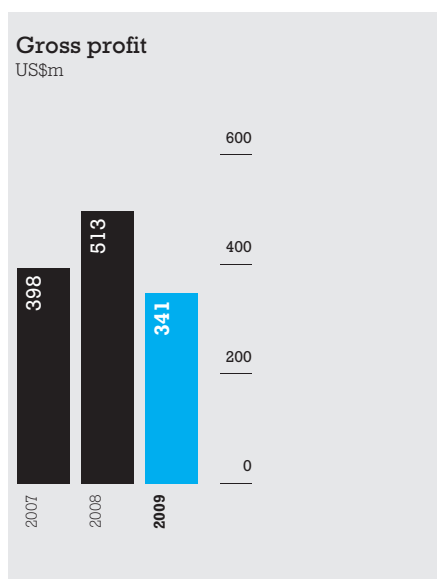
Answer:

A clear mission, led by entrepreneurially-driven experts in their respective fields combines to make a robust and insightful management team. Emphasis on transparent working processes, high ethical standards and a commitment to get the best from the resources available is providing the opportunity for superior performance.

Operating & Financial Review

Critical development applications in demanding operating environments

“Dragon Oil reached the landmark production level of 50,000 bopd at the turn of 2009-10”



Dragon Oil reached the landmark production level of 50,000 bopd at the turn of 2009-10. The Group continued to deliver solid performance and the successful development of the Cheleken Contract Area, having increased average gross daily production by 9% over the 2008 level. We had two rigs, the platform-based Rig 40 and the Iran Khazar jack-up rig, operating full-time for the Group. The rigs completed four wells each in the course of 2009. The drilling programme included planned maintenance of the Iran Khazar rig and changes to the drilling plan of the first well by Rig 40 at the beginning of 2009. This resulted in wells coming on stream starting from Q2 2009, slightly later than initially anticipated, with the last two wells having been put into production towards the end of 2009.

Production

The average daily production rate on a working interest basis increased by 9% to 44,765 bopd in 2009. This is compared to the average daily production rate of 40,992 bopd achieved in 2008. The Group completed eight wells employing two rigs full-time throughout the year. The number of wells put into production and the flow rates from these wells determined the level of the increase in the average daily production in 2009. As the last two wells came on stream at the end of the year, they have been primarily contributing to average production in 2010 rather than 2009.

The entitlement production in 2009 was approximately 58% of the gross production compared to about 60%

in 2008. Entitlement barrels are dependent, amongst other factors, on fiscal terms of the PSA, operating and development expenditure in the period and the realised crude oil price.

Marketing

Dragon Oil sold 10.5 million barrels of crude oil in 2009 (2008: 7.5 million barrels). This represents a 40% increase compared to the volume sold during the previous year. The higher sales were on account of increased production, changes in the lifting position and movement in inventory, slightly offset by lower entitlement production.

In 2009, approximately 90% (2008: 80%) of crude oil was exported under the swap agreement with Iran. The balance of crude oil was exported via Baku, Azerbaijan. The marketing agreement on the Baku route was reviewed twice during the year on the basis of volume and price. Dragon Oil continues to assess additional marketing opportunities for its crude, including Makhachkala in Russia, the Baku-Batumi corridor and the BP-operated BTC (Baku-Tbilisi-Ceyhan) pipeline.

The Group was in an overlift position of approximately 0.2 million (31 December 2008: underlift 0.6 million) barrels of crude oil at the end of 2009.

Drilling and operations

During 2009, Dragon Oil put into production eight wells in the Dzheitune (Lam) field. The following table summarises the results of the drilling programme for the year:

Well	Rig	Completion date	Depth (metres)	Type of completion	Initial tested rate (bopd)
13/133	Rig 40	May	2,975	Dual	2,628
28/134	Iran Khazar	May	3,280	Dual	3,554
13/135	Rig 40	August	3,302	Single	1,320
28/136	Iran Khazar	July	3,075	Dual	3,291
28/137	Iran Khazar	October	3,301	Dual	2,141
13/138	Rig 40	October	3,268	Dual	2,511
A/139	Iran Khazar	December	3,360	Dual	2,647
13/140	Rig 40	December	3,320	Single	1,317



Above: Onshore operations at CPF.



Above: Inhouse laboratory at CPF.

During 2009, our workover programme included a rigless workover operation conducted on the Dzheitune (Lam) 13/96 well that resulted in initial incremental production of 783 bopd.

In December 2009, the installation of the Dzheitune (Lam) B platform was completed. The Dzheitune (Lam) B platform was installed in the Western part of the Dzheitune (Lam) field. This is the second in a series of new platforms built and installed in the field since Dragon Oil became the operator in the Cheleken Contract Area in 2000. We expect to drill eight wells from this platform by the end of 2011.

In early Q2 2009, Dragon Oil reached an agreement to extend the contract for the Iran Khazar jack-up rig for a further two years commencing May 2009. We have been employing this rig since 2005 and have successfully completed 21 wells from the Dzheitune (Lam) platforms 21, 28, 10 and A.

In 2009, we secured a contract to employ the Astra jack-up rig for six months starting in November 2009. The Astra rig is currently drilling the Dzheitune (Lam) B/141 development well from the newly added Dzheitune (Lam) B platform. The contract to hire the Astra jack-up rig for six months was signed with BKE Shelf Limited. Dragon Oil plans to use this jack-up rig to drill two wells during the contract term.

In December 2009, Dragon Oil awarded a two-year contract to Naftna Industrija Srbije (NIS) Naftagas for the lease and management of a land rig (the "NIS Rig") in the Cheleken Contract Area. The Group currently has plans to drill seven wells using the NIS Rig during its contract term. The rig is being mobilised to the Dzheitune (Lam) 28 platform and is expected to spud its first well from this platform during Q1 2010. At the

end of 2009, Dragon Oil revamped the Dzheitune (Lam) 28 platform to handle this land rig.

In January 2010, Dragon Oil awarded a contract to Yantai Raffles Offshore Ltd. for the lease and management of a new build Super M2 jack-up rig (the "M2 jack-up rig") in the Cheleken Contract Area. The M2 jack-up rig will be constructed as a self-elevating drilling unit in accordance with international marine construction standards. The M2 jack-up rig is expected to be constructed and mobilised to the Cheleken Contract Area in Q4 2011. Upon delivery, the lease and management contract is expected to commence for an initial duration of five years, with an option to extend it for a further period of up to two years.

Infrastructure

The infrastructure spend during the year included the construction, installation and completion of the Dzheitune (Lam) B platform, additional slots on the Dzheitune (Lam) A platform, the upgrade of the Dzheitune (Lam) 63 platform and Phase 2 of the Aladja Jetty.

In addition, work continued during 2009 on two major projects, the 30" 40km trunkline project and the Phase 2 expansion of the CPF. However, we did experience some delays in the execution of these two key projects and we now expect to complete them during H2 2010. Dragon Oil has mobilised internal and external resources to deal with the delays that have been experienced. While these two projects move towards completion, the existing infrastructure is sufficient to accommodate the expected production growth in 2010. The completion of both projects will enable delivery of gas from offshore to onshore facilities where it can be separated and made available for potential monetisation.

Operating & Financial Review continued

“Strengthening our expertise, cultural diversity and talent.”

Reserves and Resources

As at 31 July 2009

Proved and Probable Remaining Recoverable Reserves	Oil and Condensate, million barrels
Gross field reserves to 1 May 2035	625.2
2C Resources	
Gross Gas Contingent Resources	TCF
	3.1

Note: Based on the latest reserves certification by an independent energy consultant.

Proved and probable remaining recoverable reserves as at 31 December 2009 on working interest and entitlement basis were 617 million barrels and 282 million barrels respectively, based on assumptions including extension of the terms of the PSA beyond 2025.

During 2010, pending approvals, Dragon Oil intends to drill on a previously undrilled structure located to the west of the Cheleken Extension structure. This structure was mapped before using 2D seismic data shot during the early 1990's but it has looked more pronounced after remapping the same structure using 3D seismic conducted in 2004–05. Should this well be successful, it will prove up more reserves, and this area will be incorporated into the field development plan.

Following completion of the gas facilities and a gas sales agreement in the future it is expected that Dragon Oil will be able to confirm the proportion of contingent gas resources that can be transferred to reserves.

New business opportunities and Yemen participation

Dragon Oil's New Ventures Team is actively reviewing opportunities in North Africa, the Middle East and Central Asia (former Soviet Union Republics). Diversification of our portfolio may be achieved through joint ventures, corporate acquisitions or project farm-ins. It is our objective to participate in projects, which have the potential to offer both immediate and near-term production and reserves, with the upside of longer-term growth through exploration.

The exploration programme in Yemen on Block 35 is ongoing and additional activity in Block 49 is under discussion. An extension of Block 35 for another eighteen months is under negotiation which will allow for additional exploration work.

Commercialisation of the Gas Resources

The Group is currently producing associated gas, a large percentage of which is separated offshore and flared, with the remaining gas being sent to an onshore gas and oil separation facility.

Based on the latest certification by an independent energy consultant, the Group's current 2C gas contingent resources are 3.1 tcf. The commercialisation of these gas resources is of strategic importance to the Group. Since 2008 the Group is progressing key components of its gas commercialisation strategy, including:

- (i) the construction of the 40 km oil and gas trunkline, which will connect Block 2 to the CPF, and the installation of the associated intra-field pipelines; and
- (ii) the phase 2 upgrade of the Group's CPF.

The Group continues to assess its options to exploit its gas resources and the development of the requisite infrastructure to process and market such gas is of significant importance to the Board. Gas sales from Turkmenistan in 2008–09 were impacted by global and regional demand decline. However, the Group remains hopeful that an opportunity exists to commercialise its gas resources in the short term with the resumption of Turkmenistan's gas sales to Russia in 2010. We also expect to progress further the formal discussions on gas pricing with the Turkmenistan Government during 2010.

Our People

In 2009 the Group increased its average headcount to 1,015, representing an 11% increase over the previous year. The Group continued with its objective of strengthening our expertise, cultural diversity and talent through hiring experienced and competent people. In 2009 we also introduced a number of new key roles such as the General Manager of Petroleum Development. We expect to continue our recruitment programme in 2010.

Outlook for 2010–12

During 2010, we will be employing four rigs — the Astra jack-up rig, the Iran Khazar jack-up rig, the platform-based NIS Rig and our own Rig 40. The Astra rig and Rig 40 are currently scheduled to drill until around the middle of the year with Rig 40 then being employed in the workover programme to enhance production from existing wells on the Dzheitune (Lam) 13 platform. The drilling is ongoing in the Dzheitune (Lam) field from platforms A, B and 13. Once the NIS Rig is rigged up on the recently revamped Dzheitune (Lam) 28 platform, it will start drilling the first in a series of development wells in Q1 2010.

The three wells are being drilled in the Dzheitune (Lam) field, namely wells B/141, A/142 and 13/143. All three wells are expected to be put into production around the end of Q1 2010. In total, Dragon Oil expects to complete 11 wells in 2010 while the Group intends to complete up to 40 wells in total during the years 2010–12, including five appraisal wells.

The average daily production in 2009 was 44,765 bopd and reached 50,000 bopd at the turn of 2009–10. Following the changes to the drilling programme, the Group expects to be able to achieve annual production growth of 15% in 2010 and average production growth of 10% to 15% per annum over the three year period of 2010–12.

The Group's field development plan includes the phased installation of additional platforms during the course of the PSA and to this end, plans are being put in place for two additional wellhead and production platforms that we expect to be built and installed in the next two to three years.

The Group's capital spend on infrastructure for crude oil in 2010 is estimated at around US\$250 million which includes platforms, trunkline, in-field pipelines and upgrades to the CPF. These expenditures will be internally funded. For the planning period of 2010–12, the total spending on infrastructure projects is expected to be around US\$600–700 million. The level of capital expenditure is subject to approval of projects under the PSA and the availability of contractors in the Caspian Sea region. The amount of capital expenditure for drilling is mainly determined by the number of wells drilled. The progress of the drilling programme is dependent on the availability of rigs.

For gas development, we envisage additional capital expenditure for the 2010–12 period in the range of US\$150–170 million for the onshore Gas Treatment Plant including facilities. Commencement of this project would be dependent on the market conditions and the conclusion of the gas sales agreement.

Financial Summary

A 12% decrease in revenue and a 34% decrease in operating profit were attributed largely to the decreased realised oil prices in 2009 and change in lifting position. Earnings per share were 30% lower than 2008 and net cash from operations was down 14% over 2008. The year 2009 saw an increase of 18% in capital employed represented by higher expenditure in oil and gas interests and an increased cash balance at the year-end.



Above: Equipment at CPF.

Ask Dragon . . .

Question:

To what extent has commodity price volatility impacted revenues, funding, investment levels and supply side costs?

Answer:

Commodity price volatility is a fact of life. At Dragon Oil we are fortunate in that our business model and expertise has demonstrated resilience even during times of extreme oil price movements. Our robust financial base combined with our strong emphasis on cost control means that we are able to focus on optimal production yields and associated investment which can be adjusted depending on supply side cost pressures.

Operating & Financial Review continued

Key financial data

US\$ million (unless stated)

	2009	2008	Change
Revenue	623.5	706.1	(12%)
Cost of sales	(282.3)	(193.2)	(46%)
Gross profit	341.2	512.9	(33%)
Operating profit	314.4	474.0	(34%)
Profit for the year	259.0	369.0	(30%)
Earnings per share, basic (US cents)	50.3	71.8	(30%)
Earnings per share, diluted (US cents)	50.2	71.6	(30%)
Capital employed	1,703.2	1,442.3	18%
Net cash from operations	500.3	578.6	(14%)
Cash used in investing activities	(682.3)	(516.5)	(32%)
Debt	0.0	0.0	nil

Income Statement

Revenue

Production levels in 2009 averaged 44,765 bopd (2008: 40,992 bopd) on a working interest basis. The entitlement production was approximately 58% (2008: 60%) of the gross production in 2009. The Group's share of entitlement production is determined by reference to cost oil and profit oil in accordance with the terms of the PSA. The entitlement barrels continue to be determined by, amongst other factors, the level of development expenditure and the realised oil prices.

Revenue for the year was US\$623 million compared with US\$706 million in 2008. The decrease of 12% over the previous year is primarily attributable to a lower average realised price of US\$61.6 per barrel (2008: US\$90.8 per barrel), partially offset by a 40% increase in the volume of crude oil sold. The realised oil prices were almost at par with Brent during the year (2008: discount of about

6%). The increase in sales volumes is attributable to increased production, change in lifting position and movement in the crude oil inventory.

The PSA includes provisions such that parties to the agreement may not lift their respective crude oil entitlements in full and as such underlift or overlift of crude oil may occur at period-ends. At the year-end, the Group was in an overlift position of 0.2 million barrels that is recognised and measured at market value (2008: underlift 0.6 million barrels).

Operating profit

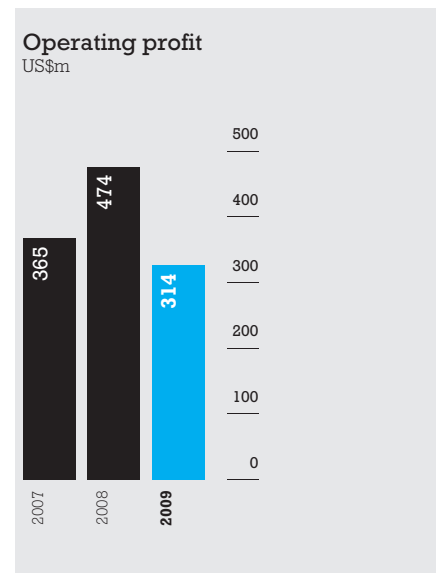
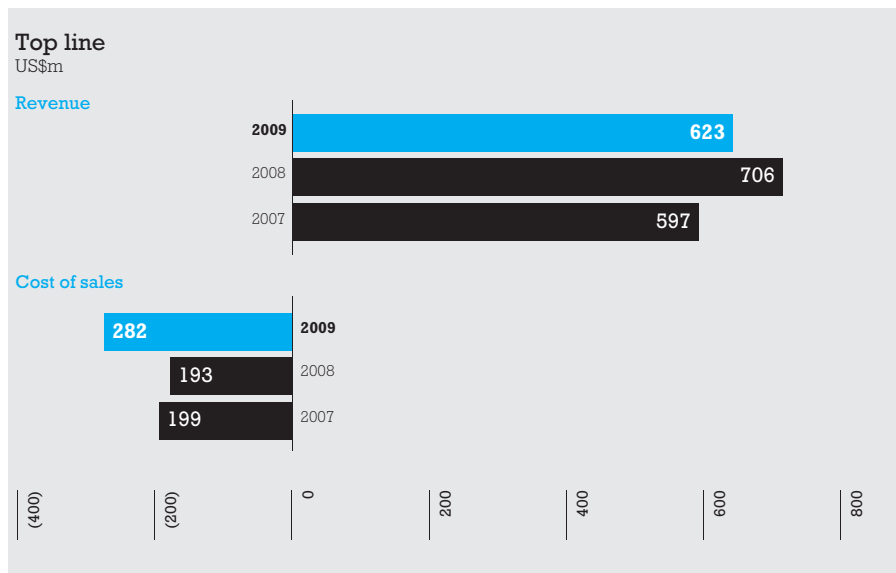
The Group generated an operating profit of US\$314 million (2008: US\$474 million), 34% lower than in the previous year.

Cost of Sales comprises operating and production costs and depletion charge. The Group's cost of sales was US\$282 million in 2009 compared to US\$193 million in 2008, an increase of about 46%. The increase is primarily due to

a change in the lifting position, a lower crude oil inventory at the year-end and an increase in depletion charge.

The average rate for depletion has increased by 19% to US\$19.8 per barrel (2008: US\$16.7 per barrel). Depletion and depreciation charges during the year were US\$189 million (2008: US\$150 million), which were higher by 26% than the charge in the previous year due to increased production during the year and the upward revision in estimates of field development costs.

Administrative expenses (net of other income) at US\$27 million (2008: US\$18 million) were higher by 50%, due to an increase in office costs and other expenses related to the ENOC approach, investigations into the irregularities reported in February 2009 and expenses related to corporate restructuring. Other losses during the year were nil as compared to losses of US\$21 million arising out of hedges undertaken during 2008.



Profit for the year

Profit for the year was US\$259 million (2008: US\$369 million), 30% lower than the previous year.

The profit includes finance income of US\$31 million (2008: US\$25 million) and a lower taxation charge of US\$86 million (2008: US\$130 million). Finance income increased on the back of higher cash and cash equivalents and term deposits maintained during the year.

During the year 2008, the effective tax rate applicable to the Group's operations in Turkmenistan was increased to 25% by the Hydrocarbon Resources Law. The Group has continued to apply this rate in determining its tax liabilities as at 31 December 2009. The Group is in discussions with the authorities in Turkmenistan about the applicability of this rate to prior periods, but it does not believe that prior periods are affected by the new rate. A provision has been made in respect of the additional tax that could become payable if the increased tax rate were applied to prior periods based on the expected value (weighted average probability) approach.

Basic earnings per share ("EPS") of 50.3 US cents for the year were 30% lower than the previous year (2008: 71.8 US cents).

Balance Sheet

Investments in property, plant and equipment were higher by US\$132 million primarily due to capital expenditure of US\$317 million (2008: US\$287 million) incurred on oil and gas interests, offset by the depletion and depreciation charge during the year. The expenditure during the year was primarily on drilling and infrastructure projects in Turkmenistan. Of the total capital expenditure on oil and gas interests for 2009, 50% was attributable to drilling (2008: 60%). The balance of the capital expenditure was spent on infrastructure projects including the 30" 40 km trunkline, the Dzheitune (Lam) B platform and additional slots on the Dzheitune (Lam) A platform.

Current Assets and Liabilities

Current assets rose by US\$247 million mainly as a result of a US\$444 million increase in term deposits, partly offset by decrease in inventories and cash and cash equivalents. The cash and cash equivalents and term deposits at the year-end were US\$1,138 million, including US\$126 million held for abandonment and decommissioning activities and US\$870 million in term deposits of maturities greater than three months.

Current liabilities rose by US\$113 million primarily due to an increase of US\$47 million in trade and other payables, US\$44 million for abandonment and decommissioning liability owing to increased production and movement of US\$17 million in overlift creditors.

Cash flows

Net cash generated from operations during the year decreased by US\$79 million to US\$500 million (2008: US\$579 million). The decrease was primarily attributable to the lower sales price realised during the year for the sale of crude oil despite increased production and the change in the working capital position. Cash used in investing activities was US\$682 million (2008: US\$516 million), comprising capital expenditure of US\$269 million (2008: US\$288 million) and placement of term deposits of US\$444 million (2008: US\$253 million).



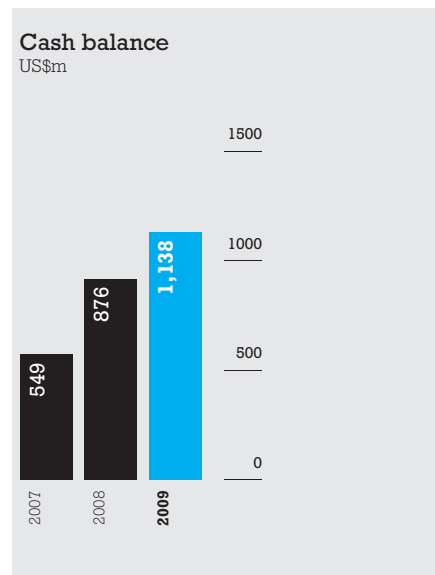
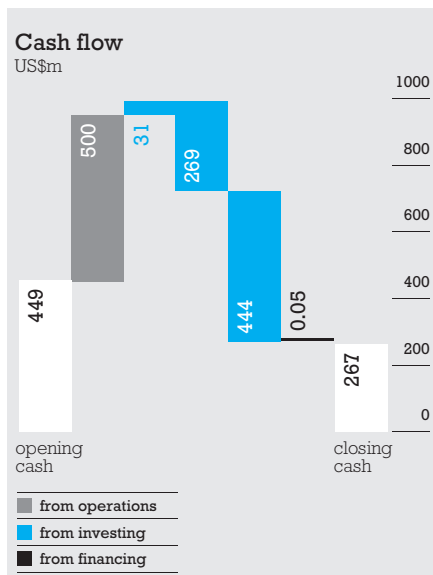
Above: Onshore operations at CPF.



Above: Offshore field operations.

Cash generated by financing activities was US\$0.05 million (2008: US\$12 million) on account of proceeds from the lower issue of share capital resulting from the exercise of share options.

The strong balance sheet with a net cash position of more than US\$1 billion and no debt provides us with significant financial ability to fund the Cheleken development plan, diversify the asset base and commercialise our gas resources.



Corporate Social Responsibility Report

New 1,500m³/day capacity desalination plant completed in Hazar

“Corporate Social Responsibility has remained high on Dragon Oil’s agenda in 2009, reflecting our belief that it is our duty and responsibility to take care of the community in which we operate.”

Corporate Social Responsibility has remained high on Dragon Oil’s agenda in 2009 reflecting our belief that it is our duty and responsibility to take care of the community in which we operate. The Corporate Social Responsibility (“CSR”) team, whose responsibilities include planning, managing and monitoring all the Group’s ongoing and future CSR activities, has been very active during 2009 focusing on our core CSR initiatives of improving the quality of water supply, education and health in the local Hazar community, Turkmenistan where we operate:

New Desalination Plant Completed

A key project for 2009 has been the completion of a new 1,500m³/day capacity desalination plant at a cost of US\$3 million in Hazar, Turkmenistan to complement existing medical facilities. From this plant, a large and stable volume of potable water will be supplied to the local community benefiting local residents, a substantial number of whom are employed by Dragon Oil.

Hazar Hospital Facilities Upgrade and New US\$3 million Polyclinic Project Planned

In 2009 Dragon Oil successfully completed the refurbishment of Hazar Hospital’s Intensive Therapy Unit including fully equipping it with all the necessary medical equipment. This year Dragon Oil is embarking on a US\$3 million CSR project which involves building a new polyclinic for the local community in Hazar. This will ensure that our local Turkmen employees and their families receive comprehensive health care as well as enhancing the available health facilities to the broader community in Hazar.

Education and Community Improvement Programme

During 2009, as part of the Company’s Education and Community Improvement Programme, Dragon Oil refurbished two computer classrooms at School Number Three in Hazar Town which included the provision of furniture as well as air conditioning and heating equipment.



Above: School number three, Hazar Town.

Also as part of this programme, Dragon Oil built a new sports ground in Hazar Park for the town which was completed in June 2009. Furthermore the Group provides sponsorship and financial assistance to Hazar Town Sports Committee and the Balkan regional administration to enable Hazar's sportsmen and women to participate in competitions at both local and international levels.

Dragon Oil's First CSR Programme in the United Arab Emirates

In 2009, Dragon Oil launched its first CSR programme in the UAE by extending support to the Center for Care and Rehabilitation, an organisation that focuses on educational care and training for children with special needs from the Gulf Co-operation Council countries. Also within the UAE Dragon Oil donated over 25 PC's and related computer equipment to the Dar Al Bir Society and the Dubai Charity Association.

Improvements to Health and Safety

We have pursued our objectives to improve continuously health and safety levels with the recorded Lost Time Incident Frequency Rate falling to 1.66 in 2009 from 1.79 in 2008. This is primarily attributable to a strengthened Health and Safety team and an ongoing improvement of the Health, Safety and Environment ("HSE") facilities and processes. For this year we have also put in place a new Emergency Response Plan combined with local staff training which is designed to prepare employees for emergency situations in the field of operations in Turkmenistan.

Environmental Protection Initiatives

Protecting the environment where we operate remains a key priority for Dragon Oil. During 2009 we prepared a number of Environmental Impact Assessments ("EIA") and Environmental Protection Plans ("EPP") for our projects including the Lam B platform installation and drilling operations, the Central Processing Facility expansion project and plans for the construction of three inter-platform pipelines. We also conducted numerous rounds of environmental monitoring, including the collection of sea water samples, for our DOTL facilities including LAM 21, Lam 13, Lam A and Lam 28 as well as for the Central Processing Facility expansion project.

Health, Safety and Environment

Key Performance Indicators

	2009	2008	2007	2006	2005
Lost time incidents	4	4	2	8	6
Total hours worked (millions)	4.5	4.2	4.1	3.2	2.8
Lost time incident frequency	1.66	1.79	2.02	2.48	2.45
Environmental incidents	4	0	1	0	0

Human Resources Initiatives

In 2009, we issued a new Code of Conduct to ensure that all employees are treated in a fair manner throughout the Group. In line with our policy of training and recruiting local people, in 2010 we are launching a substantial staff training programme focusing on key skill areas to provide qualified Turkmen nationals an open career path. To this end we also plan to establish a new Centre of Excellence in Turkmenistan this year which will provide a dedicated facility for national employee's training.

This year we will also be focusing on the introduction of new management and employee evaluation systems, as well as a new grading structure for all Turkmen employees. There will also be a new plan to accelerate the career development of high-potential Turkmen employees which is in line with our policy of encouraging the growth of local management. Following a comprehensive survey conducted among Dragon Oil employees last year, we have reviewed a number of human resources policies and, as a result, have decided to extend our medical insurance scheme to all Dragon Oil employees, provide transportation allowances to our employees in Turkmenistan for the first time and establish an "Employee of the Month" scheme. We are also pleased to report that Dragon Oil has been shortlisted for "Best Employer of the Year Award 2009" by GCC Human Resources Excellence Awards.



Above: Hazar hospital facilities.



Above: Turkmenistan national employee.

Ask Dragon . . .

Question:

How safe, reliable and efficient are your operations?

Answer:

Safety is a core priority for the Group. Our field staff and contractors work in challenging terrains where the temperature can get as low as -15°C. Operating in remote areas means that there has to be a keen focus and emphasis on ensuring the reliability of the infrastructure used to develop our hydrocarbon assets. A well-planned, on-going maintenance and refurbishment programme, combined with strong contractor relationships continues to provide the management team with confidence in the reliability and efficiency of our operations.

Board of Directors



Mohammed Al Ghurair, 24.03.1952
Non-Executive Chairman

Mr. Al Ghurair was appointed to the Board of Dragon Oil plc on 25 April 2007 and was appointed as Chairman on 26 September 2008. He is a prominent executive Director in a number of leading companies in the Middle East, including Dubai Aluminium, ENOC and the Saudi International Petrochemical Company. Mr. Al Ghurair is a member of Dragon Oil's Remuneration and Nominations Committees.



Dr Abdul Jaleel Al Khalifa, 02.07.1957
Chief Executive Officer

Dr. Al Khalifa was appointed to the Board of Dragon Oil plc on 26 September 2008. He joined the Company from Saudi Aramco where he managed a wide range of E&P departments, based in Dhahran, Saudi Arabia over the past 12 years. He has a doctorate in petroleum engineering from Stanford University and is a respected public speaker on the oil and gas industry. He also has a keen interest in humanitarian efforts, being a founder member of the Industry's Humanitarian Support Alliance NGO (IHSAN-H2O).



Nigel McCue, 12.09.1951
Senior Non-Executive Director

Mr. McCue has over 30 years' experience in the petroleum industry. He is a Director and CEO of Lamprell plc, a company that provides services to the oil and gas industry. He is the Chairman of Jura Energy Corporation and previously held various positions in Lundin Oil AB, Chevron Overseas Inc. and Gulf Oil Corporation. Nigel is Dragon Oil's Senior Independent Director. He is a member of the Remuneration and Nominations Committees and is currently the Chairman of the Audit Committee. He also acted in the role of the Chairman of the Independent Committee during 2009. He was appointed to the Board of Dragon Oil plc on 22 April 2002.



Ahmad Sharaf, 16.10.1966
Non-Executive Director

Mr. Sharaf is presently the Non-Executive Vice-Chairman for the Group. He has extensive experience in the upstream oil and gas industry, having spent 15 years working with ConocoPhillips in a number of its international operations. He left ConocoPhillips in 2004 and is currently the Head of the Transition Management Office of Dubai Holding. In addition to being the Chairman of the Dubai Mercantile Exchange, he is also a member of the Board of ENOC. Mr. Sharaf is a member of Dragon Oil's Remuneration and Nominations Committees. He was appointed to the Board of Dragon Oil plc on 25 April 2007.



Ahmad Al Muhairbi, 07.09.1959
Non-Executive Director

Mr. Al Muhairbi has a strong background in upstream oil and gas, with a comprehensive knowledge of well technology having obtained a degree in petroleum engineering. Mr. Al Muhairbi has been involved in petroleum field development and production since 1988 previously with Margham Dubai Establishment and now with Dubai Supply Authority. Mr. Al Muhairbi is a member of Dragon Oil's Audit Committee and is the Chairman of the Nominations Committee. He also acted in the role of a member of the Independent Committee during 2009. He was appointed to the Board of Dragon Oil plc on 22 May 2007.



Saeed Al Mazrooei, 24.12.1960
Non-Executive Director

Mr. Al Mazrooei received a Masters degree in gas engineering and management from Salford University in the UK and has focused on various aspects of the gas industry since he joined Arco International in 1985. Mr. Al Mazrooei currently holds the position of CEO for Emirates Aluminium, as well as a number of directorships in other Middle Eastern companies. Mr. Al Mazrooei is a member of Dragon Oil's Audit Committee and is the Chairman of the Remuneration Committee. He also acted in the role of a member of the Independent Committee during 2009. He was appointed to the Board of Dragon Oil plc on 22 May 2007.

Senior Management



Emad Buhulaigah
General Manager of Petroleum
Development

Emad has 28 years' experience working with Gulf Oil, Saudi Aramco, Chevron and Shell. He has a Masters degree in petroleum engineering from the University of Southern California.



Tarun Ohri
Director of Finance

Tarun has over 20 years' experience in finance, accounting and audit predominantly in oil-related industries in Qatar and the UAE. He is an associate of the Institute of Chartered Accountants of India with a CISA qualification.



Hussain Al Alaiwy
HR Director

Hussain holds a Bachelor's degree in Mechanical Engineering from the University of Alabama, USA. He comes to us with more than 26 years of experience in operational, engineering and project management from working for Saudi Aramco.



Alex Ridout
Head of Legal and Company Secretary

Alex is a qualified solicitor of the Supreme Court of England & Wales and worked in several London law firms before moving to the Middle East to act as Regional Counsel for Baker Hughes and then Dragon Oil in 2006.



William Mandolinis
Corporate Planning Manager

William is a chemical engineering graduate from the University of Toronto, with 30 years' of oil and gas experience with companies including Shell Canada, Wascana Energy, Nexen Energy and Wood Group ESP, in a variety of senior managerial positions.



Ahmed Al Asker
Engineering Manager

Ahmed obtained his BSc in chemical engineering and polymer science from the University of Southern California and started his career in 1976 with an international oil and gas company. After 33 years of work with various major oil and gas companies, he joined Dragon Oil in December 2008.

Senior Management continued



Mark Sawyer

Turkmenistan Business Development Manager

Mark has 27 years of broad international experience in the energy industry sector, including responsibility for the international E&P business development and gas marketing for a large US multinational energy company. His last role prior to joining Dragon Oil was Vice President, Business Development with Tatweer Investments and Chief Business Development Officer for Dubai Energy.



Andreas Brandt

Head of New Ventures & Business Development

Andreas completed a “Diplom” and Doctorate in Geology at the University of Hamburg, going on to work in upstream oil and gas for 28 years in various new business ventures positions within Texaco Germany (now RWE Dea) eventually becoming Senior Geological Expert.



Jamel Kahoul

Projects Manager

Jamel comes to Dragon Oil having worked for over 35 years in corporate and project management within the oil and gas industry. His last position prior to joining Dragon Oil was Area Engineering Manager with Abu Dhabi Company for Onshore Oil Operations (ADCO).



Jin Chiang

Head of Reservoir Development

Jin is a Petroleum Engineering graduate of Stanford University. He began his career as a petroleum engineer with Phillips Petroleum (now ConocoPhillips) and went on to hold various senior reservoir engineering positions in the US, UK and other regions.



Adel Alnadhari

HSE Manager

Adel has substantial proven expertise in upstream oil and gas operations, mainly in the fields of maintenance and HSE; his last position prior to joining Dragon Oil was HSE&Q Manager at TOTAL ABK- Abu Dhabi.



Rashid Redjepov
Country Manager

Rashid trained as an economist and worked for over 12 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.



Eldar Kazimov
Country Manager

Eldar graduated from the Polytechnic Institute of Turkmenistan with an Honours Degree in Petroleum Engineering and had 8 years' experience in field operations before being appointed as Country Manager in November 2008.



Magdy El Ashry
Field Manager

Magdy joined Dragon Oil with extensive experience in managing oil and gas operations with many major companies such as Amoco, Gupco, Adma-Opco and finally Apetco where he was working as General Manager and Managing Director.



Kheder Mekha
Field Manager

Kheder Mekha worked as the Head of the Technical Services Department in the Alfourat Petroleum Company in Syria from 1990-2003, when he joined Dragon Oil as a Field Manager.

Directors' Report

Statutory information

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 2009. These will be laid before the shareholders at the Annual General Meeting ("AGM") of the Company, which is scheduled to be held on 5 May 2010.

Principal activity

The Group's principal activity is the exploration, development and production of oil and gas in Turkmenistan and Yemen. The Group holds 100% interest in the Cheleken Contract Area, offshore Turkmenistan. The Turkmenistan PSA was signed with a state agency of the Government of

Turkmenistan in November 1999 and became effective in May 2000. The PSA has a 25-year term, which expires in May 2025 with an exclusive right on the part of Dragon Oil to negotiate an extension for a further period of not less than ten years.

In addition, Dragon Oil acquired interests in Blocks 35 (10%), 49 (up to 10%) and R2 (10%) in the Republic of Yemen in December 2007. Information on the Group's various subsidiaries is set out on page 76.

Business review

A full review of the Group's activities during the year, recent events and future developments is contained in the Chairman's Statement on pages 14 to 15, the Message from the Chief Executive

Officer ("CEO") on pages 12 to 13 and the Operating & Financial Review on pages 16 to 21.

Results and dividends

The results of the Group for the year ended 31 December 2009 are set out in the Group's income statement on page 47. Profit attributable to equity holders of the Company was US\$259 million (2008: US\$369 million). The Directors do not recommend payment of a dividend for the year ended 31 December 2009 (2008: nil) as the available cash continues to be required for the development of the asset in Turkmenistan, in addition to further portfolio diversification.

Election of Directors

The following individuals served as Directors during the period from 1 January 2009 up to 31 December 2009:

Director details	Events during 2009
Mohammed Al Ghurair (Non-Executive Director and Chairman, member of the Nominations and Remuneration Committees) (UAE)	Re-elected on 28 May 2009
Ahmad Sharaf (Non-Executive Director and Vice-Chairman, member of the Nominations and Remuneration Committees) (UAE)	
Abdul Jaleel Al Khalifa (Executive Director and CEO) (Saudi Arabia)	Re-elected on 28 May 2009
Nigel McCue (Senior Independent Non-Executive Director, Chairman of the Audit Committee, member of the Remuneration and Nominations Committees) (UK)	
Ahmad Al Muhairbi (Independent Non-Executive Director, Chairman of the Nominations Committee, member of the Audit Committee) (UAE)	Re-elected on 28 May 2009
Saeed Al Mazrooei (Independent Non-Executive Director, currently Chairman of the Remuneration Committee, member of the Audit Committee) (UAE)	

Since their original appointment, Mohammed Al Ghurair and Ahmad Sharaf have been and continue to be nominee Directors of the majority shareholder, the ENOC.

In accordance with the Articles of Association, Ahmad Sharaf and Saeed Al Mazrooei will retire and, being eligible, will offer themselves for re-election at the 2010 AGM.

The Board regularly reviews its own performance and, if deemed necessary, may look to strengthen its membership by appointing additional Directors with additional expertise or experience, which can be of value to the Company. However, as at 22 February 2010, there

are no future plans for appointing any new Directors to the Company.

Directors' interests

The interests of the Directors in the share capital of the Company, all of which are beneficial, are as set out in the table on pages 42 to 43.

Statement of Directors' responsibilities

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 judgements and estimates that are reasonable and prudent
- State that the financial statements comply with IFRS as adopted by the European Union

- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group 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 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 (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations"), 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 Companies Acts 1963 to 2009 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.

Major Shareholdings in the Company

As at 22 February 2010, 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
ENOC	265,263,515	51.51%
Baillie Gifford & Co	30,973,431	6.01%
JP Morgan Chase & Co	20,775,462	4.03%

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.

Directors' statement pursuant to the Transparency Regulations

Each of the Directors, whose names and functions are listed on page 24, confirms that, to the best of each person's knowledge:

- 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.

Going concern statement and future funding

After reviewing the Group's plans for 2010 and future years, the Directors are confident that the Group 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 accounts.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office and are eligible for reappointment. They will continue in office in accordance with Section 160(2) of the Companies Act, 1963 and would be deemed to be reappointed as the Group's auditors in the absence of a resolution for their removal. A resolution to authorise the Directors to determine their remuneration will be proposed at the 2010 AGM.

Charitable and/or political donations

During the year ended 31 December 2009, the Group made charitable donations in the amount of US\$33,360 to Al Noor Centre and Al Ain Center for Care and Rehabilitation (2008: US\$7,000 to The Royal Marsden Cancer Campaign) and no political donations were made (2008: nil).

Share capital

Details of the Company's share capital are set out in Note 15 to the consolidated financial statements on page 67.

Directors' Report continued

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.

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

Shares and rights

Particulars of the authorised and issued share capital of the Company are set out in Note 15 to the financial statements on page 67.

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 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 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 Directors or recommended by the Directors and declared by a resolution at a general meeting, to receive those dividends in cash or by distribution of special assets, including new shares in the Company;

- 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, repayment of the capital paid up on the Ordinary Shares by and a proportionate part of any surplus of the Company.

Rights attaching to transferred Ordinary Shares remain with the transferor until 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 pursuant to any employees' share scheme are Ordinary Shares carrying the same rights as other Ordinary Shares and have no special rights or rights not exercisable directly by the employees.

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;

- 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 may be restricted.

There are no limitations on the holding of securities. 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 29. 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 forty-two 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 is received by the Company.

Directors appointed by the Directors automatically retire at the next AGM and are eligible for election by the shareholders at that meeting. Non-executive Directors in office for nine years or more automatically retire at each AGM and are eligible for re-election. Directors (other than Directors in office for nine years or more) elected (or re-elected) by the shareholders retire automatically on the basis that one-third of such Directors retire at each 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 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 fewer than twenty-one 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

By resolution 6 passed at the Company's 2009 AGM, the Directors were granted authority to allot shares equivalent to 5% of the total issued share capital of Dragon Oil plc, which could be issued for cash other than pre-emptively. As at 22 February 2010, this authority had not been exercised. The allotment-for-cash authority is due to expire on 5 May 2010 and a resolution in the same terms is being proposed at the 2010 AGM.

Purchase of Company's own shares

By resolution 7, passed at the Company's 2009 AGM, the Directors were granted authority to make market purchases of the Company's Ordinary Shares up to 10% of the number of issued Ordinary Shares in Dragon Oil plc, at market price. This authority is due to expire on 5 May 2010. As at 22 February 2010, this authority had not been exercised by Dragon Oil plc but the Directors are proposing a resolution in the same terms at the 2010 AGM and will take advantage of the flexibility afforded by the resolution, if passed, as they deem appropriate. As at 22 February 2010, Dragon Oil plc held no shares in treasury.

Important events since 31 December 2009

Details of the important events that have occurred since 31 December 2009 can be found in the Operating & Financial Review on pages 16 to 21.

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 Companies Acts 1963 to 2009. The AGM has the power to consider the following matters, which are deemed to be items of ordinary business:

- (a) declaring a dividend;
- (b) the consideration of the accounts, balance sheets and the reports of the Directors and Auditors;
- (c) the election of Directors in the place of those retiring by a rotation or otherwise or ceasing to hold office;
- (d) the reappointment and fixing of the remuneration of the Auditors;
- (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 1983 Act, with a nominal value not exceeding the authorised but unissued share capital of the Company;
- (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;

Directors' Report continued

(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 is deemed to be special business. Matters which must be done by the Company in general meeting pursuant to the Companies Acts 1963 to 2009 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 approval of share option schemes, may also be done at a general meeting as items of special business.

2010 AGM

The Board uses the AGM of Dragon Oil plc for the purpose of communicating with all its investors alike 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 Non-executive Director will also be

available at the AGM to meet with the shareholders.

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. 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
22 February 2010

Managing Risk Responsibly: Risk evaluation

Dragon Oil operations are subject to risks arising due to the inherent nature of its business arising out of changes in economic, fiscal, legal, regulatory, industrial financial and operational areas. The Group identifies and analyses key risks and monitors and reviews these on an ongoing basis with a view to mitigating or managing them in the best interests of the Group. The Board in conjunction with the management will be undertaking a detailed review in 2010 to further integrate the risk management strategy into the business planning process.

Dragon Oil carries out a detailed annual business planning and budget process, as is standard in best business practices; that includes setting annual objectives and targets covering key performance objectives. These objectives are set at the Group level as well as at all operational levels with identification and mitigation of the key risks to the delivery of these targets. Operations will be expected to monitor and report on actual performance to senior management including variances to targets; reviews will include an assessment of the risks and measures being implemented to manage these potential risks.

Detailed procedures support the risk management process across the Group and the application and consistency of these procedures are regularly reviewed by the Group's Internal Audit function.

Managing Risk Responsibly: Principal risks and uncertainties

Primary threats include a single asset portfolio; this risk is being addressed through the development of a focused acquisition strategy and employment of an experienced new ventures team. Furthermore, regional political conflicts and possible instability of existing export routes in Dragon Oil's area of the Caspian Sea necessitate a focus on strengthening key government relationships and sourcing additional marketing opportunities. Oil price volatility is another continuing concern for Dragon Oil and its peers, driving a need for market research and financial instruments to mitigate the risk.

In accordance with the Companies (Amendment) Act 1986 (as amended by Statutory Instrument 116 of 2005 — European Communities (IFRS and Miscellaneous Amendments) Regulations 2005), the Company is required to give a description of the principal risks and uncertainties facing the Group. The principal risks and uncertainties, together with the actions in mitigation, are set out below:

Operations and assets

■ Single asset portfolio

The Group's revenues are dependent on the continued performance of its operating facilities at its single producing asset, offshore Turkmenistan. The management team is committed to mitigating this single-asset risk through ongoing efforts to diversify Dragon Oil's asset portfolio. The new ventures team continues to devote its attention solely to seeking out acquisitions and investment opportunities.

■ Availability of drilling rigs

The Caspian Sea region has a limited supply of rigs capable of offshore operations, which could have a significant adverse impact on the Group's field development programme. The Group is in the process of securing long-term arrangements for additional jack-up and platform-based rigs in the Cheleken Contract Area. A detailed statement of the Group's activities to procure additional rigs is contained in the Message from the CEO on pages 12 to 13 and the Operating and Financial Review on pages 16 to 21.

■ Uncertainty related to drilling activities

The costs and the results of drilling, completing and operating wells are often uncertain and, therefore, difficult to predict. Dragon Oil will continue to manage its procurement processes to obtain the best rates possible in the market for the requisite services, all the while ensuring that delays with securing such services do not adversely impact its operations or drilling activities.

■ Availability of contractors and personnel

Oil operators in the Caspian area are also affected by the limited availability of service contractors and relevant infrastructure. The selection of suitable contractors available to Dragon Oil is very limited. The vast majority of drilling services are with a single drilling services contractor or one of its associated companies. The lack of availability of service contractors and relevant infrastructure is a factor that raises the cost of undertaking projects in the Caspian area and could reduce Dragon Oil's profitability. Coupled with relatively constrained resources and appropriate expertise in Turkmenistan, there is a general shortage of specialist engineering and other services critical to the development of Dragon Oil's fields.

■ Other operational risks

The Group's operations or the economics thereof may be adversely affected by other risks outside of the control of the Group, including but not limited to labour unrest, civil disorder, war, terrorism, subversive activities or sabotage, fires, floods, earthquakes and other natural disasters, as well as explosions or other catastrophes, and epidemics or quarantine restrictions. These may occur within the countries of the Group's operations as well as in countries representing export destinations and transportation routes.

Uncertainty of estimates of resources/reserves and future net revenues

The Group's inherent risks include the continued discovery, production and processing of hydrocarbons in economically viable quantities in the areas in which the Group is interested. Projections of future production from oil and gas reserves are derived from historic production records and volumetric estimates of these reserves and exploration and development drilling. The production actually achieved may vary significantly from such projections.

Risk Report continued

Political

Turkmenistan is a country located in Central Asia and is bordered by the Caspian Sea to the west, Kazakhstan to the north, Uzbekistan to the east and Iran and Afghanistan to the south. The Group has considerable experience in operating in Turkmenistan and is confident that it will be allowed to develop the Cheleken Contract Area under a stable and predictable fiscal and legal system. However, changes may occur, which might have a significant, adverse impact on the ownership and/or operation of the PSA.

Sanctions

The US Iran Sanctions Act of 1996 may impose sanctions, which may impact on non-US firms engaged in business with Iranian counterparties. The US Department of the Treasury restricts US dollar transfers for the direct or indirect benefit of Iranian counterparties. Dragon Oil understands that a number of its former and potential counterparties have decided not to engage in business with Dragon Oil by reason of the potential application of and/or their potential liabilities under the US sanctions regime. The unavailability of some contractors and financial institutions to Dragon Oil as a consequence of the US sanctions regime may increase the Group's costs, for example, by way of reduced competition for tenders or the restricted availability of debt finance from certain financial institutions.

Structural integrity and adequacy of infrastructure

A significant proportion of the offshore and production assets has been in use for many years and could be subject to increased risk of breakdown or failure; however, the Group is continually replacing, upgrading and renewing a large proportion of the assets in use and has adequate resources in place to finance its ambitious capital expenditure programme.

Insurance cover

Although the Group maintains appropriate insurance cover with respect to its operations in accordance with international oil and gas practice, in certain circumstances this insurance may not provide adequate cover for a claim or claims. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on the operations and financial position of the Group. Moreover, there can be no assurance that the Group will be able to maintain adequate insurance in the future at rates that it considers reasonable.

Licences

The Group's activities are dependent upon the grant and maintenance of appropriate licences, agreements, concessions, loans, leases, permits, allotments and regulatory consents ("Licences"), which may be withdrawn arbitrarily or made subject to limitations. Although the Directors believe that the Licences will be renewed when they expire (if required), there can be no assurance that they will be renewed or as to the terms of any such renewal. The withdrawal, non-renewal or a change in the terms of such Licences could materially adversely affect the Group's business, prospects, financial condition and results of operations.

Oil prices and export

The markets for oil and gas have been highly volatile and such volatility may continue into the future. The financial performance of the Company may be negatively affected by adverse movements in the price of oil. The Group actively monitors its exposure to oil prices and aims to ensure that appropriate financial instruments may be considered to mitigate risks in case there is a significant downturn in oil prices, which could adversely affect funding of the development plans.

The present marketing objective of the Company is to ensure the smooth, safe and uninterrupted transportation of crude oil to international markets. The future of any marketing arrangements cannot be guaranteed with certainty to continue for the foreseeable future. As opportunities exist to sell crude production out of the Caspian to international markets either via Iran, Azerbaijan or Russia, the Group

continues to obtain favourable netbacks. However, should the current arrangements experience interruption, the Group will have to seek alternative arrangements, for which there can be no guarantee of success.

Financial and exchange rates

The principal financial risks facing the Group are addressed in the Group's consolidated financial statements on pages 60 to 61. The Group's cash flow, income statement and balance sheet are reported in US dollars.

Human resources

Dragon Oil's performance and its ability to mitigate those risk factors within its control depend on the skills and efforts of its employees and management teams across the Group. Future success will depend to a large extent on the Group's continued ability to attract, retain and motivate highly skilled and qualified personnel. Attracting and retaining top quality managers continues to be a serious challenge facing all companies in the oil and gas exploration and production sector. The Group looks at all aspects of recruitment to ensure that it will continue to attract and retain high quality personnel.

Internal controls

The Group has a system of risk management and internal controls as detailed under "Internal Control" in the Corporate Governance section of this Report, on pages 35 to 40.

On behalf of the Board

**MOHAMMED AL GHURAIR and
ABDUL JALEEL AL KHALIFA**
Directors of Dragon Oil plc
22 February 2010

The Group is committed to the highest standards of corporate governance and strives to ensure maximum transparency. Corporate governance determines how authority and accountability are structured throughout the Group and sets the framework within which it meets its objectives. All members of the Board recognise that, as Directors, they have a responsibility to shareholders to put a robust control structure in place essential for business integrity and performance.

Dragon Oil plc has a dual primary listing on the Irish Stock Exchange Official List and the United Kingdom Official List, with its shares traded on the Irish and London Stock Exchanges and 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 principles of corporate governance contained in the Combined Code on Corporate Governance issued by the Financial Reporting Council (the "Combined Code"), which is referred to in the Listing Rules and is available on the website of the Financial Reporting Council at www.frc.org.uk.

Application of the Combined Code

The Directors are committed to maintaining high standards of corporate governance and this statement describes how the Group has applied the Combined Code. The Board has carried out a review of the Group's corporate governance practices. The Board considers that the Group has complied with the provisions set out in the Combined Code throughout the financial year under review; however, where the Group is not in compliance with the provisions of the Combined Code, that non-compliance is explained below at pages 38 to 39.

The Board

The Board approves the Group's strategy, rolling five-year business plans, key projects, major investment plans and an annual budget. It regularly reviews operational and financial performance against stated key performance indicators (see the Operating & Financial Review at pages 16 to 21), risk management and investment controls, and health, safety, environment and community matters.

There is a formal schedule of matters reserved for consideration by the Board, which includes the overall Group strategy with respect to field exploration and development, major capital expenditure projects, acquisitions and disinvestments and financial policies. Subject to this, the Board delegates 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 is described in more detail below.

Composition and Independence

The Board of Dragon Oil plc currently comprises the Chairman, the CEO and four Non-executive Directors. Each of the Non-executive Directors has a good knowledge of the oil and gas industry. Biographical details of each of the Directors are included within the Directors' Report at page 24.

The Senior Independent Non-executive Director is Nigel McCue, who has held this role since 22 May 2007. In this position, Mr McCue is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman.

The Non-executive Directors bring a wide range of skills and competencies including local and international business experience to the Group. They exercise independent judgement on issues put before the Board including key operating and financial strategies, performance and risk management through their participation.

The Board considers Nigel McCue, Ahmad Al Muhairbi and Saeed Al Mazrooei to be independent in character and judgement and there are no relationships or circumstances, which are likely to affect (or could appear to affect) the independent Non-executive Directors' judgement. The basis and criteria for assessing the independence of a Director is as set out in paragraph A3.1 of the Combined Code.

Chairman of the Board

The Board splits the responsibility of running the Board and running the business. The Chairman is appointed by the Board to implement Board resolutions, to coordinate operational activities with the CEO with an objective of delivering value to the shareholders. The Chairman is appointed by the Board to manage the Board and ensure that it operates smoothly and efficiently. The responsibilities of the Chairman include:

- focus of strategic leadership of the Board ensuring its effectiveness and developing an appropriate and realistic vision;
- ensuring effective communication with the shareholders, in conjunction with the CEO;
- ensuring that the Directors receive appropriate, accurate and timely information for effective decision-making;
- performance evaluation of the Board, its committees and individual Directors, and in particular the CEO (as required); and
- working constructively with the CEO to develop a business strategy and overseeing implementation of the strategy on behalf of the Board.

Chief Executive Officer

The CEO is appointed to implement the strategy agreed by the Board and to supervise and hold accountable all Dragon Oil operations personnel. The CEO has authority on all matters of management and is accountable for all duties and responsibilities delegated by the Board for ensuring performance of the Group.

Corporate Governance Statement continued

The CEO is the final authority on all matters that are not within the authority of the Board or the shareholders at a general meeting. Key managers and the Executive Committee support the CEO in executing his respective responsibilities and accomplishing business objectives. His responsibilities will include:

- development and implementation of the Group's business growth strategy;
- establishing the organisation structure, plans and policies and effectively implementing the same;
- endorsing all business plans, budgets and proposals prior to Board approval;
- setting up performance monitoring mechanisms and appraisals;
- reviewing operational and financial performance of the Group against established goals;
- appointing, developing and dismissing senior management personnel;
- managing external relationships with the host governments; and
- communications with shareholders, investors, analysts along with the Chairman.

Meetings and attendance

	Board	Independent Committee ⁽¹⁾	Audit Committee ⁽¹⁾	Remuneration Committee ⁽¹⁾	Nominations Committee ⁽¹⁾
Number of meetings	7	11	7	1	0 ⁽²⁾
Number of meetings attended: ⁽¹⁾					
Mohammed Al Ghurair	6/7	n/a ⁽³⁾	n/a ⁽³⁾	1/1	n/a
Abdul Jaleel Al Khalifa	7/7	n/a ⁽³⁾	n/a ⁽³⁾	n/a ⁽³⁾	n/a
Nigel McCue	6/7	11/11	7/7	1/1	n/a
Saeed Al Mazrooei	6/7	11/11	7/7	1/1	n/a
Ahmad Al Muhairbi	6/7	11/11	6/7	n/a ⁽³⁾	n/a
Ahmad Sharaf	7/7	n/a ⁽³⁾	n/a ⁽³⁾	1/1	n/a

Notes:

- (1) During 2009, certain Directors who were not Committee members attended meetings of the Independent, Audit, Remuneration and/or Nominations Committees by invitation. These details have not been included in the table.
- (2) During 2009, there were no Nominations Committee meetings held.
- (3) n/a — not applicable (where a Director is not a member of the Board or the Committee on the relevant date) as the table reflects only attendance by members.

The Directors met regularly throughout the year and the Board met a total of seven times in 2009, all of meetings took place in Dubai, UAE. In addition, the AGM and the Extraordinary General Meeting took place in London, England, in May and December 2009, respectively. The Independent Committee of the Board met a total of eleven times, all in connection with the proposed acquisition from ENOC (see page 38 for details). All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

The formal agenda, which regularly included presentations from senior management personnel, for each scheduled Board or Committee meeting is set by the Chairman or the Committee Chairman (as the case may be), in consultation with the Company Secretary. Formal minutes of all Board and Committee meetings are circulated

to all Directors and considered for approval at the next available meeting. In addition, the Board members are in frequent contact at board meetings of subsidiary companies and between meetings with a view to progressing the Group's business.

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. Since mid-2006, Alex Ridout has advised the Board in the role of Company Secretary.

Executive Committee

The Board has delegated the day-to-day running of the Group to the CEO who has established an Executive Committee to assist him in this role. The Executive Committee is made up of the CEO, the General Manager of Petroleum Development, the Director of Finance, the HR Director, the Corporate Planning Manager, the Company Secretary and the Contracts and Purchasing Manager, with the Company Secretary acting as secretary to this Committee.

The responsibilities of the Executive Committee include the implementation of the Group's operational and financial strategies approved by the Board and monitoring of performance against the plan. The Executive Committee also develops a framework for identifying critical business risks, for ensuring the effective monitoring, management and mitigation of the risks, to meet the overall business objectives.

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

There has been some progress in addressing the areas identified in the 2008 performance evaluation process. Progress was made on developing the updated mission and vision for the Group, which will be cascaded by the Board and management into revised key performance indicators. Notwithstanding the above, the Board recognises that there were areas which were not addressed during 2009, in particular Board succession planning and training and personal development for Directors. These are matters of importance and the Board will seek to deal with them during 2010.

As was the case in previous years, the performance of the Board, its principal Committees and the individual Directors was formally evaluated. A questionnaire was circulated to the Directors concerning the performance of the Board as a whole and of the Committees. The responses were collated and summarised by the Company Secretary. Open and frank discussions were held at the Board level concerning the results, and all specific issues raised were addressed.

The evaluation process concluded that the Board as a whole and its principal Committees had functioned well during 2009 although the overall scores for the Board and the Committees were marginally down as compared with scores in 2008. The Board considered that individual Directors had also performed well, with each making a significant contribution to the Group. The combination of skills on the Board was felt to be appropriate and worked well.

Matters highlighted for improvement as a result of the evaluation process included the following (including those left over from the previous year):

1. developing relations with the wider base of external stakeholders that are involved with the Group;
2. Board succession planning;
3. training and personal development for Directors;
4. updating the risk management framework for the Group; and
5. revising the performance evaluation process for individual Directors.

Committees

The Board has established the Audit, Remuneration and Nominations Committees, all of which have written terms of reference setting out their authority and duties. As part of the requirements set out in the Combined Code, the Group makes available the terms of reference of the Nominations, Remuneration and Audit Committees of the Board on its website, www.dragonoil.com.

In addition, as a result of the takeover approach by ENOC in June 2009, an Independent Committee of the Board of Directors (the "Independent Committee") was formed.

Audit Committee

The Board is committed to the crucial role that the Audit Committee plays in today's business environment and specifically within the Group. The Committee's primary responsibility is to monitor the integrity of the financial statements and to recommend the appointment of the external Auditor (as well as reviewing their independence, objectivity and the effectiveness of the audit process); however, the Committee also plays an active and proactive role in the review of the internal financial controls and the monitoring and review of the effectiveness of the internal audit function.

The Audit Committee had a particularly busy 2009, meeting a total of seven times during the year (compared to only five in 2008) and attendance at the meetings was as per the table above. Key topics for discussion by the Audit Committee included the investigation into irregularities in the Marketing and Contracts Departments, the 2008 financial statements and the 2009 interim financial statements.

The membership of the Audit Committee currently comprises Nigel McCue (Chairman), Ahmad Al Muhairbi and Saeed Al Mazrooei. The Company Secretary acts as secretary to the Audit Committee. The Board considers that each of the members has the requisite skills and attributes to enable the Committee to discharge its responsibilities and that one member of the Audit Committee, Mr McCue, has recent and relevant financial expertise.

The performance evaluation process concluded that the Audit Committee had functioned well during 2009 although the following matters were highlighted to be addressed:

1. more private meetings with the internal and external auditors;
2. increased communication from HR Director on key issues;
3. consulting with and access to external advisers and stakeholders, for feedback and advice on key issues; and
4. personal development for Committee members.

The external auditors, PricewaterhouseCoopers ("PwC"), have unrestricted access to the Chairman of the Audit Committee. PwC performed non-audit services for the Group in the form of tax advice and in respect of tax and financial due diligence for specific new business venture proposals.

Corporate Governance Statement continued

Each year, the Audit Committee reviews the independence of PwC, as part of its review of the previous year's financial statements. The Audit Committee discussed PwC's independence with PwC again and determined that PwC continued to be independent. Further, the Audit Committee assessed the overall performance of PwC during the audit process and was pleased with the high quality of their services and their professionalism.

Remuneration Committee

The identity of the members of the Remuneration Committee and a full review of the Remuneration Committee's activities during the year are contained in the Directors' Remuneration Report at pages 41 to 43.

Nominations Committee

The membership of the Nominations Committee currently comprises Ahmad Al Muhairbi (Chairman), Ahmad Sharaf, Nigel McCue and Mohammed Al Ghurair. The Company Secretary acts as secretary to the Nominations Committee. The Committee considers the composition of the Board and makes recommendations on the appointment of new Directors as well as making recommendations to the Board on succession planning.

While there were no meetings of the Nominations Committee during 2009, the Board has recognised that succession planning at the Board level is of paramount importance to the development of the Group. The Nominations Committee met in January 2010 and will be considering such matters further during 2010.

Independent Committee of the Board of Directors

On 4 June 2009, the Company announced that it had been approached by ENOC in relation to the Proposed Acquisition. The Company formed the Independent Committee to evaluate the approach by ENOC and the Proposed Acquisition in general.

The Independent Committee comprised the Company's Senior Independent Non-executive Director Nigel McCue as Chairman along with the Company's other Independent Non-executive Directors, Ahmad Al Muhairbi and Saeed Al Mazrooei. The Board delegated full authority for the evaluation of the Proposed Acquisition to the Independent Committee, which in doing so, obtained independent legal and financial advice from the Company's financial and legal advisers.

On 2 November 2009, the Independent Committee and the Board of ENOC announced that they had reached agreement on the terms of the Proposed Acquisition and the Independent Committee recommended this for approval to the minority shareholders of Dragon Oil with the offer price of 455 pence in cash for every Dragon Oil Share. On 11 December 2009, the Independent Committee announced that, at a meeting of the Dragon Oil minority shareholders convened by order of the Irish High Court and held in connection with the Proposed Acquisition, the resolution to approve the Proposed Acquisition was not passed by the requisite majorities.

Compliance with the Combined Code

The Board considers that the Group has complied with the provisions set out in the Combined Code throughout the financial year under review. However, where the Group is not in compliance with the provisions of the Combined Code, that non-compliance is explained below:

A. Directors

A.1.3/A.2.1/A.6.1 There have not been any meetings between the Chairman and the other Non-executive Directors without the CEO present during 2009. There have not been any meetings between the Senior Independent Director and the other Non-executive Directors without the Chairman present.

A.3.1 Nigel McCue holds share options in the Company. The Board considers that Mr McCue's independence is not prejudiced or compromised by the holding of share options in the Company. Mr McCue has extensive knowledge of the Group's business and positively challenges management data and assumptions.

A.7.2 Non-executive Directors were appointed for indefinite terms according to their letters of appointment, but are subject to retirement by rotation in accordance with the Company's Articles of Association at least every three years, except for Directors who have been in office for nine years or more who are subject to retirement and re-election annually. This is the Group's normal policy and letters of appointment for Non-executive Directors include a three-month notice period.

B. Remuneration

B.1.3 Nigel McCue holds share options in the Company. As stated above, the Board considers that Mr McCue's independence is not prejudiced or compromised by the holding of share options in the Company.

B.1.6 The CEO has a formal contract of employment with an indefinite term of service but with an express termination notice period of three months.

B.2.1 As has been the case since June 2008, the Remuneration Committee has a membership of two Independent Non-executive Directors and two Directors that are nominee Directors of the majority shareholder. All members of the Remuneration Committee challenge constructively a proposal submitted to the Committee to ensure that the Group's remuneration policy is adhered to.

Related Party Transactions

The Group has its head office in Dubai, UAE, which it rents from ENOC. Furthermore, the Group avails itself of a limited number of services from ENOC, including internal audit. All such services are provided on an arm's length basis and are subject to a written contract on commercial terms. Details are set out in Note 27 of the consolidated financial statements on page 75.

Communication with Shareholders

Dragon Oil places great importance on effective communication with its investors and analysts by maintaining a policy of transparency, continuity and timely dissemination of information. The Group archives all key information and documentation on its website www.dragonoil.com with a dedicated Investor Centre for its shareholders.

One-on-one and group meetings as well as conference calls are scheduled between the senior management team and key shareholders, including the senior management team at ENOC, throughout the year. Regular analyst and investor feedback reports are conducted, which in turn are presented to the Board and the management team. Shareholders will have the opportunity to meet and discuss key areas of interest with the Directors at the 2010 AGM.

In addition, Nigel McCue attended numerous meetings with certain large institutional shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns. This was particularly in the context of the Proposed Acquisition by ENOC. Mr McCue also attended both the 2009 AGM and the Extraordinary General Meeting which was held in December 2009.

Internal Control

The Group's risk and controls framework covers all material risks and controls including those of an operational, financial and compliance nature. Internal control procedures consist, *inter alia*, of formal delegation of financial authorities by the Board to the executive management. These control processes are complemented by effective monitoring mechanism and reporting.

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 the 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 accounts are as follows:

- Risk assessment procedures
- 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
- Monthly control reconciliations
- Management review of key judgements and estimates
- Use of specialists, e.g. for valuations, as appropriate
- Budgetary control, variance analysis and monthly performance reviews
- An internal audit function
- A properly constituted and effective audit committee
- 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. The Directors follow the guidance and suggested practices contained in the Combined Code.

Corporate Governance Statement continued

The investigation into irregularities within the Marketing Department and Contracts Department, which was announced in Q1 2009 has progressed substantially but remains ongoing. The Company will provide updates as and when required. The Group is a stronger organisation driven by a new management team working in line with the highest ethical standards, as highlighted by the recent adoption of a revised Code of Conduct which is available on the Group website at www.dragonoil.com.

Assurance

The Board, through the Audit Committee, obtains assurance against risks through audits conducted by the Internal Audit Department ("IA"). The IA is established in consultation with the Audit Committee to provide assurance primarily on the adequacy of the system of internal controls in the Group. The IA plan governs IA's activities during each calendar year and must be approved by the Audit Committee. In addition, any of the Audit Committee members or the CEO can request IA to conduct such special assignment as they deem fit. IA reports functionally to the Audit Committee and administratively to the CEO.

Each year, the Audit Committee reviews and assesses IA's annual report as part of the Group's three-year IA Work Cycle Plan. During 2009, IA was unable to undertake its full set of planned audit reviews because of the unplanned audit review of the above-mentioned investigation into irregularities within the Marketing Department and Contracts Department, for which IA played a central role. However, IA was also able to complete internal audits on areas such as marketing and sales process and IT systems and controls, as well as undertaking the planning cycle review. The annual audit included field visits to Turkmenistan as well as a detailed review meeting with the Audit Committee solely for the purpose of discussing IA audit reports.

The Audit Committee has reviewed the internal audit reports and presentations and external auditors' recommendations on internal control in its meetings and has monitored the progress in implementation of the recommendations. The focus areas for IA in 2010 will be a financial accounting review, abandonment and decommissioning process review, a review of the tendering and contracts procedure, as well as spot reviews for an EPIC project and HR processes.

On behalf of the Board

ALEX RIDOUT
Company Secretary of Dragon Oil plc
22 February 2010

Directors' Remuneration Report

This report has been prepared so as to be consistent with the Directors' Remuneration Report Regulations 2002, although these Regulations do not apply to the Company. These Regulations require the Auditors of a UK-incorporated quoted company to report to such company's shareholders on part of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared. The report is therefore divided into separate sections to disclose the audited and unaudited information.

Remuneration Committee

The membership of the Remuneration Committee currently comprises Saeed Al Mazrooei (Chairman), Nigel McCue, Ahmad Sharaf and Mohammed Al Ghurair. Other Directors may attend and have attended by invitation of the Remuneration Committee. The Company Secretary acts as secretary to the Remuneration Committee. The Remuneration Committee met once in 2009 and attendance at Committee meetings was per the table on page 36.

The Remuneration Committee is primarily responsible for determining and agreeing with the Board, the framework or broad policy for the remuneration of the Chairman, CEO and certain senior members of the executive management. The Remuneration Committee also reviews and assesses proposals for long-term incentive plans, including the grant of share options to employees under the Group's 2009 Share Option Scheme, which was adopted at the Company's 2009 AGM. Participation is at the discretion of Directors for eligible employees. Further details of the Committee's activities may be seen in the Committee's terms of reference.

The Company has fully complied with the Irish Stock Exchange's requirement in relation to the disclosure of Director's remuneration contained in LR 6 Appendix 1 to the Listing Rules. No Director votes on or discusses the terms of his own remuneration.

The Group management has previously appointed independent HR consultants, Mercer Human Resources Consulting ("Mercer"), to provide it with independent remuneration advice and the Remuneration Committee has been provided with full details of the same, to assist it in determining remuneration packages. Mercer does not provide any other services to the Group except advice on the implementation of the remuneration policy.

Remuneration Policy

Dragon Oil's policy on remuneration for Executive Directors is that the overall remuneration package should be sufficiently competitive to attract and retain high quality individuals, with the right blend of experience, technical expertise and background, who are capable to achieve the Group's targets and to fit into the Dragon Oil culture. The package is evenly weighted between fixed pay and variable pay.

Non-executive Directors are not appointed for specific terms but they do have letters of appointment. All Directors are subject to retirement from the Board by rotation at AGMs. The Remuneration Committee applies the same philosophy in determining the CEO's remuneration as is applied in respect of all senior management employees.

The underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Group. The Remuneration Committee is mindful

of the need that, in a competitive environment, the Group needs to be able to attract, retain and motivate executives and employees who can perform to the highest levels of expectations. The award of an annual bonus to the CEO is made depending on an objective assessment of the Group's financial and operational performance, as well as review of the performance of the individual in question.

Service contracts

The Executive Director's permanent contract of employment can be terminated by either the Director or the Company on three months' notice. 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 retirement by rotation at least every three years.

The remuneration of the Independent Non-executive Directors takes the form solely of fees, the level of which has been set by the sole Executive Director, in consultation with the Director of Finance and the Company Secretary and pursuant to advice from independent third party human resources consultants.

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 twenty-four month period after cessation of the Director's appointment.

Directors' Remuneration Report continued

AUDITED

Directors' Remuneration

	Fees 2009 US\$'000	Salary 2009 US\$'000	Bonus 2009 US\$'000	Benefits US\$'000	Share options — value of services provided US\$'000	Total 2009 US\$'000	Total 2008 US\$'000
Executive Director							
Abdul Jaleel Al Khalifa	—	376	187	384	239	1,186	226
Non-Executive Directors							
Mohammed Al Ghurair	191	—	—	—	—	191	151
Nigel McCue	183	—	—	—	—	183	147
Ahmad Sharaf	138	—	—	—	—	138	103
Ahmad Al Muhairbi	179	—	—	—	—	179	125
Saeed Al Mazrooei	192	—	—	—	—	192	121
Other past directors	—	—	—	—	—	—	1,388
	883	376	187	384	239	2,069	2,261

Directors' Interests

The interests of the Directors 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 22 February 2010:

	At 1 January 2009		At 31 December 2009		At 22 February 2010	
	Ordinary shares	Share options ⁽¹⁾	Ordinary shares	Share options ⁽¹⁾	Ordinary shares	Share options ⁽¹⁾
Executive Director						
Abdul Jaleel Al Khalifa	—	—	—	360,000	—	360,000
Non-Executive Director						
Nigel McCue	125,000	250,000	125,000	250,000	125,000	250,000
	125,000	250,000	125,000	610,000	125,000	610,000
Company Secretary						
Alex Ridout	10,000	160,000	10,000	183,333	10,000	183,333
	135,000	410,000	135,000	793,333	135,000	793,333

⁽¹⁾ The share options are options for Ordinary Shares in Dragon Oil plc, granted in accordance with the 2002 Share Option Scheme exercisable in accordance with that Scheme.

	Date of grant	As at 1 January 2009	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 Dec 2009	Exercise price (Stg. p)	Average market price at exercise date (Stg. p)	Exercisable from	Exercisable up to
Directors										
Abdul Jaleel Al Khalifa	06.04.09	—	360,000	—	—	360,000	177.0	—	07.04.10	05.04.19
Nigel McCue	31.12.04	250,000	—	—	—	250,000	69.0	—	01.01.08	30.12.14
		250,000	360,000	—	—	610,000				
Company Secretary										
Alex Ridout	14.12.06	106,667	—	—	—	106,667	170.8	—	15.12.09	13.12.16
Alex Ridout	03.04.08	53,333	—	—	(53,333)	—	451.0	—	Cancelled on 06.04.09	
Alex Ridout	06.04.09	—	26,666	—	—	26,666	177.0	—	04.04.11	02.04.18
Alex Ridout	06.04.09	—	50,000	—	—	50,000	177.0	—	07.04.12	05.04.19
		410,000	436,666	—	(53,333)	793,333				

Throughout 2009 none of the Directors' share options lapsed. The opening market price of the Ordinary Shares in Dragon Oil plc on 2 January 2009 was Stg. 163.25p, and the market prices in the Ordinary Shares ranged between Stg. 133.50p and Stg. 447.00p during the year.

Share Option Plans

Share options are awarded to attract, retain and provide its Directors and key employees with a long-term performance incentive to deliver growth and shareholder value. The Board views the use of long-term incentive plans as integral in its strategy to achieve this goal.

Dragon Oil plc previously awarded share options to its Directors and to its employees in accordance with the Group's 2002 Share Option Scheme. It is not anticipated that any further options will be granted under this scheme.

A new share option scheme, the "2009 Share Option Scheme", was adopted and approved by the shareholders at the 2009 AGM. It is expected that all future share options will be awarded in accordance with and will be governed by the 2009 Share Option Scheme. The key difference between the 2002 Share Option Scheme and the 2009 Share Option Scheme is the requirement on the Board to link vesting of share options under the 2009 Share Option Scheme with certain performance indicators.

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.

By order of the Board

SAEED AL MAZROOEI
Chairman of the Remuneration Committee
22 February 2010

Independent Auditors' Report to the members of Dragon Oil plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Dragon Oil plc for the year ended 31 December 2009 which comprise the Group and Parent Company Balance Sheets, Group Income Statement, Group Statement of Comprehensive Income, Group and Parent Company Cash Flow Statements, Group and Parent Company Statements of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 193 of the Companies Act, 1990 and Regulations 9 and 13 of the European Communities (Directive 2006/46/EC) Regulations, 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the Parent Company financial statements give 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 2009. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the Company balance sheet is in agreement with the books of account. We also report to you our opinion as to:

- whether the Company has kept proper books of account;
- whether the Directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the Company to convene an extraordinary general meeting of the Company; such a financial situation may exist if the net assets of the Company, as stated in the Company balance sheet are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

In relation to the Company's Corporate Governance Statement (the "statement") we are required to:

- establish whether the statement contains the information required by law;
- report whether in our opinion the information given in the statement with respect to internal control and risk management systems in relation to financial reporting processes, including those systems used for preparing the consolidated financial statements, is consistent with our evaluation and testing of the relevant systems which we considered necessary for the purposes of our report under Section 193 of the Companies Act, 1990;
- report whether the information given under Section 158(6D)(d) of the Companies Act, 1963 is consistent with the financial statements; and
- review whether the statement reflects the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and report if it does not.

We are not required to consider whether the information given in the Corporate Governance Statement on internal control and risk management systems covers all risks and controls, or to evaluate and test the main features of the internal control and risk management systems as described in the Corporate Governance Statement, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only Message from the Chairman, Investment Statement, Operational Overview, Delivering our Strategy, Message from the Chief Executive Officer, Chairman's Statement, Operating and Financial Review, Corporate Social Responsibility Report, Directors' Report, Risk Report, Corporate Governance Statement, unaudited part of the Directors' Remuneration Report and Supplementary Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to form an opinion on whether the financial statements give a true and fair view and not for the purpose of expressing an opinion on the effectiveness of the entity's internal control and risk management systems.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the Parent Company's affairs as at 31 December 2009 and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation.

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 Company. The 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.

In our opinion the information given in the Corporate Governance Statement with respect to internal control and risk management systems in relation to financial reporting processes, including those systems used for preparing the consolidated financial statements, is consistent with our evaluation and testing of the relevant systems which we considered necessary for the purposes of our audit report under Section 193 of the Companies Act, 1990 on the Parent and Group financial statements.

In our opinion the information given in the Corporate Governance Statement as required under Section 158(6D)(d) of the Companies Act, 1963 is consistent with the financial statements.

The net assets of the Company, as stated in the Company's 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 2009 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 Company.

PRICEWATERHOUSECOOPERS
Chartered Accountants and Registered Auditors
Dublin, Ireland
22 February 2010

Group Balance Sheet

As at 31 December

	Note	2009 US\$'000	2008 US\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	908,310	776,552
Intangible assets	8	1,054	947
		909,364	777,499
Current assets			
Inventories	12	43,379	56,585
Trade and other receivables	13	57,264	58,980
Term deposits	14	870,468	426,667
Cash and cash equivalents	14	267,110	449,051
		1,238,221	991,283
Total assets		2,147,585	1,768,782
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	15	80,687	80,685
Share premium	16	228,809	228,764
Capital redemption reserve	17a	77,150	77,150
Other reserve	17b	3,138	1,689
Retained earnings		1,313,439	1,054,060
Total equity		1,703,223	1,442,348
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	20,158	3,372
Deferred income tax liabilities	23	68,905	80,305
		89,063	83,677
Current liabilities			
Trade and other payables	18	250,033	141,880
Current income tax liability	23	105,266	100,877
		355,299	242,757
Total liabilities		444,362	326,434
Total equity and liabilities		2,147,585	1,768,782

Approved by the Board on 22 February 2010

MOHAMMED AL GHURAIR
Chairman

NIGEL McCUE
Director

The notes on pages 52 to 76 are an integral part of these financial statements.

Group Income Statement

Year ended 31 December

	Note	2009 US\$'000	2008 US\$'000
Revenue	19	623,480	706,118
Cost of sales	20	(282,277)	(193,220)
Gross profit		341,203	512,898
Administrative expenses	20	(27,018)	(18,263)
Other income		260	125
Other losses	11	—	(20,748)
Operating profit		314,445	474,012
Finance income	21	30,553	25,050
Profit before income tax		344,998	499,062
Income tax expense	23	(85,971)	(130,020)
Profit attributable to equity holders of the Company		259,027	369,042
Earnings per share attributable to equity holders of the Company	24		
Basic		50.30c	71.81c
Diluted		50.20c	71.58c

Group Statement of Comprehensive Income

Year ended 31 December

	2009 US\$'000	2008 US\$'000
Profit attributable to equity holders of the Company	259,027	369,042
Total comprehensive income for the year	259,027	369,042

Approved by the Board on 22 February 2010

MOHAMMED AL GHURAIR
Chairman

NIGEL McCUE
Director

The notes on pages 52 to 76 are an integral part of these financial statements.

Group Cash Flow Statement

Year ended 31 December

	Notes	2009 US\$'000	2008 US\$'000
Cash generated from operating activities	25	593,287	663,773
Income tax paid		(92,982)	(85,186)
Net cash generated from operating activities		500,305	578,587
Cash flows from investing activities			
Additions to property, plant and equipment	7,18	(268,938)	(287,672)
Additions to intangible assets	8	(107)	(508)
Interest received on bank deposits	21	30,553	25,050
Amounts placed on term deposits (with original maturities greater than three months)	14	(443,801)	(253,329)
Net cash used in investing activities		(682,293)	(516,459)
Cash flows from financing activities			
Proceeds from issue of share capital	15,16	47	11,668
Cash generated from financing activities		47	11,668
Net (decrease)/increase in cash and cash equivalents		(181,941)	73,796
Cash and cash equivalents at beginning of year		449,051	375,255
Cash and cash equivalents at end of year	14	267,110	449,051

The notes on pages 52 to 76 are an integral part of these financial statements.

Company Balance Sheet

As at 31 December

	Note	2009 US\$'000	2008 US\$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	9a	6,349	4,905
Current assets			
Loans to subsidiary undertakings	9b	364,656	370,664
Other receivables	13	452	221
Cash and cash equivalents	14	2,297	665
		367,405	371,550
Total assets		373,754	376,455
EQUITY			
Capital and reserves attributable to the Company's equity Shareholders			
Share capital	15	80,687	80,685
Share premium	16	228,809	228,764
Capital redemption reserve	17a	77,150	77,150
Other reserve	17b	3,138	1,689
Accumulated losses		(20,012)	(12,478)
Total equity		369,772	375,810
LIABILITIES			
Current liabilities			
Other payables	18	3,982	645
Total equity and liabilities		373,754	376,455

Approved by the Board on 22 February 2010

MOHAMMED AL GHURAIR
Chairman

NIGEL McCUE
Director

The notes on pages 52 to 76 are an integral part of these financial statements.

Company Cash Flow Statement

Year ended 31 December

	Notes	2009 US\$'000	2008 US\$'000
Cash used in operating activities	25	(4,423)	(2,608)
Cash flows from investing activities			
Loans repaid by/(advanced to) Group companies	9b	6,008	(8,492)
Cash provided by/(used in) investing activities		6,008	(8,492)
Cash flows from financing activities			
Proceeds from issue of share capital	15,16	47	11,668
Cash generated from financing activities		47	11,668
Net increase in cash and cash equivalents		1,632	568
Cash and cash equivalents at beginning of year		665	97
Cash and cash equivalents at end of year	14	2,297	665

The notes on pages 52 to 76 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 2008		80,075	217,706	77,150	3,827	681,669	1,060,427
Total comprehensive income for the year		—	—	—	—	369,042	369,042
Shares issued during the year	15,16	610	11,058	—	—	—	11,668
Employee share option scheme:							
— value of services provided	15	—	—	—	1,211	—	1,211
Transfer on exercise of share options		—	—	—	(3,349)	3,349	—
Total transactions with owners		610	11,058	—	(2,138)	3,349	12,879
At 31 December 2008		80,685	228,764	77,150	1,689	1,054,060	1,442,348
Total comprehensive income for the year		—	—	—	—	259,027	259,027
Shares issued during the year	15,16	2	45	—	—	—	47
Employee share option scheme:							
— value of services provided	15	—	—	—	1,801	—	1,801
Transfer on exercise/forfeiture of share options		—	—	—	(352)	352	—
Total transactions with owners		2	45	—	1,449	352	1,848
At 31 December 2009		80,687	228,809	77,150	3,138	1,313,439	1,703,223

Company	Notes	Share capital US\$'000	Share premium US\$'000	Capital redemption reserve US\$'000	Other reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
At 1 January 2008		80,075	217,706	77,150	3,827	(13,242)	365,516
Total comprehensive loss for the year		—	—	—	—	(2,585)	(2,585)
Shares issued during the year	15,16	610	11,058	—	—	—	11,668
Employee share option scheme:							
— value of services provided	9a,15	—	—	—	1,211	—	1,211
Transfer on exercise of share options		—	—	—	(3,349)	3,349	—
Total transactions with owners		610	11,058	—	(2,138)	3,349	12,879
At 31 December 2008		80,685	228,764	77,150	1,689	(12,478)	375,810
Total comprehensive loss for the year		—	—	—	—	(7,886)	(7,886)
Shares issued during the year	15,16	2	45	—	—	—	47
Employee share option scheme:							
— value of services provided	15	—	—	—	1,801	—	1,801
Transfer on exercise/forfeiture of share options		—	—	—	(352)	352	—
Total transactions with owners		2	45	—	1,449	352	1,848
At 31 December 2009		80,687	228,809	77,150	3,138	(20,012)	369,772

The notes on pages 52 to 76 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. Its head office is based in Dubai, United Arab Emirates ("UAE").

The Company is incorporated in Ireland and the address of its registered office is given on the outside back cover.

The Company's ordinary shares are listed on the official lists of the Irish and London Stock Exchanges.

These financial statements have been approved for issue by the Board of Directors on 22 February 2010.

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

Financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and those parts of the Irish Companies Acts, 1963 to 2009 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 share options, derivative financial instruments and underlift receivables/overlift payables.

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 adopted by the Group*

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

- IAS1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statements of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in a performance statement. The Group has elected to present two performance statements (the income statement and statement of comprehensive income). The Group does not presently have any component of income or expenditure arising from non-owner changes in equity, other than the profit for the year.
- IFRS1 (Amendment) 'First time adoption of IFRS' and IAS27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended IFRS1 allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not applicable to the Group as it has already adopted IFRS.
- IFRS2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The application of the new amendment does not have any material impact on the Group financial statements.
- IFRS7 (Amendment), 'Financial instruments — Disclosures' (effective from 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

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

- IFRS8, 'Operating segments' (effective from 1 January 2009). IFRS8 replaces IAS14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard ASC 280 'Segment reporting'. IFRS8 sets out the requirements for disclosure of financial and descriptive information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The application of the new standard does not have any material impact on the financial information as the Group continues to report under a single segment.
- IFRIC9 and IAS39 (Amendments) — 'Embedded derivatives' (effective from 1 January 2009). The amendments extend the circumstances in which reassessment of whether an embedded derivative is required to be separated from a host contract and accounted for as a derivative and whether a reclassification out of the 'fair value through profit and loss' category is permitted. The application of the new amendment does not have any material impact on the Group financial statements.
- IFRIC13, 'Customer loyalty programmes' (effective from 1 January 2009). IFRIC13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.
- IFRIC15, 'Agreements for construction of real estate' (effective from 1 January 2009). The interpretation clarifies whether IAS18, 'Revenue', or IAS11, 'Construction contracts' should be applied to particular transactions. It is likely to result in IAS18 being applied to a wider range of transactions. IFRIC15 is not relevant to the Group's operation as all revenue transactions are accounted for under IAS18 and not IAS11.
- IFRIC16, 'Hedges of a net investment in a foreign operation' (effective from 1 January 2009). IFRIC16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The interpretation is currently not applicable to the Group.
- IAS23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment is currently not applicable to the Group as there are no borrowings.
- IAS32 (Amendment), 'Financial instruments: Presentation', and IAS1 (Amendment), 'Presentation of financial statements' — 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The application of the new amendment does not have any material impact on the Group financial statements.
- IAS39 and IFRS7 (Amendments) — 'Reclassification of financial assets' (effective from 1 January 2009). The amendment allows for the reclassification of certain financial assets previously classified as "held-for-trading" or "available-for-sale" to another financial asset category under limited circumstances. Various disclosures are required where a reclassification has been made. The application of the new amendment does not have any material impact on the Group financial statements.
- Improvements to IFRSs. The 'Improvements to IFRSs' represents a number of non-urgent changes in standards, basis of conclusions and guidance. The improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. These changes have not had a material impact for the Group.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRS1 (Revised), 'First-time adoption of International Financial Reporting Standards' (effective for financial periods beginning on or after 1 July 2009). The current IFRS1 has been amended many times to accommodate first time adoption requirements of new and amended IFRSs, resulting in a more complex and less clear standard. This revised version retains the substance of the original standard but with a changed structure. The revised IFRS1 is not applicable to the Group as it has already adopted IFRS, however, it would be applicable to other entities in the Group should they transition to IFRS at a future date.
- Amendments to IFRS1 — 'Additional exemptions for first-time adopters', (effective for financial periods beginning on or after 1 January 2010). The amendment is subject to European Union ("EU") endorsement. The amendment introduces additional exemptions for entities that are transitioning to IFRS. The amendment is not applicable to the Group as it has already adopted IFRS.
- IFRS2 (Amendment) — 'Group cash-settled share-based payment transactions', (effective for financial periods beginning on or after 1 January 2010). The amendment is still subject to EU endorsement. The amendment clarifies the scope and the accounting for Group cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendment also incorporates the guidance contained in IFRIC8 and IFRIC11. As a result the IFRIC8 and IFRIC11 have been withdrawn. The Group will adopt the amendment from 1 January 2010, subject to EU endorsement.
- IFRS3 (Revised), 'Business combinations' (effective for financial periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS3 (revised) prospectively to all business combinations from 1 January 2010.
- IFRS9, 'Financial instruments', (effective for financial periods beginning on or after 1 January 2013). The new standard is still subject to EU endorsement. The new standard addresses classification and measurement of financial assets. IFRS9 replaces the multiple classification models in IAS39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS9 is driven by the entity's business model for managing financial assets and the contractual characteristics of the financial assets. IFRS9 removes the requirement to separate embedded derivatives from financial asset hosts. IFRS9 removes the cost exemption for unquoted equities. The Group will apply IFRS9 from 1 January 2013, subject to EU endorsement.
- Amendment to IAS24 — 'Related party disclosures' (effective for annual periods beginning on or after 1 January 2011). This amendment is subject to EU endorsement. The amendment simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The Group will adopt the amendment from 1 January 2011, subject to EU endorsement.
- IAS27 (Revised), 'Consolidated and separate financial statements' (effective for financial periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill on acquisitions from non-controlling interests or gains and losses on disposals to non-controlling interests. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. The revision is currently not applicable to the Group, as there are no non-controlling interests.
- Amendment to IAS32 — 'Classification of rights issues' (effective for annual periods beginning on or after 1 February 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights are classified as equity regardless of the currency in which the exercise price is denominated. The Group will adopt the amendment from 1 February 2010.

2 Summary of significant accounting policies continued

2.1 Basis of preparation continued

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group continued

- IAS39 (Amendment) – ‘Eligible hedged items’, ‘Financial instruments: Recognition and measurement’ (effective for annual periods beginning on or after 1 July 2009). This amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portions of cash flows is eligible for designation as a hedged item or items should be applied. The Group will apply IAS39 (Amendment) from 1 January 2010. It is not expected to have an impact on the financial statements.
- IFRIC17, ‘Distributions of non-cash assets to owners’ (effective for annual periods beginning on or after 1 July 2009). This interpretation applies to transactions in which an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The IFRIC also clarifies when an entity should recognise a dividend payable, i.e. when the dividend is appropriately authorised and no longer at the discretion of the entity. The interpretation is currently not applicable to the Group.
- IFRIC18, ‘Transfers of assets from customers’ (effective for transfers of assets from customers received on or after 1 July 2009). This interpretation applies to agreements in which an entity receives from a customer an item of property, plant and equipment (or an amount of cash which must be used to construct or acquire an item of property, plant and equipment) that the entity must use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or do both. The interpretation is currently not applicable to the Group.
- Amendment to IFRIC14, ‘Prepayments of a minimum funding requirement’ (effective for financial periods beginning on or after 1 January 2012). The amendment is still subject to EU endorsement. The amendment removes an unintended consequence of IFRIC14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group will adopt the amendment from 1 January 2012, subject to EU endorsement.
- IFRIC19, ‘Extinguishing financial liabilities with equity instruments’ (effective for financial periods beginning on or after 1 July 2010). IFRIC19 requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity’s own equity instruments. The Interpretation is still subject to EU endorsement. The Group will apply IFRIC19 from 1 July 2010, subject to EU endorsement.
- Improvements to IFRSs (effective for financial periods beginning on various dates). The IASB has issued the ‘Improvements to IFRSs 2009’ standard which amends ten standards, basis of conclusions and guidance, and two interpretations based on the exposure drafts issued in October 2007 and August 2008. The improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. The Improvements are subject to EU endorsement. The Group has reviewed the ‘Improvements to IFRSs’, subject to EU endorsement, and anticipates that these will not have a material impact for the Group.

2.2 Consolidation

The Group financial statements incorporate the financial statements of entities controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity (a subsidiary) generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are consistent with those adopted by the Group.

2.3 Segment reporting

The Group is managed as a single business unit and the financial performance is reported in the internal reporting provided to the Chief Operating Decision-maker (“CODM”). The Board of Directors (“BOD”), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CODM that makes strategic decisions.

2.4 Foreign currencies

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

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.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

2.5 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 Exploration and Evaluation ("E&E") expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in Note 2.6.

Costs of development and production assets also includes licence acquisition costs, development drilling, infrastructure projects and a proportion of directly attributable administrative and overhead costs.

Depletion of development and production assets is computed using the unit-of-production method, with reference to the ratio of the production during the period and the commercial reserves of the field taking into account development expenditures necessary to bring those reserves into production. Commercial reserves are estimated quantities of proven and probable oil reserves that available data demonstrates, with a specified degree of certainty, to be recoverable in future from known reservoirs that are considered commercially producible.

Commercial reserves are determined using a number of underlying assumptions including estimates of oil in place, recovery factors and future oil prices which are inherently uncertain. The future oil prices have an impact on the proportion of the reserves which are attributable to the Group under the terms of the Production Sharing Agreement ("PSA") with the State Agency for Management and Use of Hydrocarbon Resources at the President of Turkmenistan ("the Agency"). Changes in estimates affecting the unit-of-production calculations for depletion are accounted for prospectively.

(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 of four years.

2.6 Exploration and evaluation 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. Pre-licence costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

Tangible assets acquired for use in E&E activities are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Intangible 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 determined. 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.

2.7 Impairment of non-financial assets

Assets that are subject to amortisation 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 at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Any material impairment loss is recognised in the income statement and separately disclosed.

Costs capitalised as development and production assets in excess of the estimated value of the Group's discounted future net revenues of its commercial reserves are impaired.

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. The aggregate carrying value is compared against the expected recoverable amount of such cash-generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves.

2 Summary of significant accounting policies continued

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: 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.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'term deposits' and 'cash and cash equivalents'. The Company's loans and receivables comprise 'loans to subsidiary undertakings', 'other receivables' and 'cash and cash equivalents'.

2.8.2 Recognition and measurement

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains arising from changes in the fair value of these financial assets are presented in the income statement within 'other gains' in the period in which they arise, while the losses are presented within 'other losses'.

Loans and receivables are initially measured at fair value plus transaction costs and subsequently carried at amortised cost less provision for impairment. The amortised cost is computed using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.11.

Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.9 Derivative financial instruments

The Group uses derivative financial instruments to manage its oil price exposure. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The resulting gains and losses are immediately recognised in the income statement.

2.10 Inventories

Inventories of crude oil, drilling and other supplies are included in current assets at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost of crude oil comprises production costs and depletion. Net realisable value of crude oil is the estimated selling price in the ordinary course of business less applicable variable selling expenses. Full provision is made for obsolete drilling and other supplies.

2.11 Trade receivables

Trade receivables are amounts due from customers for the sale of crude oil performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision is established when there is objective evidence that the Group will not be able to collect amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When the possibility of collection is considered to be remote, balances are written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

2.12 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 in revenue or cost of sales respectively, such that the gross profit is recognised on an entitlement basis.

2.13 Cash and cash equivalents and term deposits

Cash and cash equivalents comprise cash in hand and 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 twelve months are classified as term deposits and presented separately.

2.14 Share capital and share premium account

Ordinary shares are classified as equity. Share issue expenses are offset against the premium arising on the issue of ordinary share capital.

2.15 Trade payables

Trade 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. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the repayment value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's 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 authorities.

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 accounted for if it arises 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 substantially 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.

No liability is made for deferred tax which would arise on remittance of the retained earnings of overseas subsidiaries because the timing of such remittances is controlled by the Group and it is probable that remittances will not be made 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 taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies continued

2.18 End of service benefits

The provision for end of service benefits for all employees is made in accordance with local labour legislation 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. Expatriates in Turkmenistan are governed by the terms of their employment contracts that do not provide for end of service benefits.

End of service benefits are payable in accordance with the legislation to employees based in the UAE. The UAE labour laws provide for a lump sum payout at termination. Some of the Group's employees are members of the Group's Provident Scheme ("the Scheme") to which the Company contributes an agreed percentage of the member's base salary. The Scheme's assets are held in an independently administered fund. Members of the Scheme are guaranteed, on termination, a lump sum payout at least equivalent to that mandated under UAE labour legislation. The charge in any year is recorded in the income statement and the related contribution is transferred to the scheme.

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.

2.19 Share-based payment plans

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase directly in equity. The total amount to be expensed on a straight-line basis over the vesting period is determined by reference to the fair value of the options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Modification and re-pricing of share options are accounted for as a modification of the original grant. The Company records compensation cost for the cancelled awards based on their original value calculated at the grant date over the vesting period and the incremental value of the reissued awards relative to the value of the cancelled awards. The incremental fair value is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification.

The proceeds received, net of any direct transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

The Company has granted share options to the employees of a subsidiary company, under the 2002 Share Option Scheme, conditional upon the completion of continuing service with the Group for a specified period. The fair value of the share options granted is recognised in the Company in each period as an increase in the investment in the subsidiary with a corresponding credit to its other reserve. In the separate financial statements of the subsidiary, the fair value of the employee services received in exchange for the grant of the share options of the Company is recognised as an expense with a corresponding credit to its other reserve.

2.20 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.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

2.21 Revenue recognition

(a) Sales of crude oil

Revenue represents sales of the Group's share of crude oil and related income. Revenue comprises the fair value of the consideration received or receivable for the sale of crude oil by the Group in the ordinary course of the business to external customers. Revenue arising from the sale of crude oil is recognised when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be reliably measured. Revenue excludes the share of crude oil attributable to the Agency and abandonment and decommissioning barrels under the terms of the PSA.

(b) Crude oil underlift

The accounting policy with respect to crude oil underlift is set out in Note 2.12.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.22 Leases

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.

2.23 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 designated bank accounts, including an escrow account, to meet abandonment and decommissioning costs of wells, platforms and other facilities. All such costs will be met from these designated accounts.

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 flow or the Group's assets and liabilities. These risks are evaluated by management on an ongoing basis to assess and manage critical exposures.

The financial risk management programme includes the use of derivative financial instruments to manage these underlying risks. The Group's liquidity and market risks are managed as part of Group's treasury activities. Treasury operations are conducted within a framework of established policies and guidelines.

(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 uses derivative products as appropriate to manage oil price exposures.

There were no derivative financial instruments held at the balance sheet date.

At the balance sheet date, if the market price of crude oil had been US\$10 per barrel higher/lower, the crude oil overlifts would have been higher/lower by US\$2.3 million (2008: crude oil underlifts by US\$5.8 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.

(iii) Interest rate risk

The Group has no borrowings and hence it is not exposed to interest expense rate risk.

The Group has significant interest bearing term deposits and is not dependent on the interest income from such deposits for its operations.

During the year-ended 31 December 2009, if interest rates on the deposits had been 0.5% higher/lower, the interest income would have been higher/lower by US\$4 million (2008: US\$3 million).

3 Financial risk management continued

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks 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 United Arab Emirates. These deposits are held with reputable independently rated banks with a Moody's minimum rating of 'A3'. The credit quality of the amounts held in deposits is set out in Note 10b.

Oil export routes from the Caspian Sea are limited and a large part of the exports, from Kharg Island, Iran are to a subsidiary of the National Iranian Oil Company. A part of the Group's exports are to Baku, Azerbaijan and counterparty risks are minimised through crude oil sales contracts on secured credit terms. Management does not expect any losses from non-performance by these counterparties.

The Group has one customer representing 94% of trade receivables at the year-end. There have been no instances of default in the past on the trade receivables from customers and subsequent to the year-end, all amounts have been collected in full (Note 13).

(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 has adequate liquidity to manage its medium-term exposures in the event of a significant downturn in oil prices or a significant increase in the cost of inputs. Management monitors forecasts of the Group's cash and cash equivalents position on the basis of expected cash flows.

The Group is currently financed entirely from the Shareholders' equity and retained earnings with no debt.

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
31 December 2009				
Trade and other payables	270,191	270,191	250,033	20,158
31 December 2008				
Trade and other payables	145,252	145,252	141,880	3,372

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

Presently, the Group retains cash for its development programme and diversification strategy. The Company does not plan to declare dividends.

The Group had no debt during the year and therefore the gearing ratio has not been calculated.

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 31 December 2009, the overlift payable was measured at fair value based on quoted market price of crude oil (level 1). The Group did not have any other financial assets or liabilities that are measured at fair value as at 31 December 2009.

Notes to the Financial Statements continued

4 Critical accounting estimates, assumptions and judgements

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 estimates and assumptions that could result in material adjustments to the income statement and the carrying amounts of assets and liabilities are discussed below:

Development and production assets — depletion

The Group's share of commercial oil reserves is computed in accordance to the PSA. In arriving at the Group's share of reserves and, consequently, the depletion charge, significant assumptions have been made. These significant assumptions include estimates of oil reserves, future oil prices, future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.

The Group's estimated long-term view of oil prices is US\$70 per barrel.

If the estimate of the long-term oil price had been US\$20 per barrel higher at US\$90 from 1 January 2009, the reserves attributable to the Group would decrease, with a consequent increase in the depletion charge of US\$11.8 million for the year.

If the estimate of the long-term oil price had been US\$20 per barrel lower at US\$50 from 1 January 2009, the reserves attributable to the Group would increase, with a consequent decrease in the depletion charge of US\$17.9 million.

The depletion computation assumes 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 ten years, provided for in the PSA.

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 itself of the exemption from presenting its individual income statement to the AGM and from filing it with the Companies Registration Office. The Company's loss for the financial year determined in accordance with IFRS is US\$7.9 million (2008: loss of US\$2.6 million).

6 Segment information

The Group is managed as a single business unit and its development and production assets are located in Turkmenistan in the Caspian region. The head office is based in Dubai, where a significant portion of cash at bank and term deposits of the Group are held.

The exploration and evaluation assets represent the Group's interest in certain exploration blocks in Yemen.

Revenue includes an amount of US\$586.6 million (2008: US\$573.2 million) arising from the sale of crude oil in Iran, US\$59.5 million (2008: US\$109.8 million) arising from the sale of crude oil in Azerbaijan and US\$0.2 million (2008: US\$0.3 million) arising from other sales. There was no revenue recognised from the underlift of entitlement to crude oil produced in 2009 (2008: US\$22.8 million).

Revenue from the sales of crude oil were from two customers in Azerbaijan (2008: one customer) and from one customer in Iran (2008: one customer).

7 Property, plant and equipment

	Development and production assets US\$'000	Other US\$'000	Total US\$'000
Cost			
At 1 January 2008	895,537	1,816	897,353
Additions for the year	286,905	37	286,942
At 31 December 2008	1,182,442	1,853	1,184,295
Additions for the year	317,091	3,225	320,316
At 31 December 2009	1,499,533	5,078	1,504,611
Depletion and depreciation			
At 1 January 2008	256,737	1,403	258,140
Charge for the year	149,385	218	149,603
At 31 December 2008	406,122	1,621	407,743
Charge for the year	188,435	123	188,558
At 31 December 2009	594,557	1,744	596,301
Net book amount			
At 31 December 2009	904,976	3,334	908,310
At 31 December 2008	776,320	232	776,552

As discussed in Note 26(e), the recoverability of amounts recorded as development and production assets is dependent upon the satisfactory completion of the development of the oil reserves in Turkmenistan.

8 Intangible assets

Exploration and evaluation assets

	US\$'000
At 1 January 2008	833
Additions for the year	508
Amounts written off during the year	(394)
At 31 December 2008	947
Additions for the year	107
At 31 December 2009	1,054

Notes to the Financial Statements continued

9 Investments in and loans to subsidiary undertakings

Company

(a) Investments in subsidiary undertakings

	US\$'000
Cost	
At 1 January 2008	26,604
Fair value of share options granted to employees of a subsidiary undertaking	1,211
At 31 December 2008	27,815
Fair value of share options granted to employees of a subsidiary undertaking	1,444
At 31 December 2009	29,259
Provision for impairment	
At 1 January 2008 and 31 December 2008 and 2009	22,910
Net book amount	
At 31 December 2009	6,349
At 31 December 2008	4,905

(b) Loans to subsidiary undertakings

	US\$'000
At 1 January 2008	367,742
Advanced during the year	8,492
At 31 December 2008	376,234
Repayments during the year	(6,008)
At 31 December 2009	370,226
Provision for impairment	
At 1 January 2008 and 31 December 2008 and 2009	5,570
Net book amount	
At 31 December 2009	364,656
At 31 December 2008	370,664

The loans to subsidiary undertakings are non-interest bearing and are repayable on demand.

10a Financial instruments by category

Group

The accounting policies for financial instruments have been applied to the line items below:

	2009 US\$'000	2008 US\$'000
Assets as per balance sheet		
<i>Loans and receivables</i>		
Trade and other receivables excluding prepayments and advances to suppliers	41,078	52,063
Term deposits	870,468	426,667
Cash and cash equivalents	267,110	449,051
	1,178,656	927,781
Liabilities as per balance sheet		
<i>Liabilities at amortised cost</i>		
Trade and other payables	270,191	145,252
Company		
Assets as per balance sheet		
<i>Loans and receivables</i>		
Loans to subsidiary undertakings	364,656	370,664
Other receivables	452	221
Cash and cash equivalents	2,297	665
	367,405	371,550
Liabilities as per balance sheet		
<i>Liabilities at amortised cost</i>		
Trade and other payables	3,982	645

10b 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 13.

Most of the cash at bank and term deposits are held with counterparties with external credit ratings (Moody's), as set out below:

	2009 US\$'000	2008 US\$'000
Aa2	—	286
Aa3	179,401	—
A1	—	450,280
A2	913,777	424,333
Baa1	42,678	—
Non-rated	1,697	803
Cash at bank and term deposits	1,137,553	875,702
Cash in hand	25	16
Cash and cash equivalents and term deposits	1,137,578	875,718

Cash and cash equivalents of the Company are held with a bank with an external credit rating of A2 (Moody's) (2008: A2).

Notes to the Financial Statements continued

11 Derivative financial instruments

There were no derivative financial instruments held at 31 December 2009 (2008: nil) and there were no fair value losses with respect to zero-cost collars during the year (2008: US\$20.7 million).

12 Inventories

	2009 US\$'000	2008 US\$'000
Crude oil	11,848	18,187
Drilling and other supplies	32,475	39,311
	44,323	57,498
Provision for obsolete inventories	(944)	(913)
	43,379	56,585

The cost of crude oil recognised as an expense and included in cost of sales amounted to US\$246 million (2008: US\$163.6 million).

13 Trade and other receivables

	Group		Company	
	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Trade receivables	40,078	27,890	—	—
Underlift receivable	—	22,785	—	—
Other receivables	14,625	6,767	365	154
Receivable from a related party	430	313	87	67
Prepayments	2,131	1,225	—	—
	57,264	58,980	452	221

The carrying value of the trade and other receivables approximate their fair values.

The classification of trade receivables of the Group is as follows:

	2009 US\$'000	2008 US\$'000
Fully performing	40,078	27,890

At 31 December 2009, the Group faced a significant concentration of credit risk with one (2008: one) customer accounting for 94% (2008: 100%) of the trade receivables at that date. This customer, a government entity, has an established record of promptly settling its financial commitments to the Group.

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 of each class of receivables mentioned above.

14 Cash and cash equivalents and term deposits

	Group		Company	
	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Cash at bank and in hand	63,928	24,905	2,297	665
Deposits with original maturity of three months or less	203,182	424,146	—	—
Cash and cash equivalents	267,110	449,051	2,297	665

Group

Cash and cash equivalents include an amount of US\$126.4 million (2008: US\$91.5 million) held on deposit for abandonment and decommissioning activities. The related liability is shown under trade and other payables (Note 18).

Amounts held on deposit with an original maturity of three months or less earned interest during the year at rates between 0.85% and 6.4% (2008: 2.87% and 6.4%) per annum.

Term deposits of US\$870.5 million (2008: US\$426.7 million) earned interest during the year at rates between 1% and 6.5% (2008: 2.9% and 6.5%) per annum.

Deposits and other balances are held with twelve banks (2008: ten). Details of deposits and other balances with banks under common control of the Government of Dubai are disclosed in Note 27(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.

Company

Balances are held with one bank (2008: one).

15 Share capital

	Number of shares (‘000)	Ordinary shares US\$'000
At 1 January 2008	511,113	80,075
Issue of shares:		
— Share option scheme (i)	3,860	610
At 31 December 2008	514,973	80,685
Issue of shares:		
— Share option scheme (i)	16	2
At 31 December 2009	514,989	80,687

The total authorised number of ordinary shares is 2 billion shares (2008: 2 billion shares) with a par value of €0.10 per share (2008: €0.10 per share). All issued shares are fully paid.

Notes to the Financial Statements continued

15 Share capital continued

(i) Share option scheme

Share options are granted to directors and to selected employees. 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	1-Jan-08
Grants in 2006	14-Dec-06	1,840	1/3 annually
	4-Apr-08	540	4-Apr-11
	4-Apr-08	460	1/3 annually
Grants in 2008		1,000	
	6-Apr-09	100	6-Apr-09
	6-Apr-09	400	7-Apr-12
	6-Apr-09	1,210	1/3 annually
Reissue 1	6-Apr-09	153	4-Apr-11
Reissue 2	6-Apr-09	180	06-Apr-09, 04-Apr-10 & 04-Jan-11
Grants in 2009		2,043	

The reissued options were granted after the cancellation of 666,665 options and are treated as a modification of the original awards granted on 4 April 2008. The weighted average incremental value of the modified options was £0.61 per option (2008: nil).

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Weighted average exercise price £	Options ('000)	Weighted average exercise price £	Options ('000)
Outstanding at 1 January	2.3663	2,803	1.4767	5,803
Granted	1.7700	2,043	4.5100	1,000
Forfeited	2.0416	(1,100)	4.1098	(140)
Cancelled	4.5100	(667)	—	—
Exercised	1.7700	(16)	1.5209	(3,860)
Outstanding at 31 December	1.6218	3,063	2.3663	2,803
Exercisable at 31 December	1.4010	1,230	1.2593	1,383

The weighted average share price at the dates of exercise for the options exercised during the year was £3.3683 (2008: £4.6997).

Share options outstanding at the year-end have the following expiry dates and exercise prices:

Expiry date	Exercise price £	Options	
		2009 ('000)	2008 ('000)
30 December 2014	0.6900	380	610
13 December 2016	1.7084	706	1,313
02 April 2018	4.5100	—	880
05 April 2019	1.7700	1,977	—
		3,063	2,803

15 Share capital continued

(i) Share option scheme continued

Options granted during 2009 amounted to 2,043,330 (2008: 999,997). The weighted average fair value of options granted during the year determined using the Black–Scholes option pricing model was £1.10 per option (2008: £1.37). The significant inputs into the Black–Scholes option pricing model for the options granted during 2009 were a share price of £2.22 (2008: £4.51) at the grant date, an exercise price of £1.77 (2008: £4.51), a standard deviation of 75% to 61%, depending on the expected term (2008: 45%), the option life disclosed above and the annual risk-free interest rate of 1.14% to 2.57% (2008: 4.01%), depending on the expected term. The volatility measured at the standard deviation of expected share price returns was based on a statistical analysis of daily share prices over 1.5, 2.5, 3.5 and 4.5 year intervals.

During the year, a total fair value charge of US\$1.8 million (2008: US\$1.2 million) was recorded in staff costs (Note 22(b)) and a corresponding amount recorded in the other reserve (Note 17(b)). Included in the total fair value charge is an incremental fair value charge of US\$0.07 million (2008: nil) in respect of the modified share options.

A new 2009 Share Option Scheme has been adopted. No share options have yet been granted under this scheme.

16 Share premium

	2009 US\$'000	2008 US\$'000
At 1 January	228,764	217,706
Premium on shares issued during the year	45	11,058
At 31 December	228,809	228,764

17a Capital redemption reserve

The capital redemption reserve arises from a reorganisation of the Company's share capital in 2002. It is non-distributable.

17b Other reserve

Other reserve comprises amounts expensed in the income statement in connection with awards made under the Company's share option scheme less any exercises or lapses of such awards.

18 Trade and other payables

	Group		Company	
	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Trade creditors	71,652	25,036	—	—
Accruals	40,161	24,235	1,798	—
Crude oil overlift payable	16,907	—	—	—
Abandonment and decommissioning liability	138,730	94,728	—	—
Other creditors	2,741	1,253	2,184	645
	270,191	145,252	3,982	645
Less: Non-current portion	(20,158)	(3,372)	—	—
	250,033	141,880	3,982	645

Trade creditors and accruals include amounts of US\$68.8 million (2008: US\$23.3 million) and US\$21.7 million (2008: US\$15.8 million) respectively, relating to additions to property, plant and equipment — development and production assets. 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 carrying value of trade and other payables approximate their fair values.

Notes to the Financial Statements continued

19 Revenue

	2009 US\$'000	2008 US\$'000
Sales of crude oil	646,265	683,333
Crude oil underlifts	(22,785)	22,785
	623,480	706,118

20 Cost of sales and administrative expenses

	2009 US\$'000	2008 US\$'000
Cost of sales	282,277	193,220
Administrative expenses	27,018	18,263
	309,295	211,483

Analysed as follows:

	2009 US\$'000	2008 US\$'000
Depletion and depreciation (Note 7)	188,558	149,603
Field operating costs	38,353	31,407
Staff costs	31,789	24,360
Crude oil overlifts	16,907	(24,263)
Crude oil marketing costs	20,162	21,705
Net foreign exchange losses	338	1,388
Exploration and evaluation expenditure written off	—	394
Other costs	13,188	6,889
	309,295	211,483

21 Finance income

	2009 US\$'000	2008 US\$'000
Interest on bank deposits	30,553	25,050

22 Profit before income tax

(a) Included in profit before income tax are the following

	2009 US\$'000	2008 US\$'000
Staff costs	31,789	24,360
Depletion and depreciation (Note 7)	188,558	149,603
Auditor's remuneration		
— Audit services	265	225
— Audit related services	77	77
— Non audit services	449	144
Operating lease expenses	1,705	1,107

(b) Staff costs

	2009 US\$'000	2008 US\$'000
Wages and salaries	33,322	25,702
Social security costs	1,137	897
End of service benefits	315	513
Employee share options — value of services provided (Note 15)	1,801	1,211
	36,575	28,323
Less: Capitalised as part of development and production assets	(4,786)	(3,963)
	31,789	24,360

	Number	Number
Average monthly number of persons employed by the Group during the year:		
Production and engineering	812	726
Finance, administration and others	203	187
	1,015	913

(c) Directors' emoluments (included in staff costs)

	2009 US\$'000	2008 US\$'000
Fees for services as directors	883	812
Other emoluments	1,186	1,052
Termination benefits	—	397
	2,069	2,261

Details of the Directors' remuneration are disclosed in the Directors' Remuneration Report on page 41 to 43.

Notes to the Financial Statements continued

23 Current and deferred income tax

	2009 US\$'000	2008 US\$'000
Analysis of income tax expense:		
Current tax		
— Amounts relating to current year	97,371	100,877
— Adjustment relating to prior year	—	(107)
Net deferred tax	(11,400)	29,250
	85,971	130,020

The tax on Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits in the primary jurisdiction in which the Group operates.

	2009 US\$'000	2008 US\$'000
Profit before income tax	344,998	499,062
Tax calculated at domestic rates applicable to profits in the primary jurisdiction [25% (2008: weighted average 22.1%)]	86,249	110,293
Tax effect of expenses not deductible	6,063	10,638
Tax effect of income not taxable	(7,580)	(5,536)
Remeasurement of deferred tax — change in tax rate to 25%	—	14,732
Adjustment relating to prior year	—	(107)
Others	1,239	—
	85,971	130,020
Analysis of the net deferred tax liability:		
Deferred tax liability to be settled after more than 12 months	77,902	77,694
Deferred tax liability to be settled within 12 months	—	5,697
Deferred tax asset to be recovered within 12 months	(8,997)	(3,086)
	68,905	80,305

The effective tax rate was 24.92% (2008: 26.05%).

At the year-end, current income tax of US\$105.3 million (2008: US\$100.9 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:

	Accelerated tax depletion US\$'000	Crude oil underlifts US\$'000	Total US\$'000
Deferred tax liabilities			
At 1 January 2008	58,077	—	58,077
Charged to income statement	19,617	5,697	25,314
At 31 December 2008	77,694	5,697	83,391
Charged/(credited) to income statement	208	(5,697)	(5,489)
At 31 December 2009	77,902	—	77,902

23 Current and deferred income tax continued

Deferred tax assets	Crude oil overlifts US\$'000	Others US\$'000	Total US\$'000
At 1 January 2008	4,853	2,169	7,022
(Charged)/credited to income statement	(4,853)	917	(3,936)
At 31 December 2008	—	3,086	3,086
Credited to income statement	4,228	1,683	5,911
At 31 December 2009	4,228	4,769	8,997

During 2008, the effective tax rate applicable to the Group's operations in Turkmenistan was increased to 25% by the Hydrocarbon Resources Law of 2008. The Group has continued to apply this rate in determining its tax liabilities as at 31 December 2009. The Group is in discussions with the authorities in Turkmenistan about the applicability of this rate to prior periods, but it does not believe that prior periods are affected by the new rate. A provision has been made in respect of the additional tax that could become payable if the increased tax rate were applied to prior periods based on the expected value (weighted average probability) approach.

24 Earnings per share

	2009 US\$'000	2008 US\$'000
Profit attributable to equity holders of the Company	259,027	369,042
	Number '000	Number '000
Weighted average number of shares:		
Basic	514,982	513,922
Assumed conversion of potential dilutive share options	957	1,669
Diluted	515,939	515,591
Earnings per share attributable to equity holders of the Company:		
Basic	50.30¢	71.81¢
Diluted	50.20¢	71.58¢

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders 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.

Notes to the Financial Statements continued

25 Cash generated from/(used in) operating activities

	Note	2009 US\$'000	2008 US\$'000
Group			
Profit before income tax		344,998	499,062
Adjustments for:			
— Depletion and depreciation	7	188,558	149,603
— Crude oil underlifts	13	22,785	(22,785)
— Crude oil overlifts	18	16,907	(24,263)
— Employee share options — value of services provided	15	1,801	1,211
— Fair value movement on derivative financial instruments		—	(10,614)
— Write-off of intangible assets	8	—	394
— Interest on bank deposits	21	(30,553)	(25,050)
Operating cash flow before changes in working capital		544,496	567,558
Changes in working capital:			
— Inventories	12	13,206	(21,930)
— Trade and other receivables	13	(21,069)	58,685
— Trade and other payables	18	56,654	59,460
Cash generated from operating activities		593,287	663,773
Company			
Loss before income tax		(7,886)	(2,585)
Adjustments for:			
— Employee share options — value of services provided		357	—
Operating cash flow before changes in working capital		(7,529)	(2,585)
Changes in working capital:			
— Other receivables	13	(231)	68
— Other payables	18	3,337	(91)
Cash used in operating activities		(4,423)	(2,608)

26 Commitments and contingent items

(a) Capital commitments

The capital commitments at the year-end are as follows:

	Group		Company	
	2009 US\$'000	2008 US\$'000	2009 US\$'000	2008 US\$'000
Contracted for but not yet incurred	372,441	299,089	—	—

(b) Other financial commitments

The Group's commitments under non-cancellable property operating leases are as follows:

	2009 US\$'000	2008 US\$'000
Due within one year	544	214
Due between two to five years	1,492	855
	2,036	1,069

26 Commitments and contingent items continued

(c) Letters of credit

The following commitments were outstanding as at 31 December 2009:

Letters of credit of US\$2.7 million were in issue at 31 December 2009 (2008: US\$3.5 million) towards the supply of equipment and services.

At 31 December 2009, the Company has a continuing guarantee for US\$30 million (2008: US\$30 million) for undrawn trade finance facilities of subsidiary undertakings.

(d) Taxation

At 31 December 2009, there is a contingent liability with respect to taxation. Details of the contingent liability are outlined in Note 23.

(e) 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 Turkmenistan government. The agreement determines, *inter alia*, the rights and obligations of Dragon Oil (Turkmenistan) Ltd., as well as defining specific rules governing its tax treatment. It also grants various tax, currency control and related concessions.

However, the Group's operations in Turkmenistan are ultimately subject to the political, socio-economic and legal uncertainties arising from the Turkmenistan political and legal systems.

27 Related party transactions

(a) The Company's largest Shareholder is 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.

	2009 US\$'000	2008 US\$'000
Trading transactions:		
(i) Sale of services — companies under common control	340	313
(ii) Purchase of services — companies under common control	2,206	2,057
Other transactions:		
(i) Finance income — companies under common control	14,071	13,130
Year-end balances:		
(i) Receivables — companies under common control	430	313
(ii) Term deposits — companies under common control	611,427	203,457
(iii) Cash and cash equivalents — companies under common control	140,948	246,823
(iv) Payables — companies under common control	43	450

Related party transactions of the Company mainly relates to loans to subsidiary undertakings which are disclosed under Note 9(b).

(b) Key management compensation

	2009 US\$'000	2008 US\$'000
Executive Directors' fees	—	90
Salaries and short-term benefits	2,676	3,323
Termination benefits	—	397
Share-based payments	842	479
	3,518	4,289

Notes to the Financial Statements continued

28 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† Chancery Hall 52 Reid Street Hamilton, HM 12 Bermuda	Bermuda & Turkmenistan	Oil and gas production	80,000 ordinary shares of US\$1 each
D&M Drilling Ltd.† 22 Grenville Street St Helier, Jersey Channel Islands	Jersey	Drilling operations	9 ordinary shares of £1 each
Dragon (Holdings) Ltd.* 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 1WT England	England	Oil and gas production related activities	8,434,317 ordinary shares of £1 each

* Held by the Company.

† Held by a subsidiary undertaking of the Company.

Supplementary Information — Movement in Oil and Condensate Reserves (Unaudited)

PROVED AND PROBABLE COMMERCIAL RESERVES (unaudited)

Commercial reserves	Turkmenistan			
	Working interest		Entitlement	
	2009	2008	2009	2008
	million bbls	million bbls	million bbls	million bbls
As at 1 January	636	651	296	324
Revisions	(2)	—	(4)	(19)*
Production	(17)	(15)	(10)	(9)
As at 31 December	617	636	282	296

* Revision attributed to the change in cost estimates and long-term price assumptions in accordance with the fiscal terms of the PSA.

Notes:

1. Dragon Oil has a 100% working interest in the Cheleken Contract Area in Turkmenistan.
2. The working interest of the proved and probable commercial reserves are 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 are derived based on the terms of the PSA and certain assumptions made by the management in respect of estimates of oil reserves, future oil prices, future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.

The Group provides for depletion of tangible fixed assets on a net entitlements basis using proven and probable commercial reserves, which reflects the terms of the PSA.

Glossary/Definitions/Abbreviations

2C	Proved and probable contingent gas resources
bopd	barrels of oil per day
Certification of reserves	Reserves certification based on a seismic survey conducted by an independent reserves auditor
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
ENOC	Emirates National Oil Company Limited (ENOC) L.L.C.
EPIC	Engineering, procurement, installation and commissioning
GCA	Gaffney Cline and Associates
Long string	The tubing string that connects the deeper zone to the surface of a dual completion
km/m	kilometres/metres
MENA	Middle East and North Africa
OFR	Operational and financial review
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
Production Sharing Agreement (PSA)	Contractual arrangement for exploration, development and production of hydrocarbon resources
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
Proposed Acquisition	Formal offer submitted by ENOC in 2009 to acquire the shares in the Company that ENOC did not already own
Proved reserves (1P)	Reserves claimed to have at least a 90% certainty of recovery under existing economic and political conditions, and using existing technology
Probable reserves (2P)	Reserves based on median estimates, and claim a 50% confidence level of recovery
Seismic survey	Method of investigating subterranean structure based on determinations of the time interval that elapses between the initiation of a seismic wave at a selected shot point and the arrival of reflected or refracted impulses at one or more seismic detectors
Short string	The string leading to the upper completion in a side-by-side dual completion
TCF	Trillion Cubic Feet
UAE	United Arab Emirates
US Cents	United States cents
US\$	United States Dollars
Workover	Well intervention involving invasive techniques, such as wireline, coiled tubing or snubbing.

Notes

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Our Conduct

Our Accounts

Notes

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