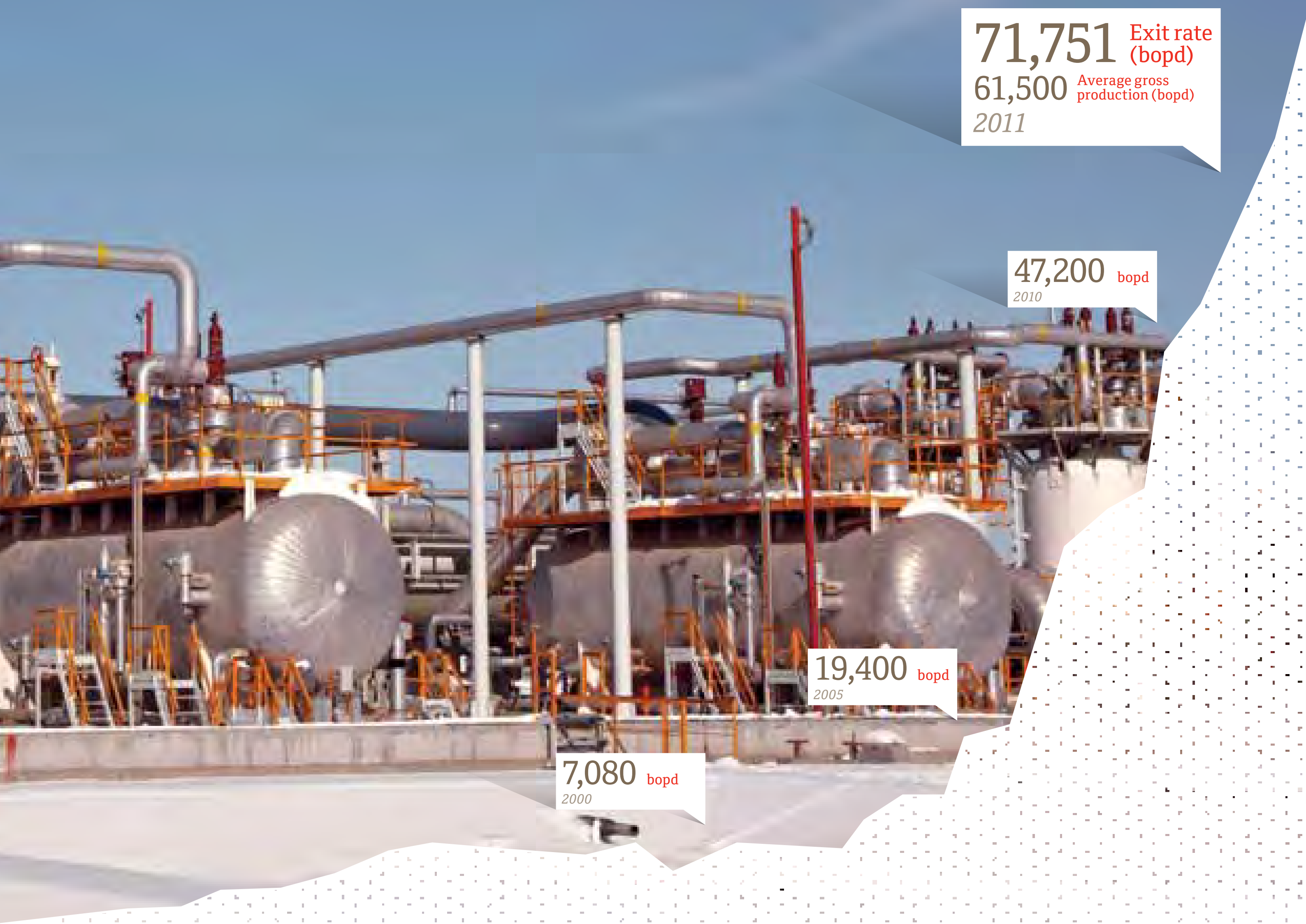
Delivering production growth

Dragon Oil plc
Annual Report for the year ended 31 December 2011

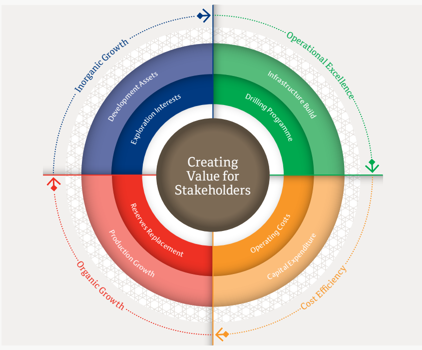



30"

Dragon Oil is an independent international oil and gas exploration, development and production company. Our principal producing asset is the Cheleken Contract Area, in the eastern section of the Caspian Sea, offshore Turkmenistan, which the Group develops in accordance with the terms of the Production Sharing Agreement ("PSA"). As of 31 December 2011, the contract area contained oil and condensate 2P reserves of 658 million barrels and contingent resources of 88 million barrels, 1.5 trillion cubic feet of 2P gas reserves and 1.4 trillion cubic feet of gas contingent resources.

The Group's headquarters are in Dubai, United Arab Emirates. We also have offices in Ashgabat, the capital of Turkmenistan. Dragon Oil is registered in Ireland (Company Registration no: 35228) with a primary listing on the Irish Stock Exchange and, since 6 April 2010, in accordance with changes to the U.K. listing Regime, has been designated as a premium listing on the London Stock Exchange (Ticker: DGO).

What's inside



p08-11
Dragon Oil's strategy

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

p16-17
Our people

We offer high quality careers and opportunities for everyone, with a particular focus on our local employees.

p26-33
Operational excellence

In 2011, we achieved a remarkable production growth of 30%, which has translated into record financial results for the Group.

p34-39
Community support

We have always believed that our commitment to our host communities should go way beyond a contract of simply being a good employer.

A strong performance

Operational highlights

- 13 wells completed against an initial target of 11 wells
- Average gross production rose 30% to 61,500 bopd
- A third new wellhead and production platform, the Dzheitune (Lam) C, installed

Corporate highlights

- 100,000 bopd gross production target set for 2015
- Oil and condensate 2P reserves increased to 658 million barrels, contingent resources upgraded to 88 million barrels
- Farm-in agreement for 55% in an offshore exploration block in Tunisia signed

Financial highlights

- Revenue exceeded US$1 billion
- 2011 full-year dividend of US cents 20
- Unleveraged position maintained

Learn more
www.dragonoil.com

2011 exit rate

Production exit rate exceeded the initial target of 70,000 bopd, which itself was achieved ahead of our expectations in mid-December 2011.

71,751bopd

Revenue

Dragon Oil surpassed the US$1 billion mark in terms of turnover on the back of the impressive production growth combined with the strong realised oil price.

US$1,150mn

Cash balance, excl. A&D

The Group generated substantial operating cash flow, to enable it to finance capital expenditure and diversification activities and distribute dividends.

US$1,527mn

Who we are, where we are going

US$1.5bn

Cash balance, excluding abandonment and decommissioning funds.

The development of the Cheleken Contract Area has reached a strong maturity phase: we set a target of reaching 100,000 bopd of gross production in 2015 and maintaining this level for a minimum of five years thereafter while we undertake a pilot water injection project to assess potential for higher production. In the meantime, we continue to search for new opportunities where we can deploy our technical and operational expertise in key regions of interest, including Africa, Central Asia, the Middle East and selectively south-east Asia. Last year's farm-in agreement for an exploration offshore block in Tunisia and the recent appointment of an Exploration Manager to develop the Group's exploration capabilities will help us transform Dragon Oil into an integrated exploration and production company.

Offshore operations, Dragon Oil employee; an offshore platform in the Cheleken Contract Area.

Strategic objectives

Continued development of the Cheleken Contract Area

- Target to reach a 100,000 bopd gross production rate in 2015 and maintain it for a minimum of five years
- Evaluate options to enhance oil recovery from the reservoir by performing and analysing results of a water injection pilot project

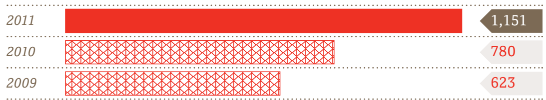
Gas monetisation

- Pursue opportunities in Turkmenistan to monetise the gas reserves and resources

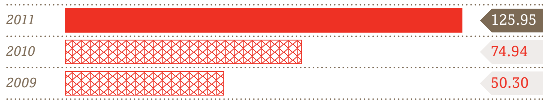
Diversification

- Progress geographical and asset diversification in the regions of interest within our areas of expertise

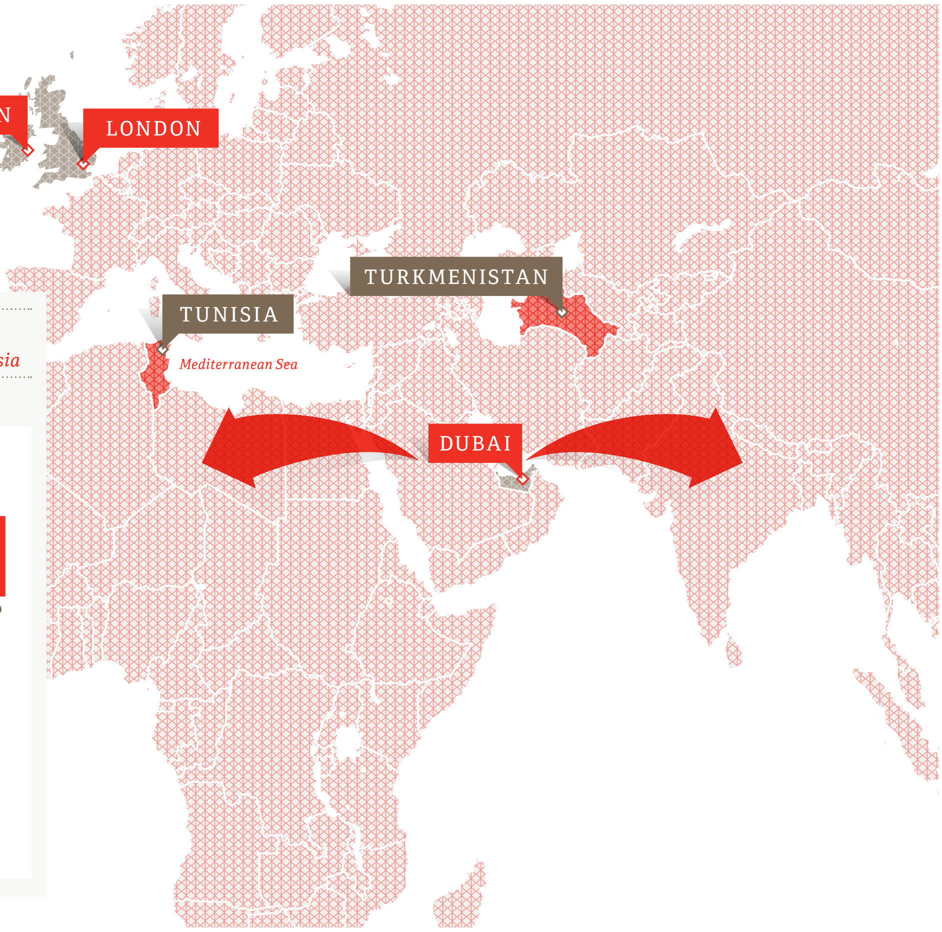
Revenue growth *(US$ million)*



Earnings per share (basic) *(US cents)*

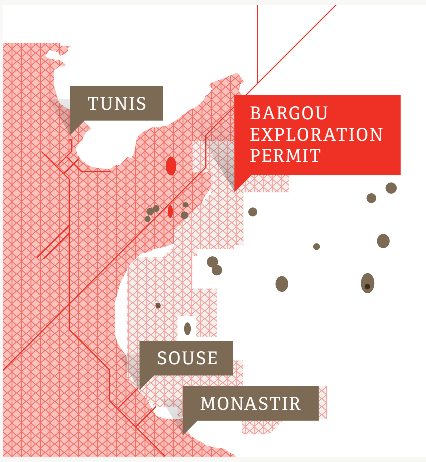


Asset
Office



The Bargou Exploration Permit

Farm-in agreement in an offshore block in Tunisia



In October 2011, Dragon Oil signed a farm-in agreement with a wholly owned subsidiary of Cooper Energy Limited (ASX: COE) for a 55% participating interest in the Bargou Exploration Permit, offshore Tunisia. The Permit is located in the Gulf of Hammamet in the Mediterranean Sea and covers an area of 4,616km^2 with predominantly offshore exploration prospects and leads in water depths of approximately 50 to 100 metres.

Dragon Oil is to earn a 55% participating interest in the Bargou Exploration Permit by paying 75% of the cost to drill the Hammamet West-3 well in the Hammamet West Oil Field (the "Field"), according to an agreed well plan scope, up to a cost cap of US$26.6 million (on a 100% basis). If the well cost exceeds US$26.6 million, costs in excess of this amount will be shared among the joint venture partners pro rata to their participating interest. The well plan consists of a pilot hole followed by a horizontal section to intersect the fractures within the Abiod formation thereby increasing the flow potential of the reservoir. This well is expected to be drilled in 2012.

The Field is located in the northern part of the permit and covers 205km^2 in water depths of approximately 50 metres. 3D seismic data of this field were acquired in 2009–10. The farm-in is subject to approvals by the Government of Tunisia and the joint venture partners and to completion of further due diligence by Dragon Oil.

Following completion of the farm-in conditions, the Bargou Joint Venture will comprise Dragon Oil (55%), Cooper Energy (30%) and Jacka Resources (ASX: JKA, 15%). If the Hammamet West-3 well is successful and the Joint Venture proceeds with development of the Field, Dragon Oil will assume operatorship of the Bargou Exploration Permit subject to confirmation from the Government of Tunisia. In the case of a development phase, Dragon Oil will carry Cooper Energy in an amount equal to approximately US$5 million (subject to audit) to compensate them for pro rata past costs, after which all parties will pay their participating interest share for any development costs.

Early in 2012, Mr. Ali Al Hauwaj was appointed Exploration Manager to head Dragon Oil's exploration team and develop the Group's exploration expertise in line with our diversification strategy. Prior to joining Dragon Oil, Mr. Al Hauwaj worked for Saudi Aramco for over 30 years and for the last seven years as Manager of Exploration Department. In his latest position he led Saudi Aramco's exploration programme, conducted hydrocarbon exploration in the Gulf area and start-up of the Red Sea sub-salt exploration programme, as well as in Saudi Arabia's North-western region. His exploration skills were critical in discovering many oil and gas fields in both Central and Eastern parts of Saudi Arabia, including a number of gas fields discovered onshore and offshore.

The Cheleken Contract Area

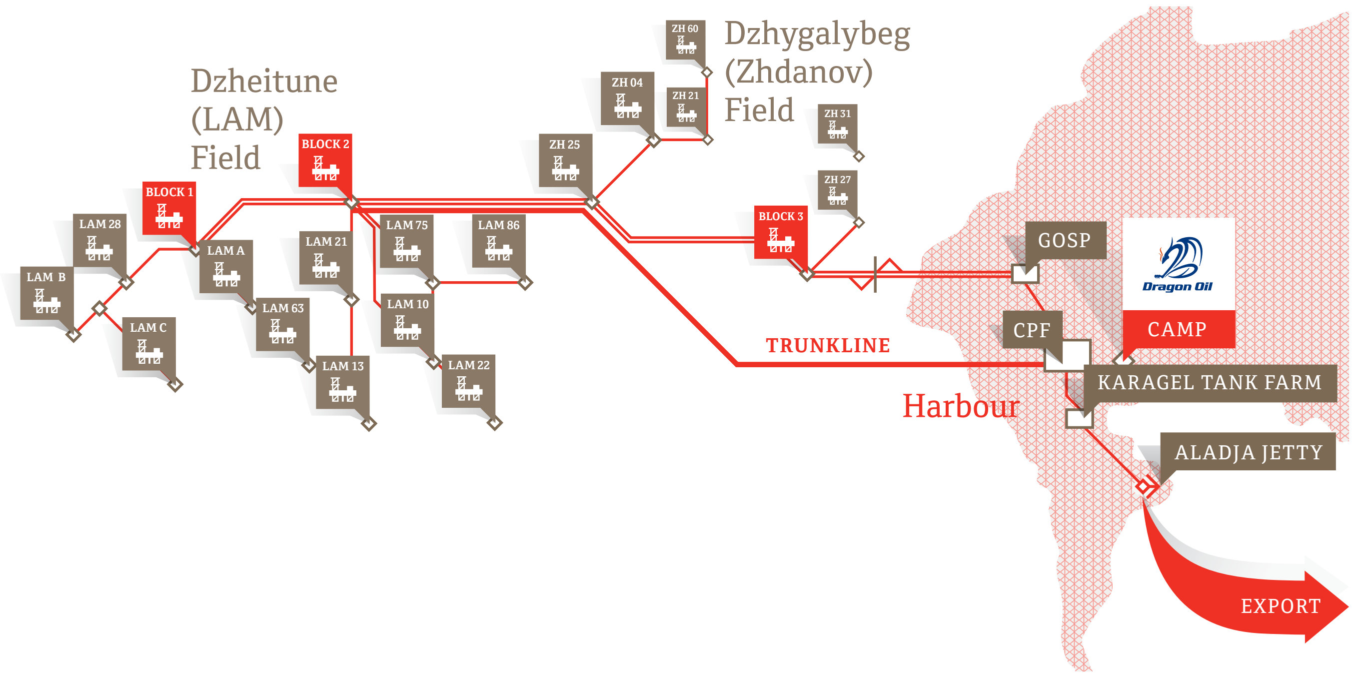
Dragon Oil plc's principal development and production asset is the Cheleken Contract Area, in the eastern section of the Caspian Sea, offshore Turkmenistan. The coastal town of Hazar is where our operations are. Dragon Oil has offices in the capital of Turkmenistan, Ashgabat, where both our Country Managers are located. The Cheleken Contract Area covers approximately 950km^2 (235,000 acres) and comprises two offshore oil and gas fields, Dzheitune (Lam) and Dzhygalybeg (Zhdanov), in water depths of between eight and 42 metres.

Results over the last 12 years

- Unprecedented production growth since the commencement of the PSA in 2000 at an annual rate of 21%
- Organic 2P oil and condensate reserves replacement of 193% against cumulative gross production
- Capital investment of over US$2bn
- Refurbishment and extension of inherited infrastructure
- Construction and installation of new infrastructure offshore and onshore
- 65 new wells completed

658mn

2P oil and condensate reserves (barrels) in the Cheleken Contract Area as of end-2011 after an assessment by an independent energy consultant.



The Cheleken Contract Area. Schematic representation of offshore and onshore facilities.

Learn more
www.dragonoil.com

Crude oil marketing routes

Since July 2010, Dragon Oil put in place a contract for the marketing of our entitlement production of crude oil through Baku, Azerbaijan. The current contract runs till the end of 2012 and the terms are FOB Aladja Jetty primarily using BP-operated Baku-Tbilisi-Ceyhan pipeline. We continue to monitor alternative marketing routes closely in order to achieve competitive terms and maintain flexibility. There are a limited number of export routes from the Caspian Sea. Apart from the currently used route, other options include a swap agreement with Iran subject to international sanctions, a route from Baku to Batumi on the Black Sea and the northern route via Makhachkala in Russia.

The Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields

The fields comprise two elongate anticlines situated at the eastern end of the Aspheron 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. The 3D seismic survey was acquired in 2004/2005; the interpretation was completed, while continuous additional studies and refinement are ongoing.

Dzheitune (Lam)

The Lam Field is located to the south-west of Zhdanov field. Since the commencement of the PSA in 2000, Dragon Oil has drilled 65 new wells on the Lam field as of 20 February 2012, constructed and installed three new platforms with plans to install or award contracts for installation of at least four more platforms in 2012–2015, refurbished and upgraded existing platforms and performed many successful workovers.

> First well drilled in 1967
> First production in 1978

Dzhygalybeg (Zhdanov)

The Zhdanov Field is located to the north-east of the Lam field. The initial exploration and prospecting of the Zhdanov structure began in 1965. The first well with commercial oil and gas was drilled in 1966. 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 workovers in the Zhdanov field and is installing its first new platforms, Zhdanov A and B, in 2012 and 2013.

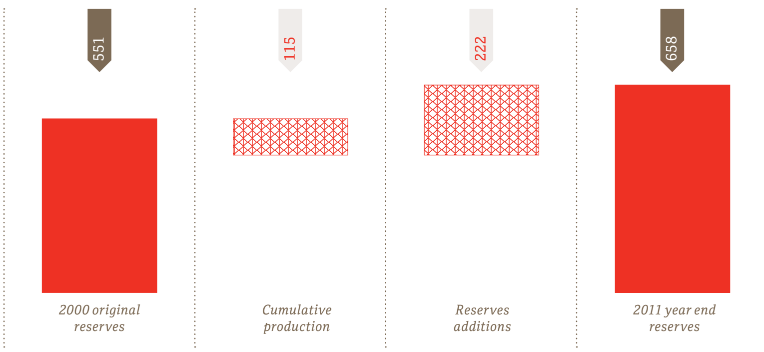
> First well drilled in 1966
> First production 1972

Schematic map of crude oil marketing routes.

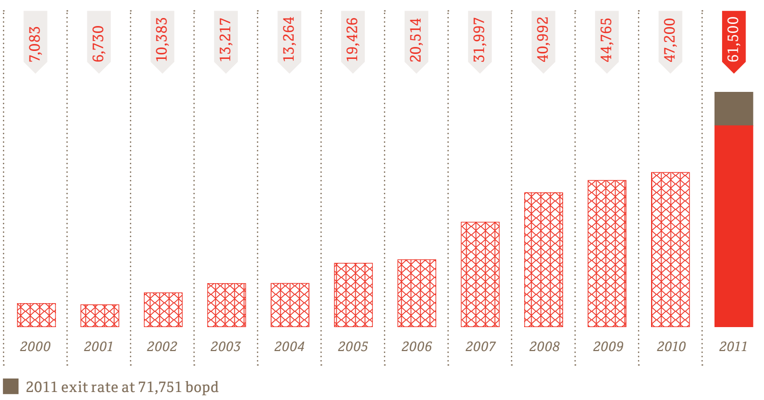
Production and reserves growth

Gross production and reserves growth in the Cheleken Contract Area

2P oil and condensate reserves replacement (million barrels)



Gross average crude oil production (bopd)



Dragon Oil's strategy

1 Offshore operations,
the Cheleken Contract Area.

2 Onshore operations,
the Central Processing Facility.

3 Onshore facilities,
crude oil storage tanks.

Our Mission

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

Our Vision

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

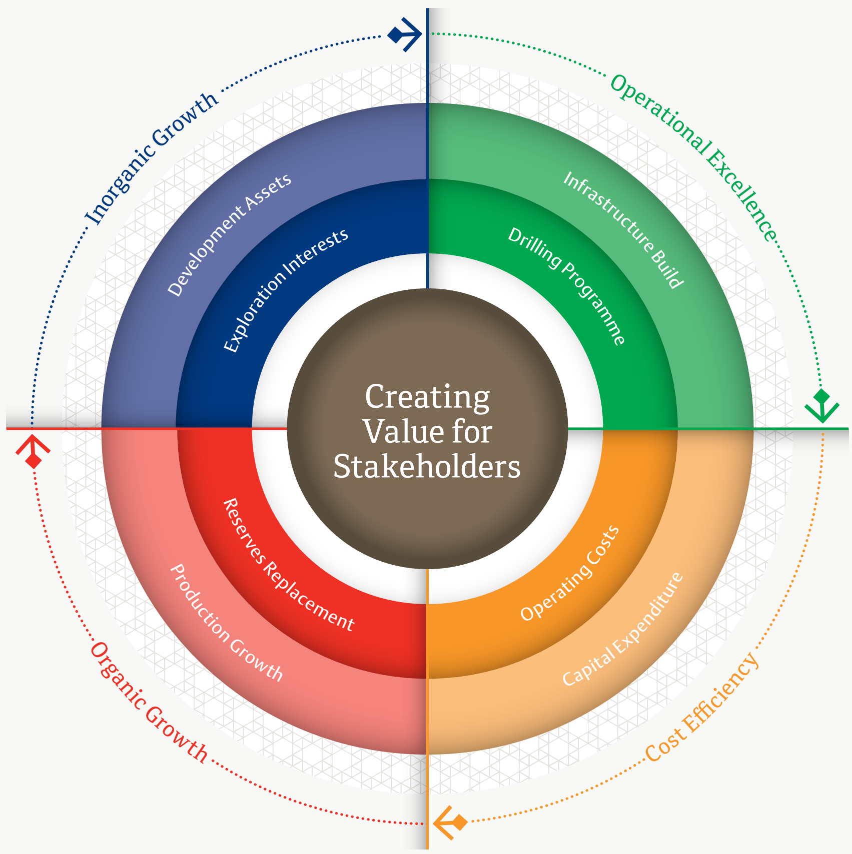
To achieve additional and significant production and reserves growth, through the acquisition of new exploration and production assets in other geographical areas.

Learn more
www.dragonoil.com

"Our focus remains clear and consistent in delivering on a three-point strategy: to accelerate the development of the Cheleken Contract Area; to develop opportunities for gas; and to explore value-enhancing acquisitions within our diversification strategy."

Our Business Model

Our vision is to become a multi-asset company by acquiring new exploration and production assets in carefully chosen geographical areas where we employ our expertise.



Operational Excellence

- Continue to build infrastructure to support the drilling programme and production
- Flexible drilling programme based on land and jack-up rigs
- Target sweet spots based on 3D seismic and well history
- Reduce facility downtime

Cost Efficiency

- Competitive bidding process for goods and services
- Platforms upgraded for additional slots to add capacity
- Disciplined budgetary controls
- Cost kept within pre-determined limits

Organic Growth

- Increase production and mitigate decline rates
- Increase processing capacity
- Organic reserves growth by drilling and extending boundaries
- Generate growth in cash from operations

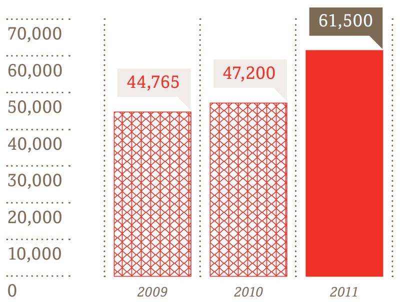
Inorganic Growth

- Diversification strategy
  – Exploration interests
  – Development assets
- Diversify in new geographical areas

Key result areas

Dragon Oil's deliverability on commitment to create value for stakeholders is measured through five key result areas. These measurements seek to assess the Group's long-term production growth as a safe operator and environmentally conscientious partner.

Production *(bopd)*



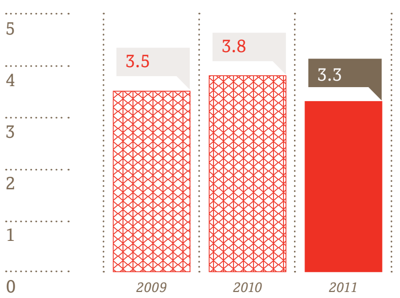
Achieving sustainable production growth is paramount to the Group's vision as an operator and to its aim to maximise shareholder return.

The Group continuously seeks to grow production through best industry practices ensuring operational integrity by monitoring performance and regular reporting to the senior management, the Board and the investment community.

Average gross daily rate of production rose 30% to 61,500 bopd in 2011.

61,500 bopd

Operating cost per barrel *(US$)*



The Group is committed to maintaining the operating cost within a reasonable and manageable range, which is also comparable wherever possible to industry standards and its peers'. This measurement is a function of costs in the Caspian Sea region, inflation and production levels.

A robust five-year rolling plan process and monthly reporting on operating costs ensure cost efficiency.

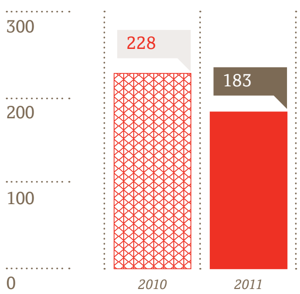
Operating costs per barrel in 2011 are lower at US$3.3 per barrel primarily due to higher gross production.

US$3.3 pb

1 Onshore operations, mechanical workshop.

2 Onshore facilities, the Central Processing Facility.

Reserves replacement *(%)*



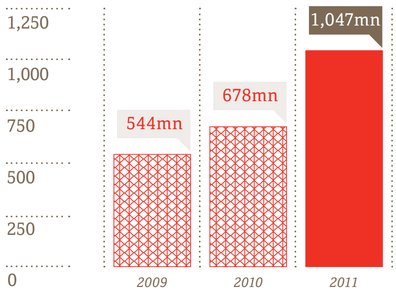
183%

Replacement of oil and condensate reserves is driven by the Group's success in undrilled areas, which also increases our production potential.

The Group continuously assesses and reviews the reserves estimates with an independent energy consultant, with a view to develop further the oil and gas reserves in the Cheleken Contract Area.

Increase of approximately 41 million barrels in oil and condensate 2P reserves is mainly due to an increase in reserves in the Dzheitune (Lam) West area.

Operating cash flow before working capital changes *(US$)*



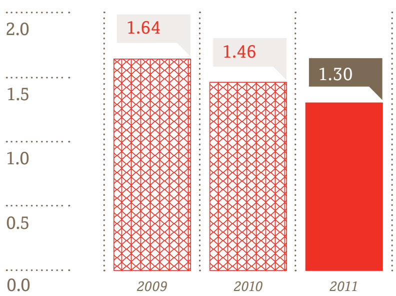
US$1bn

The Group's goal is to ensure that operating cash flow funds our capital expenditure in the Cheleken Contract Area and dividend payments, while most of cash generated is reserved for expansion under the diversification strategy.

Regular reporting and monitoring of short-term and long-term cash flows within the realm of a five-year rolling plan support investment decisions of the Group.

The increase was primarily attributable to the higher average crude oil sales price realised during the year, coupled with production growth.

Lost Time Incident Frequency (LTIF)



1.3

The Group's prime responsibility is to protect our employees and contractors from work-related injuries and illnesses.

We regularly assess and report on the health, safety and environment-related developments with an objective to monitor risks and optimise mitigation plans.

LTIF reflected an improvement over prior years at 1.3.

1 Offshore operations, the Dzheitune (Lam) C platform.

2 Onshore operations, Dragon Oil employee.

3 Offshore operations, marine activities.

"In previous years our hands had been somewhat tied by production bottlenecks caused by infrastructure issues. Now, we are reaping the benefits of a focused and bold investment strategy, operating from a new infrastructure base with enhanced capacity."

Upgrading our facilities

Seven platforms refurbished and/or extended in the Dzheitune (Lam) field, including structural upgrades and additional slots: 21, 10, 22, 13, 28, 63, and A.

Six new platforms constructed in the Dzheitune (Lam) field

- Wellhead and production platforms A , B and C with eight slots each
- Gathering platforms Block 1 and 2
- Accommodation platform 22.

Central Processing Facility
Today's handling capacity is 100,000 barrels of fluids and 220 mscfd of gas.

Oil Storage
Total oil storage capacity is 300,000 barrels.

Export Capacity
Improvements to the jetty allow simultaneous loading of two tankers.

100,000

barrels of fluids is the handling capacity of the Central Processing Facility.

300,000

barrels of oil is total oil storage capacity onshore.

80km

of in-field pipelines have been replaced and installed.

30"

40km new trunkline completed in 2010.

1 The old and new build Dzeitune Block-1.

2 The new build and old Dzeitune Block-2.

3 The old Dzeitune (Lam) 22 platform.

4 The refurbished Dzeitune (Lam) 22 platform.

The Group develops the oil and gas reserves in the Cheleken Contract Area in accordance with the terms of the Production Sharing Agreement ("PSA"). Under the PSA, Dragon Oil, as operator, was granted a production licence for the exploration and development of hydrocarbons in the Cheleken Contract Area, which covers an area of some 950km^2.

Reserves and resources

The eastern boundary of the Cheleken Block is coincident with the landfall at Khazar and the western block boundary extends up to 40km offshore.

The Cheleken Contract Area comprises two producing oilfields, Dzheitune (Lam) and Dzhygalybeg (Zhdanov), as well as other prospective structures. Both fields lie within the South Caspian Basin on the eastern end of the Apsheron Sill, a complex wrench faulted system orientated eastwards from the Apsheron Peninsula in Azerbaijan to the Cheleken Peninsula in Turkmenistan. The Dzhygalybeg (Zhdanov) field is offset to the north east of Dzheitune (Lam) field.

The two fields were discovered in the 1960s–70s. Since 2000, Dragon Oil ramped up production ten-fold by introducing modern drilling techniques and targeting previously undrilled areas, such as the Dzheitune (Lam) West in 2007 based on better understanding of the reservoir and its deliverability.

Significant increase in reserves and contingent resources

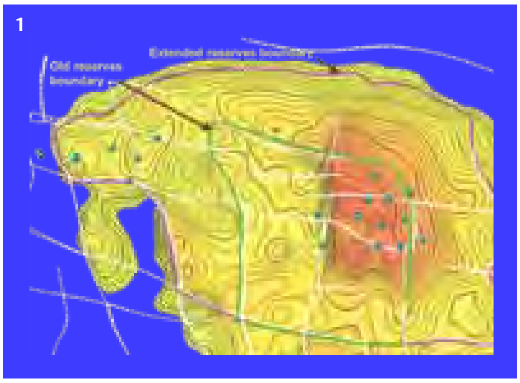
Based on the results of the recent assessment done by an independent energy consultant, at the 2011 year-end, a significant increase in oil and condensate 2P reserves as well as contingent resources was achieved. The oil and condensate 2P reserves are 658 (31 December 2010: 639) million barrels, while the contingent resources are 88 (31 December 2010: 47) million barrels. The gas reserves and contingent resources remained at similar levels of c. 3 TCF as in 2010.

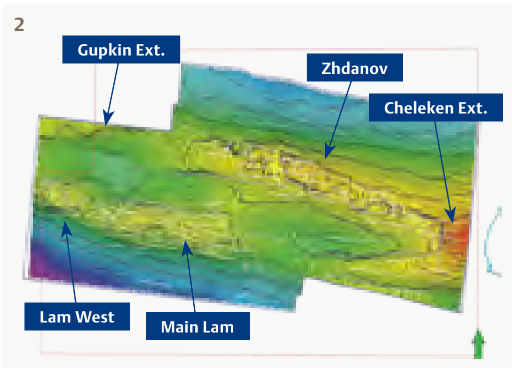
Necessary upgrades of and additions to offshore and onshore infrastructure are planned to allow the conversion of the oil, condensate and gas contingent resources into reserves in the future.

Analysis of increase

The increase in oil and condensate reserves is mainly due to the drilling and development of wells outside the proven hydrocarbon boundary in the Dzheitune (Lam) West area that has extended the reserves boundary with a higher potential from the shallow reservoirs as shown on the map below. These findings have resulted in a reserve replacement of 183% in 2011.

No changes have been made to the estimates of recoverable oil from the Dzhygalybeg (Zhdanov) field, where we believe 15% of the total proved and probable recoverable reserves are contained and flow rates are expected to be lower than those seen in the Dzheitune (Lam) West area. We plan to start drilling in the Dzhygalybeg (Zhdanov) field later this year. This will enable us to understand better what the field is capable of producing.





1 3D seismic, the Dzheitune (Lam) West area.

2 3D seismic, the Cheleken Contract Area.

Dragon Oil Centre of Excellence was launched in April 2010. The Centre of Excellence is dedicated to the training and development of our employees with a particular focus on our Turkmen national workforce.

Our people

46 training courses

In 2011, 46 training onsite and external courses were organised by the training team at the Centre of Excellence.

The key objectives of the Centre of Excellence are:

- To enhance and develop the skills and abilities of our employees
- To help them develop right skills for more challenging roles in the future
- To help the employee reach his/her full potential by setting specific career goals and improving performance
- To introduce a continuous learning culture in the company and to provide the employees with necessary facilities to undertake learning
- To develop the skills of national employees in both operational and leadership roles to prepare and enable them to assume jobs of higher responsibility as per a defined succession plan
- To provide more and better quality, cost-effective onsite training solutions and facilities for all on-the-job training.

In 2011, 46 training onsite and external courses were organised by the training team at the Centre of Excellence.

In 2011, the Group engaged with professional human resources consultants to ensure we have a competency-based approach for every employee in core areas of our business and to define individual development plans to improve their skills.

Over the past few years, the Group has invested significant time and money in a number of training and development initiatives and programmes. This includes in-house and external training courses for developing our key potential and talented employees covering their technical and soft skills.

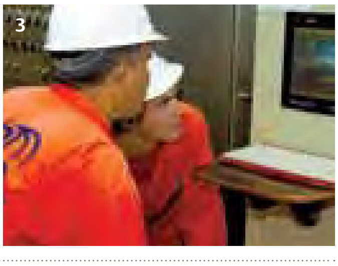
1 Onshore operations, Dragon Oil employee.

2 Training and development, Dragon Oil Centre of Excellence in Hazar, Turkmenistan.

3 Onshore operations, Dragon Oil employees.


1


2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A successful and busy year for Dragon Oil

Mohammed Al Ghurair
Non-executive Chairman

2011 Highlights

- A spectacular 30% growth in production at approximately 61,500 bopd
- 13 new development wells put into production
- A landmark US$1bn in revenues for the first time, up by 47%
- Average realised prices of US$101 (2010: US$72) per barrel
- Record profits of US$648mn, up by 68% on the previous year

Every successful company has pivotal moments in its history. At Dragon Oil, we believe that 2011 was the year when we entered a new phase in our own.

In the first phase, we created and built a sound platform for growth and closed out 2010 as a robust oil producer with an exciting future ahead of it.

That future, rich in promise and potential, manifested itself in 2011 with record results and record growth.

Above all, this reporting period was a standout year for productivity. We exited the year at over 71,700 bopd, equipping us to announce a bold target: to achieve and then maintain a consistent output of 100,000 bopd from 2015 and beyond.

We, as your Board, recognise that we have an important role in providing effective and clear leadership on all matters relating to the business of Dragon Oil. We aim to provide a clear direction on corporate governance and a robust culture of business integrity and performance, in order to ensure that the Group is focused on how best to generate value.

Record results

The year 2011 will be remembered for many reasons, but in our industry volatility was certainly one.

Brent Crude opened the year at around US$90, rose during the first half of the year, fell back to where it had started, and then rallied once again. All of which makes 2012 difficult to predict.

Against this backdrop, we are delighted to report results showing a remarkable performance from Dragon Oil. Among the key highlights:

> A spectacular 30% growth in production at approximately 61,500 bopd

> 13 new development wells put into production

> A landmark US$1bn in revenues for the first time, up by 47%

> Average realised prices of US$101 (2010: US$72) per barrel

> Record profits of US$648mn, up by 68% on the previous year.

After a good yet frustrating year in 2010 with infrastructure bottlenecks that took some time to resolve, 2011 showed what we can really achieve and heralded an exciting new chapter in our story.

Our continuing strategy

During the year, our focus remained clear and consistent in delivering on a three-point strategy: to accelerate the development of the Cheleken Contract Area; to develop opportunities for gas; and to explore value-enhancing acquisitions within our diversification strategy.

Below, I report on our progress.

Turkmenistan: the Cheleken Contract Area

The Cheleken Contract Area in Turkmenistan is the company's major asset, located in the Eastern section of the Caspian Sea. We operate the project under a Production Sharing Agreement (PSA).

A record year for production

We can be very satisfied with our progress in 2011. Our initial guidance was for an 11-well drill programme, but by optimising our approach we succeeded in upgrading this to 13 wells. This allowed us to achieve production growth well in excess of the 10–15% we had hoped for; we closed the year with gross field production increased by 30%.

This enabled us to sell 11.4mn barrels of crude oil during 2011 (2010: 10.8mn).

A safe and reliable marketing route

Around 99% of our production during the year was sold via the marketing route of Baku, Azerbaijan (with the remainder sold to an independent third party).

This ensures the safe and uninterrupted transportation, export and sale of our crude oil to international markets and helps to achieve the best price. We were also pleased to extend our agreement for this route until the end of 2012 for the full entitlement volume.

Even so, we will continue to review other options open to us to give us flexibility.

1 Offshore operations, a drilling rig.

2 Onshore facilities, the Central Processing Facility.

"Together, everyone has helped us deliver our best-ever year and we are excited as 2012 takes us on the path to 100,000 bopd and beyond."

1 Visit to operations in Hazar, Turkmenistan, Mr. Al Ghurair, Dr. Al Khalifa, Mr. Kahoul.

A major player in Turkmenistan

The U.A.E. has had close ties with Turkmenistan. Dragon Oil with its corporate headquarters in the U.A.E., is therefore well positioned to operate in Turkmenistan. Dragon Oil is proud to be an active corporate citizen. We enjoy excellent relationships with the Government of Turkmenistan and the State Agency for the Management and Use of Hydrocarbon Resources.

During 2011, I was delighted to make two visits there together with colleagues of the Board. There is no substitute for looking, listening and learning on the ground, to meet colleagues and to hear their ideas and issues personally. (As a mechanical engineer by training, I am more than happy to exchange a suit for overalls and a hard hat).

On our second visit, we were also proud to attend the 20-year celebrations marking the independence of Turkmenistan.

Diversification

Our vision is to become a multi-asset company by acquiring new exploration and production assets in carefully chosen geographical areas where we employ our expertise. Our focus is therefore on the Middle East, Africa and Central and South-East Asia.

In 2011, we were pleased to sign a farm-in agreement with a subsidiary of Cooper Energy Limited. We are taking a 55% participating interest in the Bargou Exploration permit in offshore Tunisia, and we expect drilling to begin in 2012. We believe that our experience with complex and challenging wells in offshore Turkmenistan will be useful in understanding, appraising and developing this exciting new field.

Meanwhile, our New Ventures Team has been evaluating other possible acquisitions in our search for exploration, production and development assets. Our cash position is strong and we believe that the challenging climate may play in our favour.

The situation is therefore fluid and we are watching it closely, while balancing any potential acquisitions with the need to maintain shareholder value. Our strong cash position is also desirable as a defence against uncertain global economic conditions.

Dividends

We introduced a dividend policy in 2010 paying a full-year maiden dividend of US cents 14 in respect of the year 2010. For the first six months of 2011 an interim dividend of US cents 9 was paid and we are pleased to recommend a final dividend of US cents 11, making a total of US cents 20 for the year. It is gratifying that our position is sufficiently strong to be able to return cash to shareholders, offering a reasonable yield, while still retaining our ability to act when we see market opportunities to diversify.

Incentive plans for employees

I have long believed that incentivising employees is desirable: the emotional and financial tie that comes with sharing in your company's success can only be a recipe for commitment, good work and loyalty.

In October 2011, we launched a new employee stock purchase plan and we were pleased to see that it attracted a significant take-up in our headquarters in Dubai. The Group is undertaking further work to explain benefits of such a scheme to our employees in Turkmenistan to increase their participation.

Safety

We approach safety from the perspective that no incident or accident is ever inevitable, and no commercial imperative may override the Number One priority of safe operation. In recent years, our industry has seen the tragic consequences of unsafe operations and the onus is on every one of us to redouble our efforts to make Dragon Oil a safe operator.

In 2011 we were pleased to see Lost Time Incidents (LTIs) show a steady decline, and our drive is to continue work in the same direction to minimise it. This includes ingraining a safety culture at every level of our organisation, and requiring everyone who works with us – whether employees or contractors – to think safety in everything they do.

In addition to our regular emergency response drills, HSE is a key KPI across every department, whether in the field or office-based. To strengthen this culture even further, we are also working towards attaining ISO 9001, 14001 and 18001 in 2012 to enhance quality management systems, with our COO as the project champion.

People first

In our operational hub of Hazar, Turkmenistan, we are many things.

We are an important employer (the town's largest); we are members of a community; we are honoured guests and proud partners; and we are stewards of the shores and sea beds where we operate.

In turn, we view it as a duty – and a very pleasant one – to make a tangible contribution to the well-being, prospects and quality of life of the local people.

For example, in 2009, we constructed a desalination plant, which provides fresh water to the community. In 2010, we established our Centre of Excellence; the focus is to provide training and development to local employees and extend the use of these facilities to local people.

This year, our latest major project is taking shape: a brand new polyclinic, which will serve not only employees but the community at large. We hope that this US$5 million undertaking will be completed by early 2013.

It is of course people, not platforms, that make Dragon Oil the company it is, and we have seen exceptional performances from people in every role in our business. I subscribe to the view that the spirit of an organisation is created from the top, and believe we have a board and management with an infectious passion to prove that extraordinary things can be achieved. Equally, I salute all our employees for delivering those results, and the commitment, initiative and determination they show against even the toughest challenges.

I would also like to record my sincere thanks to our contractors, our hosts in Turkmenistan and our loyal and supportive shareholders.

Together, everyone has helped us deliver our best-ever year and we are excited as 2012 takes us on the path to 100,000 bopd and beyond.

Mohammed Al Ghurair
Chairman

1 Offshore operations, marine activities.

2 Onshore operations, Dragon Oil employees.

A record year of growth for Dragon Oil

Dr. Abdul Jaleel Al Khalifa
Chief Executive Officer

To be successful in our industry expertise, resources, innovation, a can-do attitude – all must come into play to move a business forward in this highly demanding sector.

We are therefore very proud to unveil an excellent performance in 2011.

2012 Objectives & deliverables

- Complete between 13 and 15 wells
- Target annual production growth of 15%
- Caspian Driller expected for delivery in 1H 2012
- Additional platform-based rig is currently being sourced to be mobilised in 2H 2012
- Dzhygalybeg (Zhdanov) A platform due in 2H 2012
- Plans to award a contract to build the Dzheitune (Lam) D and E platforms

2013–15 Outlook

- Complete 15 to 20 development wells per year
- Target 10–15% of production growth on average per annum
- Reach the 100,000 bopd production target in 2015
- Perform a water injection pilot project to assess potential for higher production

“At the heart of our success was the hard work and dedication of our talented team.

“We continue to deliver on our promises and create more value for our shareholders.”

It was a year when targets were achieved and records broken; when we showed our resilience in the face of challenges; and when we continued to demonstrate that we will fulfil our promises and more.

Targeting growth from a strong new base

In previous years our hands had been somewhat tied by production bottlenecks caused by infrastructure issues. Now, we are reaping the benefits of a focused and bold investment strategy, operating from a new infrastructure base with enhanced capacity.

It is exciting when the way becomes clear to show what we can really do. In 2011, we achieved record-breaking productivity: we entered the year at 57,000 bopd and exited it at over 71,700.

We also broke through the US$1bn revenue landmark for the first time. The year was a fitting tribute to hard work, and gave us the confidence to announce a bold new target.

Our 100,000 bopd target

In October 2011, we announced our goal to become a 100,000 bopd producer in 2015 only from the Cheleken asset. We also envisage maintaining that level of production for a minimum of five years.

We weighed up a number of positive factors in arriving at this target, including the excellent drilling results from the Dzheitune (Lam) West area over the last number of years. Particularly encouraging have been the drilling results from the Dzheitune (Lam) 28 which saw completion of six wells by the NIS rig in 2011 alone (14 wells in total since we started drilling from this platform in February 2007). Production test rates on the 14 wells showed a minimum of 2,141 bopd and a maximum of 4,379 bopd, often meeting and at times surpassing our expectations. These are good wells with lower decline rates to-date, and their results to-date have had a significant effect on upgrading our total reserves in this area.

This contributed to an overall picture of stellar production growth this year of some 30%.

To deliver the 100,000 bopd target, we have a development plan that envisages deploying up to three jack-up rigs, additional platform-based rigs, construction of new platforms, and executing a range of other key infrastructure additions.

Operations: productive and reactive

At the heart of our success was a 13-well drilling programme completed in 2011.

We had originally guided the market towards completing 11 wells in 2011 but by optimising the programme we were able to increase its scope. We were aided by a faster drilling rate, which enabled us to complete more wells than planned.

Additional slots on the Dzheitune (Lam) A platform meant we could drill an extra well using the Iran Khazar rig. We exited the year at the rate of over

1 Offshore operations, the Dzheitune (Lam) C platform.
2 Offshore operations, Dragon Oil employee.
3 Offshore operations, the Dzheitune (Lam) Block-2.

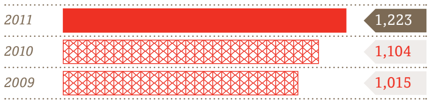
1

2

3

Over 90% of our employees in Turkmenistan are local Turkmen people. We take this responsibility seriously: the support we receive, both from the workforce and our host government, demands that we contribute to local prosperity and well-being in meaningful ways. This means providing high quality employment, excellent training, personal development opportunities and a safe and healthy place of work.

Increase in our workforce
(average headcount)



71,700 bopd and marked the dawn of 2012 by completing the Dzheitune (Lam) A/165 well and a sidetrack of the Dzheitune (Lam) 13/140 existing well.

Rig 40, together with NIS and Iran Khazar, enabled us to meet our drilling requirements in 2011 and we expect to use all three full- and part-time in 2012. We are also awaiting the delivery of the Caspian Driller in 1H 2012.

I'm proud of how we again showed our ability to think, plan, operate and react as circumstances dictate. Various contractor-led delays meant we had to partially revise our drilling plans and relocate our operations when needed. We also needed some creative solutions working with the old refurbished platforms, strengthening and where possible extending them, drilling from additional slots and finding ways to drill areas, which were beyond the original reach of the platforms' design.

This demanded considerable time and attention to ensure continuous drilling and our ability to adapt and innovate served us well.

A heavy investment in infrastructure

The year saw several infrastructure projects coming to fruition and investment is expected to be heavier to continue in support of our 100,000 bopd target. Indeed, from now until 2015 we anticipate further infrastructure spend (excluding gas monetisation) in the region of US$1bn.

This continuous expansion and our rig tendering plans are expected to enable us to complete between 15 and 20 wells a year. Projects include:

> the Dzheitune (Lam) C platform: completed on schedule and we began drilling from this new platform in January 2012.
> the Dzhygalybeg (Zhdanov) A platform: currently anticipated for installation in 2H 2012 and we have modified our drilling plans to drill from available slots on other upgraded platforms and enable the Group to maintain the pace of the drilling campaign.
> the Dzhygalybeg (Zhdanov) B platform: construction is in progress and completion is expected in 1H 2013.
> the Block-4 riser platform/gathering station: on schedule and slated for completion in 2H 2012.
> award of key contracts for the Dzheitune (Lam) D and E platforms in 2012.
> tendering for another land rig and a new jack-up rig with mobilisation planned in 2012 and 2014, respectively.

The updated plans, as well as infrastructure and drilling projects, are subject to approvals from the Turkmenistan Government.

Water injection: preparing our pilot

Naturally we are keen to explore any avenue that can enhance recovery rates and possibly push our long-term production targets above 100,000 bopd.

1 Onshore facilities, the Central Processing Facility.

"One thing is for sure: we have the resources, the infrastructure and above all the people to deliver a further set of solid results in 2012."

1 **Onshore operations,** operations in the harbour area.

2 **Offshore operations,** a bridge connecting an offshore platform with an accommodation facility.

We believe that water injection may hold real promise. In 2012 we will begin a pilot project to evaluate water injection on a part of the Dzheitune (Lam) field.

The results from preliminary injectivity tests are encouraging and the Group is currently sourcing equipment, which is the first of a series of steps before a pilot field application. If successful, it could be implemented on a wider scale in the future.

A significant upgrade in reserves

Excellent achievements in 2011 go beyond production growth into a significant upgrade of reserves. We have been drilling from the Dzheitune (Lam) 28 platform and have installed two new wellhead and production platforms, Dzheitune (Lam) B and C. Thanks to directional drilling certain wells drilled outside the proven hydrocarbon boundary in the Dzheitune (Lam) West area have shown a bigger area extension with a higher potential for the shallow reservoirs. These findings led to an increase in our oil and condensate reserves and resulted in a reserve replacement of 183% against the 2011 gross production.

At the close of the year we finished an update on reserves prepared by an independent energy consultant. Based on their assessment, the 2011 year-end oil and condensate 2P reserves were upgraded to 658 (31 December 2010: 639) million barrels. The gas 2P reserves decreased slightly to 1.5 (31 December 2010: 1.6) TCF corresponding to approximately 250 million barrels of oil equivalent dependent on the ongoing discussions with the Government of Turkmenistan on a gas sales agreement. The gas contingent resources remained at 1.4 (31 December 2010: 1.4) TCF.

The oil and condensate contingent resources of 88 million barrels and the increase of approximately 41 million barrels in oil and condensate reserves are mainly due to an increase in reserves in the Dzheitune (Lam) West area.

Gas monetisation

With gas, our plan is simply explained: to lay the foundations today for gas monetisation in the future.

Our current gas production is 140 million standard cubic feet of gas per day (mmscfd). We were pleased that the commissioning of the gas compressor station in Hazar has enabled us to supply a quantity of unprocessed 'wet' gas into the country's system.

This has the benefit of helping us to reduce flaring: we are determined to play our part as responsible corporate citizens for the environment, and to minimise our impact through greenhouse gas emissions.

Our longer-term gas monetisation plans are to be agreed with the Government of Turkmenistan. This includes a long-term gas sales agreement, which would require us to supply processed 'dry' gas.

Local people, local content

Over 90% of our employees in Turkmenistan are local Turkmen people. We take this responsibility seriously: the support we receive, both from the workforce and our host government, demands that we contribute to local prosperity and well-being in meaningful ways. This means providing high quality employment, excellent training, personal development opportunities and a safe and healthy place of work.

We're also proud of our projects to benefit the community generally, and eagerly await the completion of construction of our major new US$5m polyclinic. Again, it will serve the local community and make a real difference to the health of people in the area.

Dragon Oil is also a significant indirect contributor to local prosperity. In 2011, we placed significant value of contracts for goods and services, and encouraged our larger contractors to include a significant proportion of materials, services and labour to be sourced locally. The fabrication of most of new platforms is taking place in Hazar.

Now we think we can do better still. In 2012, we will turn that suggestion into a requirement, and we seek to encourage increased local content in every major project tender we consider.

2012: the stage is set

The reporting year of 2011 gave us the best possible platform on which to launch our ambitious target of 100,000 bopd in 2015.

There could be some volatility in crude oil prices, but our financial strength gives us plenty of headroom to ensure that we can continue to invest in our strategy.

As our partners are to start drilling in our new farm-in acquisition in Tunisia later in 2012; our quest to find other high-quality acquisitions is far more intense than before. We will continue to work on gas monetisation opportunities to unlock the value of our gas interests. And, all the while, we will target further gains in production as we maximise the potential of the Cheleken Contract Area.

One thing is for sure: we have the resources, the infrastructure and above all the people to deliver a further set of solid results in 2012.

Dr Abdul Jaleel Al Khalifa
Chief Executive Officer

Operational excellence

In 2011, we achieved a remarkable production growth of 30%, which has translated into record financial results for the Group. The year also saw several significant infrastructure projects coming to fruition, including the installation of the Dzheitune (Lam) C platform and the Dzheitune (Lam) Block-1 gathering platform, both of which are now operational.

61,500

2011 average daily gross production in barrels of oil.
2010 gross production was 47,200 bopd.

13 wells

Dragon Oil completed 13 wells against the original target of 11 wells during 2011 allowing us to achieve production growth significantly above the initial guidance of 10–15%.

Production growth (on a working interest basis)
(barrels of oil per day)

Production

An extensive drilling campaign undertaken in 2011 allowed us to reach average gross field production of 61,500 bopd (2010: 47,200 bopd). This represents a remarkable increase of 30% over the previous year's gross production. By adapting and optimising our drilling plans, Dragon Oil completed 13 wells against the original target of 11 wells during 2011 allowing us to achieve production growth significantly above the initial guidance of 10–15%.

For 2011, the entitlement production was approximately 53% (2010: 61%) of the gross production. Entitlement barrels are finalised in arrears and are dependent upon, amongst other factors, operating and development expenditure in the period and the realised crude oil price. Higher realised crude oil prices and lower development expenditure during the year resulted in the lower entitlement rate for 2011.

Marketing

In 2011, sales amounted to 11.4 (2010: 10.8) million barrels of crude oil. The 6% increase in the volume sold over the previous year is mainly due to higher production. The increase in the volumes of crude oil sold was less than the production growth rate due to a combination of a lower entitlement rate in 2011 compared to 2010 and changes in the lifting position.

Approximately 99% (2010: approximately 60%) of the Group's crude oil production was exported to international markets through Baku, Azerbaijan with the balance sold to an independent third party.

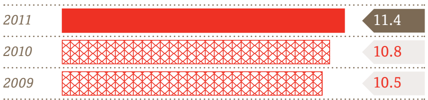
During 2011, we secured an extension of the current marketing arrangements via Baku, Azerbaijan until 31 December 2012 for our full entitlement production volume. The terms of the contract remain FOB the Aladja Jetty primarily using the BP-operated BTC (Baku-Tbilisi-Ceyhan) pipeline. We expect that for 2012 the realised crude oil prices will be in the range of 10% to 13% discount to Brent.

The Group was in an underlift position of approximately 0.05 million barrels of crude oil at the end of 2011 (31 December 2010: overlift position of 0.2 million).

Drilling

Dragon Oil originally set an objective of completing 11 wells during 2011; however, thanks to spare infrastructure capacity and faster drilling rates, we were able to upgrade our plans to 13 wells. The leased rig completed six wells versus

Marketing of crude oil
(million barrels of oil)



1 Onshore facilities, the Central Processing Facility.

2 Onshore facilities, a crude oil storage tank.

3 Export facilities, the Aladja Jetty terminal.

five wells planned at the beginning of the year; while availability of additional slots on the Dzheitune (Lam) A platform gave us an opportunity to drill an extra well using the Iran Khazar rig.

The drilling plans are based on the hydrocarbon distribution and oil reserves in every zone. Drilling results from the Dzheitune (Lam) West area over the last five years have shown that this area has a higher potential for shallow reservoirs. Two thirds of the wells drilled in 2011 were in the Dzheitune (Lam) West area. Out of these ten wells, three are considered deep, four were drilled to middle zones and three were targeting shallow horizons. In the future, we plan to drill various wells based on the hydrocarbon distribution and targeting oil reserves in every zone.

Table 1 summarises the results of the 2011 drilling programme.

In early January 2012, we reported successful completion and testing of a sidetrack of the Dzheitune (Lam) 13/140 well performed by Rig 40 and we put into production the Dzheitune Lam A/165 well, a strong start to the 2012 drilling programme.

Table 2 summarises the results from drilling in the Dzheitune (Lam) field reported since the beginning of the year.

The Iran Khazar and the leased platform-based rigs are currently drilling the Dzheitune (Lam) C/167 and 28/166 wells, respectively, while Rig 40 is working over the Dzheitune (Lam) 13/144B well.

During 2011, Dragon Oil employed three drilling rigs for all or part of the year. The same rigs are expected to be used in 2012 for all or part of the year, along with the addition of the Caspian Driller, which is expected for delivery in 1H 2012, as well as another 2,000 horse-power platform-based rig, which is planned for mobilisation in 2H 2012.

The contract for the leased platform-based rig has been extended to drill three more wells. We have also commenced the tendering process for a 2,000 horse-power platform-based rig.

In 2011, a preliminary water injection study using a dynamic simulation model was completed for the Dzheitune (Lam) 75 area. Subsequently, based on the simulation results, an injectivity test was conducted in June 2011. The results from the preliminary injectivity test are encouraging and the Group intends to implement a pilot water injection project in 2012. Data from project and analysis of the results are anticipated over the next two-three years. The Group is in the process of procuring equipment for this pilot water injection project, which is the

Table 1

Well	*Rig*	*Completion date*	*Depth (metres)*	*Type of completion*	*Initial test rate (bopd)*
28/152	NIS	March	3,768	Dual	3,463
B/153	Iran Khazar	March	3,668	Dual	2,428
28/154	NIS	May	1,830	Single	3,081
B/155	Iran Khazar	June	2,800	Dual	783
28/156	NIS	June	2,000	Single	3,038
B/157	Iran Khazar	July	2,900	Single	1,767
28/158	NIS	August	1,786	Single	2,876
B/159	Iran Khazar	September	2,900	Single	2,223
13/160	Rig 40	September	2,791	Single	1,257
28/161	NIS	October	3,670	Dual	3,176
A/162	Iran Khazar	November	2,970	Single	1,096
28/164	NIS	December	1,865	Single	3,018
13/163*	Rig 40	December	2,703	Single	1,584

Note*: The Dzheitune (Lam) 13/163 well was completed with a single string to a depth of 2,703 metres by Rig 40 in December 2011 and tested at 296 bopd. Additional data initially acquired on this well led to the re-completion of the Dzheitune (Lam) 13/163 in different reservoir intervals in January 2012 and, consequently, allowed to achieve a higher production rate.

Table 2

Well	*Rig*	*Completion date*	*Depth (metres)*	*Type of completion*	*Initial test rate (bopd)*
13/140A	Rig 40	January	2,237	Sidetrack	2,123
A/165	Iran Khazar	January	3,060	Dual	2,272

first in a series of steps before a potential implementation on a wider scale in 2015.

In addition, to optimise well performance and production, the Group has embarked on a project to install equipment to have access to permanent downhole pressure monitoring. The first permanent pressure gauge is expected to be installed in 2H 2012.

Infrastructure

Installation of the Dzheitune (Lam) C platform was completed on schedule and drilling commenced in early January 2012 with the Iran Khazar rig spudding the first well on this platform, Dzheitune (Lam) C/167.

In 2011, we carried out structural upgrades on four platforms adding four extra slots for drilling with a jack-up drilling rig on each of the Dzheitune (Lam) platforms 21 and 22 and Dzhygalybeg (Zhdanov) platforms 21 and 60. This allows us to create additional capacity in our infrastructure from which we can benefit later should we need to adapt our drilling plans. Six slots were added on the Dzheitune (Lam) A platform allowing us to schedule the Iran Khazar rig for drilling from this platform in 2011.

The new Dzheitune (Lam) Block-1 gathering platform has been commissioned following the re-connection of the pipelines feeding into this gathering station from the old Block-1. In parallel with Block 1, in 2011, Dragon Oil replaced the old Dzeitune (Lam) Block-2 gathering platform with a new Block-2. We are currently re-connecting the remaining few pipelines and will commission the platform shortly. These are vital infrastructure elements. The brand new modern-design Blocks took the place of the old gathering stations and will help increase the throughput capacity of the Dzheitune (Lam) West area.

Completion of Block-4 gathering platform and installation of the associated pipelines are expected in the second half of 2012. It will act as a gathering station for the production from new wellhead and production platforms in the Dzhygalybeg (Zhdanov) field.

In 2011, we commissioned an onshore pipeline from the Central Processing Facility to the Turkmenistan government's Booster Compressor Station ("the compressor station") allowing us to start supplying unprocessed gas as part of the commissioning of the compressor station.

As part of the ongoing programme to replace old infrastructure and remove bottlenecks from the system, we installed new subsea pipelines between a number of production and gathering platforms and installed pigging systems for three subsea pipelines. In 2011, we awarded contracts for the EPIC of subsea pipelines between the Dzheitune (Lam) B platform and Block 1 (18-inch) and between Block 1 and 2 (20-inch). The work has commenced and the installation of these subsea pipelines is scheduled for 2H 2012.

Over the next four years, we plan to install at least four wellhead and production platforms in the Dzheitune (Lam) field, while in the Dzhygalybeg (Zhdanov) field the completion of the Dzhygalybeg (Zhdanov) A and B platforms is anticipated in 2H 2012 and 1H 2013, respectively. Each of these Dzhygalybeg (Zhdanov) platforms will have 16 slots and accommodation facilities; their design will allow the deployment of either a platform-based or a jack-up rig.

All new platforms will be constructed according to a standardised template and modern design. We are currently undertaking a tendering process to select a contractor to build the Dzheitune (Lam) D and E platforms and associated in-field pipelines. The contract will also include the development of the fabrication yard in the harbour area near our operations. These platforms will be suitable for the deployment of a jack-up rig. Once the contract is awarded, we anticipate a time span of about two years for the platforms to be constructed and installed.

In 2011, we carried out a geophysical and geotechnical investigation to evaluate locations for 10 future platforms in the Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields. Geophysical and geotechnical investigations to evaluate locations for future platforms are undertaken on an ongoing basis, currently we are evaluating over 20 sites for platforms and gathering stations.

Dragon Oil has commenced the plugging, abandonment and decommissioning activities in the Cheleken Contract Area. We have identified groups of wells based on their status and age. The Group has also awarded a contract to a company specialising in offshore operation for the plugging and abandonment of old shut-in wells. Overall, up to 15 such wells are expected to be plugged starting from 2Q 2012. Additionally, we intend to conduct work and select a contractor to start dismantling old non-producing platforms in the Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields. The cost of the projects is to be covered from the abandonment and decommissioning funds.

In order to enhance the Group's offshore and onshore capabilities, a number of projects are being undertaken. A study has been completed to review the existing throughput capacity of the channel in the harbour area used to transport men and materials offshore and the Aladja Jetty used for export of crude oil. Based on the findings of the study, we are preparing an EPIC contract for channel dredging and breakwater construction in order to enhance the Group's operational and crude oil loading capacity. The Group is planning to triple its crude oil storage capacity at the CPF.

Reserves and resources

Based on the results of the recent assessment by an independent energy consultant, the 2011 year-end oil and condensate 2P reserves were upgraded to 658 (31 December 2010: 639) million barrels. The gas 2P reserves decreased slightly to 1.5 (31 December 2010: 1.6) TCF corresponding to approximately 250 million barrels of oil equivalent dependent on the ongoing discussions with the government of Turkmenistan on a gas sales agreement.

The oil and condensate contingent resources of 88 million barrels and the increase of approximately 41 million barrels in oil and condensate 2P reserves are mainly due to an increase in reserves in the Dzheitune (Lam) West area. Performance from certain wells drilled outside the proven hydrocarbon boundary in the Dzheitune (Lam) West area has shown a bigger area extension with a higher potential for the shallow reservoirs. These findings led to an increase in our oil and condensate 2P reserves and resulted in a reserve replacement of 183% against the 2011 gross production.

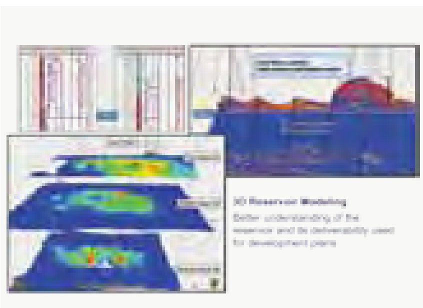
The gas contingent resources remained at 1.4 (31 December 2010:

"The excellent results we have achieved with respect to drilling this year have been complemented by the addition of some 41 million barrels of oil and condensate to our 2P reserves, allowing us to achieve a reserve replacement ratio of 183%, while another 88 million barrels are booked as contingent oil and condensate resources."

Table 3

	As at 31 December 2011		As at 31 December 2010	
	Oil and Condensate million barrels	Gas TCF	Oil and Condensate million barrels	Gas TCF
Proved and Probable Remaining Recoverable Reserves				
Gross field reserves to 1st May 2035	**658**	**1.5**	639	1.6
2C Resources				
Gross oil and condensate contingent resources	**88**	**–**	47	–
Gross gas contingent resources	**–**	**1.4**	–	1.4

Reserves and Resources
See page 14



1.4) TCF. Necessary upgrades of and additions to offshore and onshore infrastructure are planned to allow the conversion of the contingent resources into reserves in the future (Table 3).

No changes have been made to the estimates of recoverable oil from the Dzhygalybeg (Zhdanov) field, where we believe 15% of the total proved and probable recoverable reserves are contained. We plan to start drilling in the Dzhygalybeg (Zhdanov) field later this year. This will enable us to understand better what the field is capable of producing.

Gas monetisation

In 2011, we reduced flaring of gas by over two thirds after we commissioned the pipeline connecting our CPF to the Turkmenistan government's compressor station and the subsequent commissioning of the compressor station in the second half of last year. At the moment, a major portion of the unprocessed gas is feeding into the compressor station. We continue, as we have done in the past, to supply a small proportion of gas to the Hazar town near our operations for domestic use, helping the local community, and to a number of local plants. The reduction of flaring is an important achievement for Dragon Oil as a good corporate citizen and one of the largest independent hydrocarbon producers in Turkmenistan.

In parallel, we continue to discuss with the government of Turkmenistan a range of options for the monetisation of gas, including a long-term gas sales agreement, targeted towards export markets. That would require us to supply processed (or "dry") gas into the Turkmenistan system and for that, the initial capital expenditure, operating costs and the output received warrant a construction of a plant that is based on a modern technology with the best cost-benefits balance. The processing capacity of the plant is expected to be 220 mmscfd of gas, allowing us to strip condensate and blend it with crude oil, and we anticipate the tendering process to start this year with the construction phase to take two years once the contract is awarded.

Diversification

On 10 October 2011, Dragon Oil announced that it had signed a farm-in agreement with a wholly owned subsidiary of Cooper Energy Limited through which Dragon Oil is to earn a 55% participating interest in the Bargou Exploration Permit, offshore Tunisia, subject to confirmation from the Government of Tunisia. Further, if the Joint Venture proceeds with a development phase, Dragon Oil will assume operatorship of the block.

Recently, we have hired an Exploration Manager with a proven record of both oil and gas discoveries. This is in line with our strategy to build our own in-house exploration team.

Dragon Oil has been pre-qualified to participate in the fourth round of bidding in Iraq (due to take place in 1H 2012). Twelve exploration blocks are on offer in this bidding process. This round, given Iraq's significant hydrocarbon resource base, creates a potentially attractive diversification opportunity for the Group.

In relation to the Group's minority interests in the Republic of Yemen (which it acquired in December 2007), the interests in Blocks 49 and R2 were relinquished due to lack of commerciality. The Group on behalf of the consortium has notified the government of Yemen of the intention to relinquish Block 35. We anticipate receiving the confirmation from the government in due course.

Dragon Oil continues to screen

The Board of Directors of Dragon Oil recommends the payment of a final dividend of US cents 11 per share. Together with the interim dividend of US cents 9, the total dividend for the year ended 31 December 2011 is US cents 20.

and evaluate targets that fit our criteria within Africa, Central Asia, the Middle East and selectively south-east Asia in order to create a diversified balanced portfolio of exploration and development assets for the Group.

Share buyback programme

In 2011, Dragon Oil launched a limited share buyback programme of up to five million shares in the Company. The buy-back programme commenced on 26 September 2011 and concluded on 4 November 2011. The sole objective and purpose of the programme was to meet all relevant obligations arising from the Company's various share schemes.

As of 4 November 2011, 100% of the targeted number of shares was purchased at a weighted average price of GBP 4.84 per share.

Dividends

The Board of Directors of Dragon Oil recommends the payment of a final dividend of US cents 11 per share. Together with the interim dividend of US cents 9, the total dividend for the year ended 31 December 2011 is US cents 20. The final dividend of US cents 11 is subject to shareholder approval at the Annual General Meeting to be held in London, U.K. on 18 April 2012. If approved, the final dividend of US cents 11 is expected to be paid on 27 April 2012 to shareholders on the register as of 30 March 2012.

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

> 20 February 2012: Declaration of final dividend
> 28 March 2012: Ex-Dividend Date
> 30 March 2012: Record Date
> 18 April 2012: AGM
> 27 April 2012: Dividend Payment Date.

The dividend is declared in US dollars, the Group's functional currency. The exchange rate for the pound sterling or euro amounts payable will be determined by reference to the exchange rates applicable to the US dollar on the closest practicable date to the dividend payment date. The new shareholders, who bought Dragon Oil shares in the last 12 months, will receive instructions regarding currency elections, dividend withholding tax ("DWT") and bank mandate forms in the post. These forms are also available on the Group's corporate website, www.dragonoil.com.

The closing date for receipt of currency elections is 30 March 2012. By default shareholders (other than shareholders holding their shares within CREST) with registered addresses in the U.K. will be paid their dividends in pounds sterling. Those with registered addresses in European countries, which have adopted the euro, will be paid in euro. Shareholders with registered addresses in all other countries will be paid in US dollars. Shareholders may, however, elect to be

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1 Onshore facilities, a crude oil storage tank.

2 Onshore facilities, onshore section of the 30-inch 40km trunkline.

1 Onshore operations,
Dragon Oil employee.

2 Offshore operations,
the Dheitune (Lam) B platform.

3 Offshore operations,
Dragon Oil employees.

paid their dividends in a currency other than their default currency, and will have a choice of US dollars, euro or pounds sterling provided such election is received by our registrars by the record date for the dividend. As the above arrangements can be inflexible for institutional shareholders, where shares are held in CREST, dividends are automatically paid in US dollars unless a currency election has been made. CREST members should use the facility in CREST to make currency elections. Currency elections must be made in respect of entire holdings and partial elections are not permitted.

Dividends can be paid directly into a U.K. bank account to shareholders who elect for their dividend to be paid in pounds sterling and to an Irish bank account where shareholders elect to receive their dividend in euro. A dividend reinvestment plan is not available under the Company's dividend policy.

Irish DWT must be deducted from all dividends paid by an Irish resident company, unless a shareholder is entitled to an exemption and has submitted a properly completed exemption form to the Company's Registrar, (by post) Capita Registrars, PO Box 7117, Dublin 2, Ireland (or by hand) Capita Registrars, Unit 5, Manor Street Business Park, Manor Street, Dublin 7, Ireland, by the dividend record date. DWT is deducted at the standard rate of Income Tax (currently 20%). Non-resident shareholders and certain Irish companies, trusts, pension schemes, investment undertakings and charities may be entitled to claim exemption from DWT. Copies of forms applicable to all exemption types may be obtained online from Irish Revenue (www.revenue.ie/en/tax/dwt/forms/index.html).

Individuals who are resident in Ireland for tax purposes are not generally entitled to an exemption from Irish DWT.

Our people

In 2011, the Group increased its average headcount to 1,223, 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.

Our guiding principle of "People First" continues to drive our focus on training, empowering and trusting our talented workforce. It also drives our commitment towards the people in the community. The desalination unit and the recently awarded contract for the construction of a polyclinic are only examples of such efforts.

Corporate Social Responsibility

In 2012–13, Dragon Oil is undertaking a significant project, building a polyclinic in Hazar, Turkmenistan to provide healthcare services to our employees and local community. In 2010–early 2011, Dragon Oil completed the concept design and scope of work, while the actual tendering process to award this project to a contractor took place in 2011. We are pleased to report that the contract, which will be worth some US$5 million, has been awarded to an international contracting company and is at the initial engineering stage. We anticipate that the polyclinic will be constructed by early 2013.

Smaller-scale community-support projects included refurbishment of a local school and nursery. During 2011, we sponsored a number of sports, social and cultural events in Hazar; we will continue to do so for the benefit of the community.

We are extending our corporate social responsibility work to other regions of interest to us. In particular, Iraq is one of the countries where we feel there are significant opportunities for operators to explore and develop the country's substantial hydrocarbon resources. One of the projects we are commencing in Iraq is the refurbishment of sanitary facilities at three secondary schools for girls in the Basra City, Iraq.

Outlook for 2012

For 2012, our target is to achieve a 15% increase in gross production on the basis of 13-15 wells, which are expected to be put into production during the year as well as a number of workovers. The details of the drilling programme are as follows:

> Rig 40 is working on the Dzheitune (Lam) 13 platform: it has completed a sidetrack of the 13/140A well and is currently working over the 13/144B well; after that it is scheduled to drill two more wells and perform a sidetrack operation on an existing well;

> The leased platform-based rig is currently completing the Dzheitune (Lam) 28/166 well and will drill up to three more wells in 2012;

> The Iran Khazar rig completed the Dzheitune (Lam) A/165 well in early January and was then mobilised to the newly-installed Dzheitune (Lam) C platform where it is currently drilling the Dzheitune (Lam) C/167 development well and after that well is due to complete three more wells until the end of the year;

> The Caspian Driller is expected in 1H 2012 and we anticipate to be able to complete three wells using this rig in the second half of the year; and

> A new 2,000 horse-power platform-based rig is currently being sourced and is expected to be mobilised to the field in 2H 2012 where it is due to complete one well.

Over the 2012–15 period, we expect to maintain an average production growth of 10% to 15% per annum, taking our gross field production to a level of 100,000 bopd in 2015 with the aim of maintaining this level for a minimum period of five years thereafter. Delivery of the production targets, including the attainment of this sustainable production level is supported by a development plan that envisages the deployment of up to three jack-up rigs, additional platform-based rigs, construction of new platforms and execution of a range of key infrastructure projects.

The infrastructure spend in 2012 is expected to amount to US$250–300 million, while the overall infrastructure capex for 2012-15 is likely to surpass US$1 billion.

Financial summary

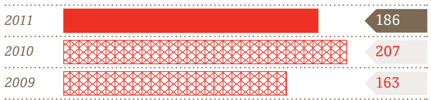
Dragon Oil has strengthened its balance sheet further in the last 12 months with a growth of 24% in net assets to US$2.6 billion. This comprises increases of US$693 million in total assets, offset by an increase of US$197 million in total liabilities. The Group has no debt and is able to finance its operations internally with net cash generated from its operations in Turkmenistan.

A 47% increase in revenue to US$1,151 million and a 76% increase in operating profit to US$856 million are attributed mainly to increased average realised crude oil prices in 2011 and increased production. Earnings per share were 68% higher than in 2010 and net cash from operations was up 71% over 2010.

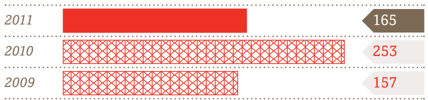
Key financial data

US$ million (unless stated)	*2011*	*2010*	*Change*
Revenue	**1,150.5**	780.4	47%
Cost of Sales	**(266.5)**	(264.7)	1%
Gross Profit	**884.0**	515.7	71%
Operating profit	**856.2**	487.7	76%
Profit for the year	**648.4**	386.1	68%
Earnings per share, basic (US cents)	**126.0**	74.9	68%
Earnings per share, diluted (US cents)	**125.6**	74.7	68%
Net assets	**2,588.5**	2,092.9	24%
Net cash from operating activities	**1,015.8**	594.7	71%
Net cash used in investing activities	**(914.4)**	(721.9)	27%
Debt	**0.0**	0.0	nil

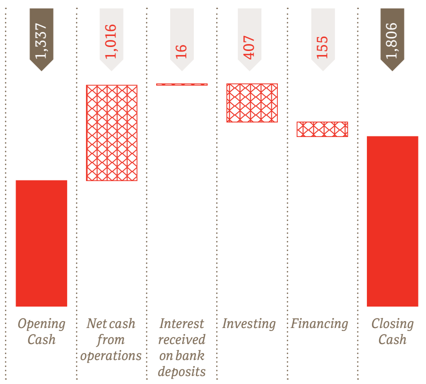
Capital expenditure – drilling (US$m)



Capital expenditure – infrastructure (US$m)



Cash flow in 2011 (US$m)



Income Statement

Revenue

Gross production levels in 2011 averaged about 61,500 bopd (2010: about 47,200 bopd) on a working interest basis.

Revenue for the year was US$1,151 million compared with US$780 million in 2010. The increase of 47% over the previous year is primarily attributable to a 40% increase in the average realised crude oil price and a 6% increase in the volume of crude oil sold over the previous year. The average realised crude oil price during the year was approximately US$101 per barrel (2010: US$72 per barrel) and was at a 9% (2010: 9%) discount to Brent during the year. The 6% increase in the volume sold over the previous year is mainly due to higher production. The increase in the volumes of crude oil sold was less than the production growth rate due to a combination of a lower entitlement rate in 2011 compared to 2010 and changes in the lifting positions. The PSA includes provisions such that parties to the agreement may not lift their respective crude oil entitlements in full, and as such, underlifts or overlifts of crude oil may occur at period-ends.

Operating profit

Gross profit is measured on an entitlement basis. The entitlement production was approximately 53% (2010: 61%) of the gross production in 2011. Entitlement barrels are finalised in arrears and are dependent on, amongst other factors, operating and development expenditure in the period and the realised crude oil price. The lower proportion of entitlement barrels in 2011 is primarily due to the higher realised crude oil price and lower development expenditure during the year.

At the year-end, the Group was in an underlift position of approximately 0.05 million barrels that is recognised and measured at market value (31 December 2010: overlift position of 0.2 million barrels).

The Group generated an operating profit of US$856 million (2010: US$488 million), 76% higher than in the previous year.

The increase in operating profit of US$368 million was primarily on account of higher revenue. The Group's cost of sales was US$267 million in 2011 compared to US$265 million in 2010, an increase of about 1%. Cost of sales includes operating and production costs and the depletion charge. The increase is primarily due to increased depletion charge during the year, offset by lower marketing costs and movement in the lifting position. Lower marketing costs in 2011 are due to the higher volume, of about 99% (2010: 60%), of crude oil exported on FOB basis ex-Aladja Jetty.

The depletion and depreciation charge during the year was higher by about 9% at US$205 million (2010: US$188 million) primarily due to an upward revision in estimates of field development costs and the increased entitlement barrels during the year.

Administrative expenses (net of other income) remained similar at US$28 million (2010: US$28 million), with an increase in head office costs during 2011 offset by one-off charges in the previous year.

Profit for the year

Profit for the year was US$648 million (2010: US$386 million), 68% higher than the previous year. The profit for the year includes finance income of US$16 million (2010: US$27 million) and a higher taxation charge of US$223 million (2010: US$129 million). Finance income decreased in 2011 despite the higher cash and cash equivalents and term deposits maintained during the year due to lower interest yields.

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 2011. The Group is in discussions with the authorities in Turkmenistan about the applicability of this rate to periods prior to 2008, but it does not believe that these 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 EPS of 126 US cents for the year were 68% higher than the previous year (2010: 74.9 US cents).

Balance Sheet

Investments in property, plant and equipment were higher by US$178 million primarily due to capital expenditure of US$351 million (2010: US$460 million) incurred on oil and gas interests and reclassification of drilling supplies of US$32 million, offset mainly by the depletion and depreciation charge during the year. The expenditure during the year was on drilling and infrastructure projects in Turkmenistan. Of the total capital expenditure on oil and gas interests for 2011, 47% was attributable to infrastructure (2010: 55%) with the balance spent on drilling. The infrastructure spend during the year included construction of the Dzheitune (Lam) C and Dzhygalybeg (Zhdanov) A platforms, work on Block-1, 2 and 4 gathering stations, additional slots on the Dzheitune (Lam) A platform, upgrade of certain existing platforms and construction of a crane vessel, as well as the geophysical and geotechnical investigation to evaluate locations for future platforms.

Current assets and liabilities

Current assets rose by US$515 million primarily due to an increase of US$523 million in term deposits and US$86 million in trade receivables partly offset by a decrease of US$40 million in inventories mainly owing to the reclassification of drilling supplies and US$54m in cash and cash equivalents. The cash and cash equivalents and term deposits at

1 Onshore operations, Dragon Oil employee.

the year-end were US$1,806 million, including US$279 million (2010: US$174 million) held for abandonment and decommissioning activities. Amounts of US$1,718 million (2010: US$1,195 million) are held in term deposits with original maturities greater than three months.

Current liabilities rose by US$164 million due to increases of US$123 million in the abandonment and decommissioning liability owing to increased production and US$101 million towards the current tax liability, offset by a decrease of US$47 million in trade and other payables and movement of US$13 million in overlift creditors.

Cash Flows

Net cash generated from operations during the year increased by US$421 million to US$1,016 million (2010: US$595 million). The increase was primarily attributable to the higher average crude oil sales price realised during the year and the change in the working capital position.

Cash used in investing activities was US$914 million (2010: US$722 million), comprising capital expenditure of US$407 million (2010: US$424 million) and placement of additional term deposits of US$523 million (2010: US$325 million), offset by interest received on cash and cash equivalents and term deposits of US$16 million (2010: US$27 million). Cash used in financing activities was US$155 million (2010: generated by financing activities US$2 million) on account of payment of dividends of US$118 million (2010: nil) and that used for the share buy-back programme of US$38 million (2010: nil) slightly offset by proceeds of US$1 million (2010: US$2 million) from the issue of share capital resulting from the exercise of share options.

Investing in tomorrow

We offer high quality careers and opportunities for everyone, with a particular focus on our local employees. We are committed to personal growth and development through excellent training and challenging opportunities. We embrace diversity and foster a working culture that is open and motivational, and love to see the spark of proactivity and initiative.

Our human capital strategy

- Developing and empowering our national human capital in Turkmenistan to create an independent skilled workforce
- Promoting and supporting employees through education to enhance talents
- Overhauling policies and implementing fresh initiatives to cope with new challenges and market trends
- Focusing our energies to hire and retain the best possible pool of qualified candidates in Turkmenistan and Dubai, U.A.E.

At Dragon Oil we have always believed that the best, and right, way to run our business is in a spirit of partnership. All sides should benefit, ranging from employees and shareholders to suppliers and our host communities.

But you can't achieve this through piecemeal actions. It demands genuine social responsibility in the round, which in our company we encompass in a simple motto: "People First." So whether that's one of our employees out in the field, people in our Dubai and Ashgabat offices supporting the operations or a local resident near our operations in Hazar, Turkmenistan, we never forget that our responsibility lies first and foremost with people.

Human resources

A workplace of People First

It is no surprise that truly successful businesses are also great places to work. So in the spirit of People First, we value our employees.

We offer high quality careers and opportunities for everyone, with a particular focus on our local employees. We are committed to personal growth and development through excellent training and challenging opportunities. We embrace diversity and foster a working culture that is open and motivational, and love to see the spark of proactivity and initiative.

Indeed, Dragon Oil is a place where people can perform, and we celebrate and reward their efforts accordingly.

Good work, fairly rewarded

Naturally, receiving fair compensation is a key component in anyone's overall satisfaction with their employment. We therefore make sure that our compensation packages are competitive within the industry whilst being affordable to the company.

In essence, our challenge is to create a resourceful and flexible workforce that is responsive to changing economic climates and business needs, and where an individual's performance is fully respected and properly rewarded.

Historically, compensation for our national employees in Turkmenistan was not based on a formal grading structure. In 2011, we completed a major project to evaluate and benchmark more than 170 jobs. This led to formal grading to place each role within the salary structure comparable with the oil and gas industry in the region.

We are also enhancing our progressive benefits for all and this includes our Employees' Share Purchase Plan, which was launched in 2011. The scheme, which brings a tangible and emotional sense of ownership, is open to all employees. The welcome this received and the uptake it generated in our Dubai headquarters showed enthusiasm for the concept. We are now working to explain the benefits and increase participation among our people in Ashgabat and Hazar, where culturally the scheme breaks new ground.

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1 Health, Safety and Environment, onshore training by Dragon Oil employees.

1 Onshore operations,
Dragon Oil employees.

2 Onshore operations,
Dragon Oil employees.

3 Onshore facilities,
Dragon Oil employees at the mechanical workshop.

US$5mn

A new polyclinic to enhance healthcare in Hazar, Turkmenistan where our operations are located.

97%

Retention rate in 2011. The retention rate in 2010 was 94%.

We have introduced new End of Service Benefits for our employees in Turkmenistan, which go beyond their traditional employment benefits. This is designed to reward loyalty in an environment where employees can work for many years for a single company. Retaining good people is a key part of our continuous improvement programme to contribute to long-term business objectives.

We are therefore particularly pleased to have seen a decrease in staff turnover among high- and mid-scale employees, leading to an excellent retention rate, which across the organisation climbed to 97% in 2011 (2010: 94%). We believe this is a testament to the strong emphasis the Group puts on its human capital, and will equip us well to attract the best new talent in the market.

Our HR strategy

Our HR strategy is centred on a number of key objectives:

> Developing and empowering our national human capital in Turkmenistan to create an independent skilled workforce;
> Promoting and supporting employees through education to enhance talents;
> Overhauling policies and implementing fresh initiatives to cope with new challenges and market trends; and
> Focusing our energies to hire and retain the best possible pool of qualified candidates in Turkmenistan and Dubai, U.A.E.

At the heart of our People First culture is education, training and personal development. We know from experience how unlocking the potential of our people leads to a virtuous circle: when employees achieve more, they enjoy their roles more; and that sense of fulfilment drives even greater ambition, satisfaction – and the company's growth. Simply put, everyone wins.

In the U.A.E., we introduced a specific initiative in 2011: the Assistance Programme for Higher Studies. This is a comprehensive education plan, which is available to all talented nationals who have the will to excel.

In Turkmenistan, developing our employees' skills and abilities is the core priority of our HR strategy. We have therefore developed and implemented a new Training and Development Plan for both professional and new employees. This is targeted, on-the-job training, offered to the people we think will gain the most benefit from it, both out in the field and at our headquarters in Dubai. In 2011, a high number of employees also completed certified training programmes, as part of an overall programme backed by investment of some US$600,000.

We also seek out the best training wherever it may be. Our Turkmen national employees regularly undertake professional training programmes abroad, as well as take up regular internships at our headquarters in Dubai. The latter also supports operations in the field and promotes knowledge-sharing through continuous learning and access to senior management.

Our aim is clear: to empower our Turkmen national employees at all levels and make them an independent and skilled workforce. Within that scope we have also developed finely tuned route for exceptional performers.

We call these people 'Successors' and in 2011 we compiled a list of high-potential local employees. Over the next two to three years, they will undergo focused training, both internal and external, to develop their full potential. In turn, this will enable us to define a succession-planning programme as new generations of talent come to the fore. This programme, under which a number of professionals have already been promoted, will equip qualified employees to hold responsible positions

At the heart of our People First culture is education, training and personal development. We know from experience how unlocking the potential of our people leads to a virtuous circle: when employees achieve more, they enjoy their roles more; and that sense of fulfilment drives even greater ambition, satisfaction – and the company's growth. Simply put, everyone wins.

of power and authority. They will be able to represent Dragon Oil in business and be placed fully in-charge of their area.

We also use some simple but effective tools to give credit where credit's due. Our highly popular Employee of the Month programme is now in its third year of rewarding excellent performance. Winners are those who perform above and beyond their core duties and show real ability in unfamiliar or unexpected situations. In 2011, we also introduced a natural extension – Employee of the Year – to celebrate an exceptional performer who is proactive, innovative and whose ideas result in a substantial gain to the company.

Caring for our host communities

We have always believed that our commitment to our host communities should go way beyond a contract of simply being a good employer.

To be a major business and a significant employer in a community brings with it an equally significant responsibility: to contribute to the community's quality of life in all its guises, socially, economically and culturally. Indeed, this is enshrined in our mission, vision and HSE objectives.

We have therefore launched a range of projects of all types and sizes, each of which has a tangible impact on people's lives and living standards.

The year also saw significant progress on our next major project, which we are supporting with an investment of some US$5 million: the proposal for a new polyclinic.

In early 2011, Dragon Oil completed the concept design and scope of work stages for the polyclinic and we are pleased to report that the construction contract has since been awarded to an international contracting company. Initial engineering is now taking place with the actual building works scheduled to begin later this year and complete in early 2013. The result will be something of which the community can be proud and we look forward to bringing this important venture to fruition.

Making a difference every day

The new polyclinic will build on activities, which are already giving daily support in a variety of shapes and forms. In the Hazar Maternity Hospital, mothers and babies are benefiting from a range of neo-natal medical equipment supplied

Empowering our employees

Country managers in Turkmenistan

In 2011, we compiled a list of high-potential local employees whom we call 'Successors'. Over the next two to three years, they will undergo focused training, both internal and external, to develop their full potential. In turn, this will enable us to define a succession-planning programme as new generations of talent come to the fore. This programme under which a number of professionals have already been promoted, will equip qualified employees to hold responsible positions of power and authority. They will be able to represent Dragon Oil in business and be placed fully in-charge of their area.

Rashid Redjepov

Rashid trained as an economist at the Turkmen Institute of National Economy (Ashgabat), Turkmenistan at the Department of International Economic Relations (1990–1995). After graduation Rashid worked for over 14 years in various sectors of the upstream oil and gas industry of Turkmenistan. His roles were both in the public and private sectors. Rashid joined Dragon Oil in October 2007 as a Consultant on contractual and economic issues for Dragon Oil (Turkmenistan) Ltd. In this role, he was responsible for reviewing contracts, economical calculations and financial reports under the PSA, legal consulting and providing support for different issues related with implementation of the PSA. In November 2008, Rashid was appointed Country Manager for Dragon oil (Turkmenistan) Ltd.

Eldar Kazimov

Eldar graduated from the Polytechnic Institute of Turkmenistan with an Honours Degree in Petroleum Engineering and currently is completing the Bachelor's Degree in Management from the TISBI University of Russia. He joined Dragon Oil in 2002 as Production Operator and worked for two years at Offshore Production Facilities, then was promoted to Production Analyst position where he was responsible for crude oil measurement and production analysis and reporting. In 2005, he was promoted to an Onshore Production Supervisor position and was in charge of onshore production operations such as crude oil processing, measurement and lifting. Therefore, Eldar had several years' experience in field operations before being appointed as Country Manager in November 2008.

Rashid and Eldar were promoted to the Country Managers positions in November 2008. This is an example of how national employees can be assigned roles of power and authority to conduct business in-country on the Company's behalf.

They represent the Company in all matters in the ordinary course of business and in all official government organizations, agencies and enterprises in Turkmenistan. They are empowered to conduct negotiations and business operations in all matters relating to our Turkmenistan subsidiary, Dragon Oil (Turkmenistan) Ltd.

1. Eldar Kazimov, Country Manager

2. Rashid Redjepov, Country Manager

"Our aim is clear: to empower our Turkmen national employees at all levels and make them an independent and skilled workforce. Within that scope we have also developed finely tuned route for exceptional performers."

1 Healthcare facilities, Hazar, Turkmenistan, current X-ray facilities.

2, 3 Future healthcare facilities, Hazar, Turkmenistan, an artist's impression of a new polyclinic.

by us. Out in the area's schools, children are gaining from our practical support in refurbishing classrooms, a repaired roof, a new audio system and Uninterrupted Power Systems at a school. Meanwhile, at a nursery we refurbished the building façade, installed outside lights, replaced windows and doors and put in new gas stoves in the canteen.

Of course, sport also brings all kinds of social and health benefits to a community and we have long been supporters of Hazar's sporting life. In 2011, we sponsored the Hazar Sports Committee and inter-city competitions, and provided sports equipment and team uniforms. We also sponsored Ashgabat city sports clubs to develop youth sports.

A little further afield is the city of Balkanabad and many of our employees pass through its airport to come to work. We were therefore proud to sponsor the Balkanabad Disabled Club, and we also gave support to the Turkmen Society of Blind and Deaf People. In the arts, we supported a charity performance of classical music for the Hazar community, and we shall do so again in 2012.

Importantly, we are also widening the scope of our community activities into areas where we do not currently do business. Our CEO, Dr. Jaleel Al Khalifa is a founding member of the industry's Humanitarian Support Alliance NGO (IHSAN-H2O). This organisation is actively encouraging industry, academia and individuals to form a global force for good that will empower disadvantaged communities worldwide.

In particular, IHSAN is focusing on the world's single largest cause of illness: the basic lack of safe drinking water and adequate sanitation and hygiene. This problem is, of course, most acute in disadvantaged communities, yet with sufficient resources and education it is preventable. Therefore, IHSAN's mission is to increase the availability of safe drinking water, adequate sanitation and hygiene. As importantly, it will also deliver related education through sustainable development projects, technology and knowledge-sharing.

With this ambitious goal in mind, IHSAN approached the AMAR International Charitable Foundation to work with Dragon Oil to provide a proposal to improve sanitation facilities in Basra City, Iraq.

The standard of sanitation in Iraqi schools is hazardously low; few schools have running water or are connected to a system to dispose of waste. There is a particular lack of proper facilities in girls' secondary schools.

Dragon Oil is therefore going to bring about a total modernisation of sanitary facilities at three major secondary schools for girls in Basra: at Al-Allba, Al-Asher and Al-Fawatem. Each is a large urban school teaching well over 1,000 children. The existing facilities will be ripped out and upgraded with brand new water tanks, pipes and sanitary ware, all connected to effective and approved sewerage systems. Ancillary work will include new electrical wiring and lighting.

Clean water, hygiene and a safe place to learn should be a right for every child. We are proud to be driving such an important health protection project.

Safeguarding the environment

The environment is not just a landscape or indeed a globe: it is the place where people live, work, raise families, make their living and simply enjoy. So, true to our guiding principle of People First, the environment protection receives a high priority at Dragon Oil.

In 2011, we were proud to be able to reduce our gas flaring by almost two thirds, following the commissioning of the government's gas compressor station at Hazar. Most of our daily production (140 mmscfs) is brought ashore through our new 30-inch, 40km trunk line. A major proportion of the unprocessed gas is fed into the Turkmen system, and we continue to help local homes with domestic gas, and also supply a number of local plants.

It is our ultimate goal to be able to stop flaring completely and so reduce our greenhouse emissions in this area to zero. We are currently in talks with the Turkmenistan authorities while also looking at options to realise the commercial value of our gas.

In 2011, we also achieved the key landmark of defining the company's Environmental Management System and Waste Management Plan. Developed with expert independent consultants, the system is being implemented in early 2012.

Naturally, we must also be fully alert to the risk of oil spillage: how to prevent it and, critically, our response in the event of an incident. In 2011, we therefore completed an Oil Spill Response mission with expert assistance from our principal contractors OSRL. This entailed a total inspection and audit of our oil spill prevention systems, as well as detailed training for Dragon Oil's oil spill response teams on site.

As we pursue an ambitious and expanded programme of exploration and production, the safety culture we have instilled so far will serve us well as we scale it up to meet the demands of the future, with zero compromise. With this in mind, the Group has increased the manpower and resources of our HSE function in order to strengthen supervision and control over the key activities of production, drilling, logistics, marine and others.

1 Offshore operations, Dragon Oil employees.

2 Offshore operations, Dragon Oil employees.

Health, safety and the environment

Risks and challenges are part of our every working day. We not only work with hydrocarbons, we do so in the harshest of environments: as you can imagine, the winter conditions of the Caspian Sea can be particularly demanding.

Safety is therefore a central building block of our culture. We place the highest emphasis on site HSE supervision and safety training. This includes making sure that the necessary personnel protective equipment ("PPE") is fit for purpose, and worn, in every required situation.

As we pursue an ambitious and expanded programme of exploration and production, the safety culture we have instilled so far will serve us well as we scale it up to meet the demands of the future, with zero compromise. With this in mind, the Group has increased the manpower and resources of our HSE function in order to strengthen supervision and control over the key activities of production, drilling, logistics, marine and others.

In 2011, we conducted a corporate emergency response training for the Emergency Control Management team members (Turkmenistan-based) and for the Emergency Support Management team members (Dubai-based).

In 2012, we are elevating our HSE capability still further, to achieve both international and industry standards. We have embarked on the required journey to full ISO 14001 (Environment) and ISO 18001 (OHSAS) certification. The process is due to be completed by 2Q 2012.

As the data in Table 1 shows, despite working more hours with each passing year we have seen a decrease in the frequency of lost time incidents.

Engineering our success with a focus on safety

Asset integrity and reliability assurance

At Dragon Oil, asset integrity is non-negotiable, so we are proud that our rigid standards of safety can still be met in the face of our requirement for enhanced production – often with old infrastructure, including platforms that have already seen many years of service. Through skilled re-assessment, structural upgrades and topside modifications we have maintained the platforms' integrity whilst adding slots for more wells to enhance production. In 2011, this highly accomplished in-house engineering resulted in certification by an independent body of two of the oldest platforms. This reflects the sustainability of the existing offshore platforms, and we will complete structural re-assessment of four additional assets during 2012.

Fire fighting system upgrade

In addition, the company has also embarked on a Fire and Gas Philosophy Project. This will become a design cornerstone for new facilities and guide the upgrade of our existing Fire and Gas detection systems both onshore and offshore.

Safety enhancement in line with gas delivery

Alongside our steady increase in oil production, the company's capability to deliver gas became a reality with the commissioning of the connecting pipeline between the government-owned compressor station and the compressor station itself.

We therefore carried out a hazard and operability ("HAZOP") study on the Central Processing Facility. The final report made recommendations for actions, which will be implemented during 2012. Many of these actions have already been completed using in-house resources.

Sustained production and new initiatives

We have successfully installed and tested a compact Multi Phase Flow Meter ("MPFM") at one of our oil producing wells, with the aim of improving operational efficiency, productivity and value engineering.

A pilot application of this new technology was carried out successfully by providing technical support from the initial stage of selection, procurement and installation, vendor interaction, field testing and analysis and recommendations for further expanding the application. The system, which is compact, portable and cost effective, improves data reliability and reduces manual intervention.

Table 1

	2011	*2010*	*2009*	*2008*	*2007*	*2006*
Lost time incidents	**3**	2	4	4	2	8
Total hours worked (millions)	**5.7**	5.2	4.5	4.2	4.1	3.2
Lost time incident frequency	**1.30**	1.46	1.64	1.9	2.02	2.48

1 Offshore operations, Dragon Oil employees.

Supply chain management

Having implemented our Dragon Oil Code of Conduct in 2009 to ensure best practice throughout the company, we followed this last year with a programme to ensure that our contractors follow our code as well. For every project, we conduct a competitive bidding process where we set out specific requirements governing quality, delivery and integrity. We select suppliers based on the best available offer while also taking into account reliability, experience and any previous working relationship we may have had with them.

In 2011, we also encouraged our larger contractors to include a significant proportion of materials, services and labour to be sourced locally. In 2012, we are looking to go one step further: we have added this requirement to every contract and also look for a minimum of 20% local content in every tender we consider.

Communication with investors

We regard good communication with investors (both institutional and retail) and analysts as an essential part of our day-to-day work. This covers not just quantity but quality of our communications: it is our policy to be transparent, accurate, comprehensive and timely in the way we disseminate information. We also listen carefully to feedback we receive from investors and analysts.

During 2011, the senior management team, comprising the CEO, COO, General Manager of Petroleum Development and Director of Finance, conducted an extensive programme of face-to-face communication. This included both one-on-one and group meetings with institutional investors in the U.K., Ireland, France, Germany, Switzerland and Austria, as well as two high-profile investor conferences in London. Over the course of the year, the management met over 140 institutions (both existing and potential shareholders) including some on a number of occasions. Additionally, senior management conducts numerous regular conference calls with institutional investors around the world.

Our AGM was held in London in May 2011 when our Chairman, CEO and Director of Finance made presentations to our investors, covering broad market-related topics as well as details of our performance during 2010. We plan to use the same format for the 2012 AGM on 18 April at the London Hilton Hotel.

Being accountable

Across every facet of our operations and dealings, Dragon Oil adheres to the highest principles of corporate governance, as the firm foundation of the Group's conduct, ethics and practices. The Group also makes sure that there are adequate and appropriate procedures to protect the value in the Group and to create maximum transparency.

The following members of the company's management are accountable for the key areas of our business. They in turn report to the CEO who holds overall responsibility.

> Human Resources: Hussain Al Alaiwy, Director of Human Resources;
> HSE: Adel Alnadhari, HSE Manager who reports to the Chief Operating Officer;
> Governance: Alex Ridout, Legal Counsel and Company Secretary;
> Risk Management and Investor Relations: Tarun Ohri, Director of Finance; and
> Supply Chain Management: Ahmad Assadi, Contracts and Purchasing Manager.

Dragon Oil Board of Directors

1. Mohammed Al Ghurair
Non-executive Chairman

Mr. Al Ghurair, 24.03.1952, is the Non-executive Chairman for the Group. He was appointed to the Board on 25 April 2007 and was appointed as Chairman on 26 September 2008. He has now served on the Board for almost five years. With over 30 years working in business management for a variety of companies in different jurisdictions, Mr. Al Ghurair brings invaluable experience and leadership in crafting the direction and strategy for an established company such as Dragon Oil. The Chairman has a degree in Mechanical Engineering and is a prominent executive Director in a number of leading companies in the Middle East, including Dubai Aluminium and the Saudi International Petrochemical Company. Mr. Al Ghurair is considered by the Board as a nominee of the majority shareholder, Emirates National Oil Co. (ENOC) L.L.C. ("ENOC"), on the Board of the Company and is also a member of Dragon Oil's Remuneration and Nominations Committees.

5. 3. 1. 2. 4. 6.

2. Dr. Abdul Jaleel Al Khalifa
Executive Director

Dr. Al Khalifa, 02.07.1957, is the sole Executive Director for the Group as well as the CEO in the senior management function. He joined Dragon Oil on 1 May 2008 in the role of CEO for the Group and was appointed to the Board on 26 September 2008. Dr. Al Khalifa is able to share his management and technical experience that he gained from working for Saudi Aramco, where he managed a wide range of E&P departments, based in Dhahran, Saudi Arabia. In addition, Dr. Al Khalifa has a doctorate in petroleum engineering from Stanford University and is a respected public speaker on the oil and gas industry. He served as 2007 President of the International Society of Petroleum Engineers. He also has a keen interest in humanitarian efforts, being a founder member of the industry's Humanitarian Support Alliance NGO (IHSAN-H2O), which aims to encourage the formation of a global alliance committed to empowering disadvantaged communities worldwide.

3. Ahmad Sharaf
Non-executive Director

Mr. Sharaf, 16.10.1966, is the Non-executive Vice-Chairman for the Group, which he has held since 2008. Mr. Sharaf earned a B.Sc and M.Sc in Petroleum Engineering from the Colorado School of Mines and an MBA from DU.K.e University's Fuqua School of Business. In light of this and having worked in the international, upstream oil and gas industry for 15 years at ConocoPhillips, Mr. Sharaf brings specialist knowledge and ability to evaluate and critique business venture opportunities in this sector, specifically in an international context. Since leaving ConocoPhillips in 2005, Mr. Sharaf has worked for Dubai Holding in various leadership positions in the energy, health care and real estate sectors and is currently the Chief Strategy Officer of Dubai Holding. In addition, Mr. Sharaf continues in a number of other senior roles within Dubai, namely as Chairman of the Dubai Mercantile Exchange and as a member of the Board of ENOC and ENOC's Audit Committee. This makes Mr. Sharaf a nominee for the Company's majority shareholder but allows him to provide insight into the broader business community within the U.A.E. as well. Mr. Sharaf was appointed to the Board in April 2007 and has now served more than four years as director. He became a member of Dragon Oil's Remuneration and Nominations Committees in 2008.

4. Nigel McCue
Senior Independent Non-executive Director

Mr. McCue, 12.09.1951, is the Company's Senior Independent Non-executive Director. Having been appointed to the Board on 22 April 2002, he has served more than nine years on the Board; nevertheless his unique in-depth understanding of the business and its history, his willingness and ability to challenge proposals when submitted and his fair and transparent participation in Board discussions have assured the Board that Mr. McCue remains independent within the definition of the U.K. Corporate Governance Code (the "Code"). Mr. McCue is a Director and CEO of Lamprell plc, which is also listed on the LSE, and is the Chairman of Jura Energy Corporation, a TSX-listed company. Mr. McCue has over 30 years' experience in the petroleum industry, many years of which have been spent in senior roles at international oil and gas companies (including Lundin plc, Chevron Overseas Inc. and Gulf Oil Corporation). The Board is pleased to take advantage of that broad experience base and knowledge of the inner workings of listed companies for the benefit of the Group. Mr. McCue sits on Dragon Oil's Remuneration and Nominations Committees and is currently the Chairman of the Audit Committee (having served on all three committees for over eight years).

5. Ahmad Al Muhairbi
Independent Non-executive Director

Mr. Al Muhairbi, 07.09.1959, is an Independent Non-executive Director and has a strong background in the operational aspects of the upstream oil and gas business. 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. He also serves as a director on the Regulatory and Supervisory Bureau for Electricity & Water Sector for the Emirate of Dubai. Using his comprehensive knowledge of well technology as well as his petroleum engineering education, he focuses on the operational and technical recommendations submitted for review by the Board and in particular on field development and drilling programme plans. Mr. Al Muhairbi was appointed to the Board on 22 May 2007 and has now served more than four years as director. He is currently a member of Dragon Oil plc's Audit Committee and the Chairman of the Nominations Committee.

6. Saeed Al Mazrooei
Independent Non-executive Director

Mr. Al Mazrooei, 24.12.1960, is an Independent Non-executive Director and has a long history within the upstream industry with a great emphasis on the development and production of gas assets. Notably, he joined Arco International in 1985 to work on various aspects of their gas business and then Mr. Al Mazrooei played a central role in the development of the 'Dolphin Project', to transport gas from Qatar to the U.A.E. for power generation purposes. He currently holds the position of CEO for Emirates Aluminium (as well as a number of directorships in other Middle Eastern companies), bringing further leadership experience to the Board. Mr. Al Mazrooei has a Master's degree in gas engineering and management from Salford University in the U.K. He was appointed to the Board on 22 May 2007 and has now served more than four years as director. He is currently a member of Dragon Oil's Audit Committee and the Chairman of the Remuneration Committee.

Thor Kristian Haugnaess
Independent Non-executive Director

Mr. Haugnaess, 25.05.1958, is an Independent Non-executive Director for the Company. He has been working in the upstream oil and gas industry for over 25 years, predominantly working on the oilfield services side with the Schlumberger group of companies in a variety of management roles. Between 2003 and 2006, Mr. Haugnaess was the President for the Norwegian drilling contractor, Ocean Rig ASA, which was listed on the Oslo Stock Exchange. This company was turned around to become a dynamic and quality-based organisation, with excellent safety and financial records in a short period of time. The Board anticipates that these skills can also be used by Dragon Oil to achieve its operational goals over the coming years. Mr. Haugnaess has a Master's degree in petroleum engineering from the University of Trondheim (NTNU) in Norway. He was appointed to the Board on 20 February 2012 and his induction into the Company is under process.

Senior Management Team

Hussain Al Ansari
Chief Operating Officer

Hussain has 23 years' experience in the petroleum industry having worked with ARCO International, ENOC, Dolphin energy and Mubadala Petroleum Services Co. He has a Bachelor's Degree in Chemical Engineering from the University of California at Santa Barbara.

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.

Ahmad Assadi
Contracts and Purchasing Manager

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

William Mandolidis
Corporate Planning Manager

William is a Professional Engineer with APEGGA and has over 32 years of oil and gas experience working extensively in Canada, South America, the Middle East and now Turkmenistan. He has held a variety of senior managerial positions with a number of International O&G Companies.

Alan McCavana
Marketing Manager

Alan has over 25 years' experience in the oil and gas industry, working for Woodside Energy, Sakhalin Energy and Shell in Australia and Russia. He holds an MBA from the University of Newcastle in Australia.

Adel Alnadhari
HSE Manager

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

Tarun Ohri
Director of Finance

Tarun has over 25 years' experience in finance, accounting and audit predominantly in oil-related industries in Qatar and the U.A.E. He is an associate of the Institute of Chartered Accountants of India with a CISA qualification.

Hussain Al Alaiwy
Director of Human Resources

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

Mark Sawyer
Business Development and New Ventures Manager

Mark has 29 years of broad international experience in the energy sector, including responsibility for E&P business development for a large multi-national energy company. Prior to Dragon Oil, Mark was Vice President, Business Development with Tatweer Investments and Chief Business Development Officer for Dubai Energy.

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 joined Dragon Oil in 2006.

Jamel Kahoul
Projects Manager

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

Faisal Al Ansari
Reservoir Development Manager

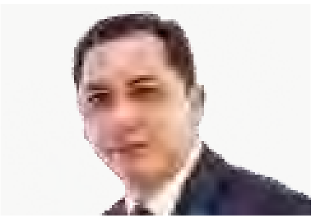
Faisal has over 26 years' experience in Reservoir Engineering and Development, Logistics and Marine Operations and holds a Bachelor of Science degree in Physics and Mathematics from the University of Lewis and Clark, Portland, U.S.A. Before Dragon Oil, he worked for Zakum Development Company, Abu Dhabi, U.A.E.

Ali Al Matar
Engineering Manager

Ali worked for over 28 years in Gas Processing, Engineering and Project Management with Saudi Aramco, including involvement in the design, construction and commissioning of a gas processing facility. He holds a Master Degree in Construction Engineering Management and a Bachelor Degree in Chemical Engineering.

Tarek Fahmy
Drilling Manager

Tarek has 35 years' experience working with AMOCO International, BP (ADMA OPCO), Apache, KOC, Weatherford and Halliburton. He has a Bachelor of Science degree in Petroleum Engineering from Suez Canal University, Egypt.



Rashid Redjepov
Country Manager

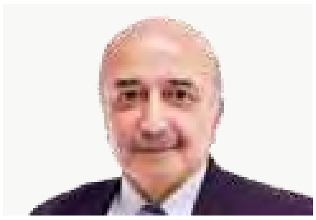
Rashid trained as an economist and worked for over 14 years in various aspects of the upstream oil and gas industry of Turkmenistan, both in the public and the private sectors, before being appointed as Country Manager at Dragon Oil in November 2008.

Eldar Kazimov
Country Manager

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

Kheder Mekha
Field Manager

Kheder worked as the Head of the Technical Services Department in the Alfourat Petroleum Company in Syria from 1990–2003, before he joined Dragon Oil as a Field Manager. Kheder holds a Bachelor degree as mechanical engineer from Syria/Aleppo University.



Magdy El Ashry
Field Manager

Magdy joined Dragon Oil in 2009 and brought extensive experience in managing oil and gas operations with many major companies such as Amoco, Gupco, Adma-Opco and finally Dapetco where he worked as General Manager and Managing Director.

Principal risks and uncertainties

The Board recognises that Dragon Oil's business is potentially exposed to many different risks but believes that there are some business risks which can be accepted by the Group provided that acceptance of such risks creates value for the Group and that the risks are properly managed. On that basis, the Board and management take steps to identify and evaluate the inherent risks, thereby enabling better management and mitigation of their impact on the business. The key stakeholders within the Group – namely the Board, the senior management team and other staff – ensure that management of risk is an integral part of our activities and implement action plans to protect the Group and its business interests from these inherent risks.

Dragon Oil sets annual key performance indicators, both 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. In addition to the half-yearly business planning and budgeting process, operational business units are expected to monitor and report on actual performance to senior management including variances to targets; reviews include an assessment of the risks and measures being implemented to manage these potential risks. At the beginning of each year, senior management can then report on the performance of the Group against key performance objectives to the Board for the previous year, and set the targets for the upcoming year.

Risk management, being critical to achieving the Group's strategic objectives and stakeholders' expectations, is coordinated by senior managers in the Group with the overall responsibility residing with the Board.

Risk management review

After the detailed review of the risks in 2010, the Group tendered out in 2011 for an independent and experienced service provider to facilitate the development and embedding of risk management processes within the business. During 4Q 2011, PricewaterhouseCoopers undertook a formal risk evaluation process for the Group, including interviews with members of the Board, senior management and other personnel, before submitting a report on the Group's key risks as well as risk policy and tolerance. The enhanced risk management framework is expected to be rolled out to the broader operations and business units in 2012.

The Board recognises that risk management is an on-going process and, while significant steps have been achieved in the past, it is expected that the proposed risk framework will underpin improved risk monitoring. However, the embedding process that will take place over a number of years and so the integration of risk management with business plans and objectives will continue during 2012–13 with a view to further refining the process.

As is consistent with best practices for the industry, Dragon Oil has an internal control framework and supporting policies and procedures, all of which form part of its risk management strategy. Individual managers are responsible for ensuring compliance within their departments which includes the identification, evaluation and mitigation of risks within their areas of responsibility. The application and consistency of these policies and procedures are regularly reviewed by the Group's Internal Audit function, and are then overseen and reported to the Audit Committee, who are ultimately responsible for reporting on the same to the Board.

Key risks for the business

As required under the Irish Companies Acts, 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 in the table below.

Headline risk	*Potential impact that we face*	*Protecting the business*
Strategic risks		
Export routes for crude oil share of production	The isolated geography of Turkmenistan coupled with regional geopolitics, particularly the various international sanctions against Iran, means that Dragon Oil currently has limited oil marketing routes for its crude oil. The vast majority of the Group's entitlement volumes are currently exported out of the Caspian Sea region to international markets via Baku, Azerbaijan. Prolonged disruption or loss of this route could lead to severe economic consequences for Dragon Oil. The various sanctions against Iran and Iranian entities passed by the United Nations, the European Union and the United States intensified during 2011 and 2012. EU sanctions prohibiting the import of Iranian crude oil into the EU were passed in January 2012.	The Group possesses considerable experience in marketing and numerous contacts within the Caspian Sea region. It has an existing contract for marketing the full entitlement oil production via Baku until 31 December 2012. Dragon Oil continues to seek alternative marketing opportunities that would be deployed should the current arrangements experience interruption. Alternative options are available but sales would likely be at larger discounts than currently achieved. Developments in the various sanctions against Iran and Iranian entities are monitored closely, and discussed with specialist lawyers.

Headline risk	*Potential impact that we face*	*Protecting the business*
Sole producing asset	The Group's revenues are dependent on the continued performance of its single producing asset, offshore Turkmenistan. The satisfaction felt by shareholders and Dragon Oil staff arising from the success of the Production Sharing Agreement ("PSA") may create a culture that is too risk averse in terms of acquiring new assets elsewhere resulting in missed opportunities to grow or diversify the business and alleviate the reliance on a single asset.	The Board has adopted a clear strategy for growth and regularly reviews new investment opportunities, submitted by the dedicated new ventures team in line with this strategy. Given the inherent risks of such investments and that market conditions are constantly changing, the Board and management face a challenge of adapting and reacting to new opportunities quickly.
Country risk	Changes in legal systems or regulations in any of the jurisdictions in which the Group operates may occur, which might have a significant, adverse impact on the Group's operations and in particular on the ownership and/or operation of the PSA. Political changes in host countries could lead to similar consequences.	The Group has a considerable experience in conducting business in the jurisdictions in which it operates. In Turkmenistan, there are strong and well-established government relationships. Further, Turkmenistan's fiscal and legal systems are stable and predictable.
Skilled and talented human capital	Performance and future success are dependent on the Group's ability to attract, retain and motivate highly skilled and qualified personnel. Lack of availability and intense competition for the skilled human resources within the upstream sector and in particular within Turkmenistan may prevent this, potentially resulting in increased cost, challenges to delivery of growth targets and even impact on operational safety.	Competitive compensation packages for key staff, including instituting broad-based compensation initiatives and long-term incentives, are offered. Regular bench-marking of remuneration packages to ensure competitiveness against market levels is undertaken. Training within the Group's Centre of Excellence and development of all staff and in particular local nationals are a key focus.
Operational risks		
Availability of drilling rigs	There is limited availability of jack-up drilling rigs in the Caspian Sea region and the Group relies on the Iran Khazar rig to drill approximately half of Dragon Oil's wells. Its own platform-based rig, Rig 40, has constrained capabilities. Collectively, these factors may result in significant impact on field development, impose higher costs and inhibit the strategy to increase production, in the event of an unexpected loss/unavailability of a drilling rig.	The Caspian Driller jack-up rig is planned for delivery in 1H 2012. The contract for the Iran Khazar rig was extended to May 2013. There is a greater reliance on platform-based rigs currently. Tenders to secure additional platform-based and jack-up drilling rig(s) are under way. Some new platforms will be able to take jack-up and platform-based rigs, introducing greater flexibility into the drilling programme.
Quality of contractors to undertake projects	A small pool of top international contractors capable of completing offshore construction projects and few construction yards within the Caspian Sea region mean that the alternatives for suppliers are restricted to a group who are limited in terms of capability, reliability and delivery excellence. This may result in delays to project delivery, missed production opportunities, inefficiencies and increased HSE exposure.	An increased number of high quality contractors and a programme to diversify actively its supplier base has been successful over the last three years, with many new companies now working for the Group, and this programme will continue. Business plans include flexibility in case of delays by a contractor, enhanced by the use of FEED studies and project management consultants on key projects.
HSE hazards	A typical environmental risk associated with oil extraction and recovery is the risk of an oil spill. The Group also has to meet country-specific environmental standards. An oil spill in the Caspian Sea could adversely impact production capability and profitability. Severe restrictions in available IT bandwidth in host countries to the outside world could limit the ability of the corporate office to communicate decisions and coordinate timely crisis management plans in a crisis scenario.	Extensive monitoring and review of HSE policies and procedures as well as contracts with specialist service providers for the clean-up of oil spills have been concluded. Dragon Oil undertakes regular HSE training for operational staff together with annual HSE exercises across the Group. Discussions are under way with governmental departments to increase bandwidth.

Headline risk	*Potential impact that we face*	*Protecting the business*
Asset integrity	Design and integrity of very old infrastructure, particularly in the Dzhygalybeg (Zhdanov) field, present significant operational, maintenance and safety challenges and uncertainties, and increase the likelihood of a catastrophic accident. Breakdown can impair the production capability.	The Group has refurbished the producing pre-PSA infrastructure and replaced key components. Additionally there are plans in place to survey and/or dismantle and remove inactive old infrastructure. Going forward, the Group has adequate resources to build new infrastructure to modern design standards.

Finances and economics

The principal financial risks facing the Group (as well as the financial policies and controls) are addressed in the Group's consolidated financial statements on pages 79 to 81.

Oil price volatility	Oil prices have been strong throughout 2011 but have proven to be highly volatile, both historically and recently. Wide fluctuations in oil price can impact Group's cash flows and profitability.	The Group does not currently hedge its oil price exposure but does actively monitor it. Other strategies to manage risk may be employed as required.
Estimated reserves/ resources and future net revenues	Inherent to the oil and gas industry are the risks relating to the continued discovery, production and processing of hydrocarbons in economically viable quantities. Reservoirs within the Cheleken Contract Area are technically challenging and complex, meaning that future production may vary significantly from projections.	The reservoir department conducts evaluation of considerable volumes of historical and 3D seismic data on which to base our future production projections. The reservoir team has specialist and experienced reservoir engineers and, if needed, employs external specialists.
Economics under the PSA	A major breach of compliance with the PSA, whether caused wilfully or inadvertently, or due to differing interpretations of key provisions can affect the underlying economics of an investment project and shareholder value.	Dragon Oil has worked successfully under the current PSA for nearly 12 years in a country where fiscal and legal systems have been stable and predictable. We have a system of review and accountability in place to ensure compliance with the PSA terms under enterprise-wide control framework.
Gas development project	Dragon Oil's project to develop the gas from the Cheleken Contract Area is dependent upon many factors including demand for gas, execution of a gas sales agreement, accessibility to gas transportation network, construction of the Gas Treatment Plant ("GTP") and overall economic conditions. They affect Dragon Oil's ability to develop its gas reserves.	Unprocessed gas is being supplied into a near-by governmental compressor station where it is processed into Turkmenistan network. There are specific plans to construct the GTP and continue discussions for the gas sales agreement with the authorities.
Cash balances	Dragon Oil's cash balances are held with banks, both international and local that have substantial operations in U.A.E. Sovereign default due to an extreme financial stress could result in loss or restricted access to this asset with major impact for Dragon Oil's future viability.	Treasury policy is in place for effective cash management. We regularly monitor our exposure and the banks' credit ratings to ensure that our financial assets are spread across a large number of creditworthy financial institutions. Our sovereign and financial cash management policy has established limits on counterparty exposure.

Headline risk	*Potential impact that we face*	*Protecting the business*
Compliance and legal risks		
Approval processes, licences, visas	The Group relies on the approval by government bodies in different jurisdictions of the appropriate licences, permits and regulatory consents (including for the PSA) as well as visas for foreign nationals to continue its operations. Difficulties with securing the necessary approvals could potentially limit the Group's ability to achieve production targets and/or increase the chance of HSE non-compliance and accidents.	The Group has considerable experience in operating in Turkmenistan with strong and well-established government relationships, both at central and local level. The Group is taking additional steps to communicate and engage at the highest levels to resolve any concerns. We are offering training for national employees as well as career development of high potential employees into key or senior roles.
Sanctions against Iran	The various, differing sanctions against Iran and Iranian entities passed by the UN, the EU, individual EU Member States and the USA intensified during 2011 and early 2012. They may impact on the Group's ability to transact with Iranian counterparties. They also restrict the ability of certain companies in the Group to transact with Iranian entities and may also impact U.S. and non-U.S. suppliers engaged in business with Dragon Oil in some respects. There may be additional impact on the operations of the Group if it re-commenced the earlier swap arrangement for export of crude oil through Iran.	The scope and applicability of each sanctions regime to companies in the Group is discussed and reviewed with specialist lawyers on a regular basis; EU sanctions have resulted in some limited changes to the Group's business and to the way that the Group transacts with Iranian counterparties, for example in relation to the Iran Khazar rig. Our lawyers are instructed to maintain constant vigilance on developments and advise accordingly. We maintain regular dialogue with suppliers regarding the implications of the sanctions regimes.
Internal controls	Risk of fraud and/or breaches of internal controls by employees may be difficult to recognise or detect or trace, particularly if collusion is involved. This may result in material reputation, financial, legal, commercial or regulatory exposures to the Group.	System of risk management and internal controls as detailed under 'Internal Control' in the Corporate Governance section of this Report, on pages 58 to 59.

On behalf of the Board

Mohammed Al Ghurair and Abdul Jaleel Al Khalifa
Directors of Dragon Oil plc
20 February 2012

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 2011. These will be laid before the shareholders at the Annual General Meeting ("AGM") of the Company, which is scheduled to be held on 18 April 2012 in London, U.K..

Principal business activities

The Group's principal activity is the exploration, development and production of oil and gas in Turkmenistan, Yemen and Tunisia. The Group holds a 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 and Dragon Oil has an exclusive right to negotiate an extension for a further period of not less than 10 years.

In relation to the Group's minority interests in the Republic of Yemen (which it acquired in December 2007), the interests in Blocks 49 and R2 have been relinquished due to lack of commerciality. The Group on behalf of the consortium has notified the government of Yemen of the intention to relinquish Block 35. We anticipate receiving the confirmation from the government in due course.

In October 2011, the Company announced that it had signed a farm-in agreement with a wholly owned subsidiary of Cooper Energy Limited (ASX: COE) through which Dragon Oil is to earn a 55% participating interest in and, in any development phase, assume operatorship of the Bargou Exploration Permit, offshore Tunisia. This is subject to certain conditions and operational commitments by the Group, as well as host government approvals.

Information on the Group's various subsidiaries is set out on page 94.

Business Review

A full review of the Group's activities during the year and recent events, as well as details of the Group's business model and its strategy for creating value over the longer term, is contained in the Chairman's Statement on pages 18 to 21, the Chief Executive Officer's Statement on pages 22 to 25 and the Operating and Financial Review on pages 26 to 33.

Results and Dividends

The results of the Group for the year ended 31 December 2011 are set out in the Group's income statement on page 67. Profit attributable to equity holders of the Company was US$648 million (2010: US$386 million). The Board of Directors of the Company has recommended a payment of a final dividend for 2011 of US cents 11 per share along with the interim dividend of US cents 9 per share (paid on 23 September 2011) taking the full year dividend to US cents 20 per share (2010: US cents 14 per share), subject to shareholder approval at the AGM to be held on 18 April 2012.

Election of Directors

The following individuals served as Directors during the period from 1 January 2011 up to 31 December 2011:

Director details	*Events during 2011*
Mohammed Al Ghurair (Non-executive Director and Chairman, member of the Nominations and Remuneration Committees) (U.A.E.)	Re-elected on 18 May 2011
Ahmad Sharaf (Non-executive Director and Vice-Chairman, member of the Nominations and Remuneration Committees) (U.A.E.)	
Abdul Jaleel Al Khalifa (Executive Director and CEO) (Saudi Arabia)	Re-elected on 18 May 2011
Nigel McCue (Senior Independent Non-executive Director, Chairman of the Audit Committee, member of the Remuneration and Nominations Committees) (U.K.)	Re-elected on 18 May 2011
Ahmad Al Muhairbi (Independent Non-executive Director, Chairman of the Nominations Committee, member of the Audit Committee) (U.A.E.)	
Saeed Al Mazrooei (Independent Non-executive Director, currently Chairman of the Remuneration Committee, member of the Audit Committee) (U.A.E.)	

The Board regularly reviews its own performance and, if deemed necessary, may look to strengthen its membership by appointing additional Directors with expertise or experience, which can be of value to the Company. As recently announced on 20 February 2012, a new Independent Non-executive Director, Thor Haugnaess was appointed to the Board of the Company.

In accordance with paragraph B.7.1 of the Code and the Company's Articles of Association, all Directors of the Board (including Mr. Haugnaess) will retire and, being eligible, will offer themselves for re-election at the 2012 AGM.

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 61 to 62.

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 judgments and estimates that are reasonable and prudent;
> State that the financial statements comply with IFRS as adopted by the European Union; and
> Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the 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 Irish Companies Acts and, as regards the Group Financial Statements, Article 4 of the International Accounting Standards ("IAS") Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Directors' statement pursuant to the Transparency Regulations

Each of the Directors, whose names and biographical details are listed on pages 40 to 41, confirms that, to the best of each of their respective 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 2012 and for 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

In July 2011, the Company announced that, following a competitive tender process, it had appointed Ernst & Young as auditors of the Group. The previous auditor, PricewaterhouseCoopers, had remained in office during 2011 until the appointment of Ernst & Young as auditors.

Ernst & Young 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 are 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 the auditors' remuneration will be proposed at the 2012 AGM.

Charitable and/or Political Donations

During the year ended 31 December 2011, the Group made charitable donations in the amount of US$5,719 to Al Noor Centre (2010: US$2,723 to Al Noor Centre) and no political donations were made (2010: nil).

Share Capital

Particulars of the authorised and issued share capital of the Company are set out in Note 14 to the consolidated financial statements on page 86.

Major Shareholdings in the Company

As at 20 February 2012, Dragon Oil plc had been notified of the following significant shareholdings, which are in excess of 3%:

	No. of Ordinary Shares Issued	*% of Share Capital*
Emirates National Oil Company (ENOC) L.L.C (held directly)	265,265,515	51.90%
Baillie Gifford & Co (held indirectly)	36,050,073	7.05%
JP Morgan Chase & Co (held indirectly)	20,343,426	3.98%

The members of the Board including the Non-executive Directors have developed an understanding of the views of major shareholders about the Company. For details of how the Board communicates with shareholders and obtains their feedback, please see page 58.

Supplier payment policy

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

Close Company Provisions

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

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

Particulars of the authorised and issued share capital of the Company are set out in Note 14 to the consolidated financial statements on page 86.

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

> in a winding-up of the Company, and subject to payments of amounts due to creditors and to any holders of shares ranking in priority to the Ordinary Shares, to repayment of the capital paid up on the Ordinary Shares from a proportionate part of any surplus in the Company.

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

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

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

Transfer of shares

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

> the Directors may decline to register a transfer of Ordinary Shares on which the Company has a lien or in the case of a single transfer of Ordinary Shares in favour of more than four persons jointly;

> transfers of Ordinary Shares in certificated form are transferable subject to production of the original share certificate and the usual form of stock transfer duly executed by the holder of the Ordinary Shares and stamped with the requisite stamp duty;

> Ordinary Shares in uncertificated form are transferable in accordance with the rules or conditions imposed by the operator of the relevant system, which enables title to be evidenced and transferred without a written instrument and in accordance with the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996; and

> the Articles of Association and the Irish Companies Acts permit the Directors to seek information from shareholders as to the beneficial ownership of Ordinary Shares. Where a shareholder does not comply with such a notice, the transfer of the shares of that shareholder may be restricted.

There are no restrictions on voting rights. Share options are personal and not assignable.

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

Significant shareholders

Shareholders known or disclosed (as at the date of this Report) to the Company as holding 3% or more of the Ordinary Shares or voting rights therein are set out above on page 49. No person holds securities carrying special rights with regard to control of the Company.

Appointment and replacement of Directors

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

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

Any Director may be removed by ordinary resolution (50%+1 majority) of the shareholders passed at a general meeting. No person aged 75 may be appointed a director and any Director aged 75 must retire at the AGM following his/her 75th birthday. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Amendment of Articles of Association

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

Powers of the Board of Directors

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

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

Share Capital Authorities

By Resolution 5 passed at the Company's 2009 AGM, the Directors were granted authority to allot shares pre-emptively or for a consideration other than cash equivalent to one third of the then total issued share capital of Dragon Oil plc. As at 20 February 2012, this authority had not been exercised, save for the issue of shares pursuant to employee share schemes. The allotment authority will expire on 27 May 2014 or at the conclusion of the AGM held in 2014.

By Resolution 8 passed at the Company's 2011 AGM, the Directors were granted authority to allot shares for cash equivalent to 5% of the total issued share capital of Dragon Oil plc other than pre-emptively. As at 20 February 2012, this authority had not been exercised. The allotment-for-cash authority is due to expire on 18 April 2012 and a resolution in the same terms is being proposed at the 2012 AGM.

Purchase of Company's Own Shares

By Resolution 9 passed at the Company's 2011 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 18 April 2012.

In September 2011, the Company implemented a limited share buyback programme to repurchase 5,000,000 shares in the Company in accordance with the above-mentioned Resolution 9, applicable laws and the Listing Rules. The buy-back programme commenced on 26 September 2011 and ran until the requisite number of shares had been acquired on 4 November 2011. The sole objective and purpose of the programme was to meet all relevant obligations arising from the Company's various share schemes. The programme was executed pursuant to certain pre-set parameters. All shares that were re-purchased were subsequently cancelled in compliance with the Irish Companies Acts.

The Directors are proposing a resolution on the same terms at the 2012 AGM and will take advantage of the flexibility afforded by the resolution, if passed, as they deem appropriate. As at 20 February 2012, Dragon Oil plc held no shares in treasury.

Important events since 31 December 2011

Details of the important events that have occurred since 31 December 2011 can be found in the Operating and Financial Review on pages 26 to 33. In addition, on 20 February 2012, a new Independent Non-executive Director, Thor Haugnaess was appointed to the Board of the Company.

General Meetings

Matters of ordinary business

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

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

Special business

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

(a) amending the Memorandum and Articles of Association;
(b) changing the name of the Company;
(c) increasing the authorised share capital, consolidating or dividing share capital into shares of larger or smaller amounts or cancelling shares, which have not been taken by any person;
(d) reducing the issued share capital;
(e) approving the holding of the AGM outside the State;
(f) commencing the voluntary winding up of the Company;
(g) re-registering the Company as a company of another type;
(h) approving a substantial property transaction between the Company and a Director;

(i) approving a guarantee or security for a loan or similar transaction made by the Company to a Director or connected person of a Director; and
(j) approving the draft terms of a cross-border merger.

Other matters, such as the consideration of reports and the approval of share option schemes, may also be done at a general meeting as items of special business.

2012 Annual General Meeting

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 or a notification of the report's availability on the Company's website. The Directors consider that all of the resolutions set out in the Notice of AGM are in the best interests of the Company and its shareholders as a whole and recommend that shareholders vote in favour of each of them.

On behalf of the Board

Mohammed Al Ghurair and Abdul Jaleel Al Khalifa
Directors of Dragon Oil plc
20 February 2012

Dragon Oil places great significance on high standards of corporate governance as a means to emphasise the Group's good business conduct and strong ethical culture. As noted by the Chairman in his Statement on page 18, the Board recognizes its role in providing effective and clear leadership and direction on all matters relating to the business of the Group, and specifically on corporate governance. This creates a robust culture of business integrity and performance, with a view to generating value for the Company and the shareholders, whose views must be clearly communicated to the Board. The management then translates the Board's direction into actions through adequate and appropriate processes and procedures.

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

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

Arising from the differences between the Code and the provisions of the earlier FRC Combined Code, the Board has carried out a review of the Group's corporate governance practices and is in the process of making consequent changes to the Group's corporate governance structure. This reflects the fundamental principles of the Code and an earlier commitment to refresh its control framework. However, the Board believes that such changes must be enacted over time in the proper manner and so a number of the proposed changes will be implemented during 2012. Details are as set out in this Corporate Governance Statement.

Application of the Code

The Directors are committed to maintaining high standards of corporate governance and this Corporate Governance Statement describes how the Group has applied the Code in 2011. The Board considers that, except where non-compliance is explained at page 57, the Group has complied with the provisions set out in the Code throughout the last financial year under review.

The Board

Under the leadership of the Chairman, the Board approved an updated set of Matters Reserved for the Board. This includes overall Group strategy, rolling five-year business plans, key projects, major investment plans and an annual budget (see the Operating and Financial Review at pages 26 to 33). Save for matters reserved solely for consideration by the Board, the Board delegates its authority for the management of the Group's business primarily to the CEO and certain other matters are delegated to the Audit, Remuneration and/or Nominations Committees, each of which are described in more detail below.

Nevertheless, the Board meets regularly to discuss many other aspects of the Group's business, whether that is operational and financial performance against stated key performance indicators or CSR, as well as many other topics of relevance according to the requirements of the business. While the figures provided are estimates only, please see the table below for an indication of the range of topics discussed at Board meetings during 2011, together with the approximate time spent discussing them.

Given the significant production increase and the removal of certain system bottlenecks during 2010, various members of the Board made visits to the operations base in Hazar and to the offshore platforms last year. Over the period of four days, the visiting Directors were able to visit the Central Processing Facility, the camp, the onshore harbour area and warehouse as well as a number of offshore platforms.

Topics at Board meetings

	2011	*2010*
Strategic issues including diversification, re-structuring, acquisitions, performance measures, corporate governance	**45%**	33%
Operational issues including infrastructure bottlenecks (from 2010), marketing, reservoir development and management	**25%**	19%
Financial matters including financial statements, budgeting and planning and financing generally	**12%**	16%
External issues including investor relations, investigation, presentations, Host Government relations	**3%**	21%
Personnel matters including executive remuneration, HR policies, recruitment and incentives	**14%**	7%
Other matters	**1%**	4%

Composition, succession and development

The Board of Dragon Oil plc currently comprises the Non-executive Chairman, the CEO and five Non-executive Directors and it has comprised these six members since 1 January 2009 after the departure of the previous Chairman , with the exception of Mr. Thor Haugnaess who was only appointed to the Board on 20 February 2012. During 2011 and again at the start of 2012, the Board discussed the composition of the Board and noted the importance of having the right balance, both in terms of having the right skills and experience but also to encourage openness and transparency during meetings. The Board has determined that the present composition is currently sufficient for the purposes of the Company, as it enables the Board to be nimble and react quickly to new developments.

Equally, the Board considers that the current number of five Non-executive Directors on the Board is sufficient for the purposes of the Group at this time. Each Non-executive Director participates fully in Board discussions and attends all possible Board and/or Committee meetings in order to do so; further each Non-executive Director brings his own, distinct range of abilities and experience, which are considered to complement those brought by the other Non-executive Directors.

The Board reviewed a number of résumés for candidates during 2011 and into 2012. However, the Board will only aim to strengthen the Board membership by appointing additional Directors with additional expertise or experience, which can be of value to the Company, and which are of an appropriate cultural fit both for the Group and for the Board. The candidates are preferably based within the U.A.E. in order to enable the Board to retain its flexibility and ability to respond quickly. In light of the above, as recently announced, a new Independent Non-executive Director, Thor Haugnaess was appointed to the Board of the Company. Mr. Haugnaess has been appointed as an Independent Non-executive Director and his induction into the Company and wider Group is under process.

Since their original appointment, Mohammed Al Ghurair and Ahmad Sharaf have been and continue to be nominee Directors of the majority shareholder, ENOC. Mr. Al Ghurair resigned from ENOC on 25 April 2011 but, for the purposes of this Directors' Report, the Board does not consider him to be an independent Director within the definition of the Code. ENOC did not provide a particular statement or explanation for the appointment of Messrs. Al Ghurair and Sharaf on their appointment in 2007.

As highlighted in the biographical details of each of the Directors at pages 40 to 41, each of the Directors brings a different set of skills and experience to the Board and all have a good knowledge of the oil and gas industry. Each of the Non-executive Directors, including the nominee Directors of the majority shareholder, has a good knowledge of the oil and gas industry. The technical expertise of the Directors in the oil and gas industry, combined with their experience, has been harnessed in the past and will continue to be used in the best ways possible to address the challenges that Dragon Oil faces on a day-to-day basis. The Directors have skill sets, which are diverse and complement each other so that issues are considered from a range of perspectives.

An area highlighted in previous years for improvement was the training provided by the Company to Directors. During 2011, all six Directors (prior to Mr. Haugnaess joining the Company) attended a training course on corporate governance, which was provided by an external service provider. This training course included among other topics the following: disclosure and transparency, how to be an effective board, strategic leadership and financial stewardship. The course was well-received and provided significant, additional insight into the Board's role duties and responsibilities within public listed companies.

Based on recommendations from the Nominations Committee, the Board considers succession planning as part of its overall strategy for the Group and that will be progressed as required.

Independent Non-executive Directors

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

While Mr. McCue has served on the Board for more than nine years and holds share options in the Company, the Board is fully satisfied that Mr. McCue remains independent for the purposes of the Code and fulfils a very valuable and important role on the Board. He is also available to shareholders who have concerns that cannot be resolved through discussion with the Chairman. Mr. McCue is able to draw on many years of experience at the highest levels of management in a number of international oil and gas companies, including listed companies; in addition, he recognises the significance of the role and responsibility of the position of Senior Independent Director and keenly challenges proposals to the Board. The share options were granted to him in 2004 and did not vest until 2008. No further share options have been granted to Mr. McCue. The Chairman has discussed again the matter of Mr. McCue's continuing position on the Board and the Board is very pleased to propose that Mr. McCue remains on the Board as the Senior Independent Director.

As noted above, all Directors bring differing but complementary skill sets to the Board and the four Independent Non-executive Directors have a comprehensive knowledge of the Dragon Oil business and apply their skills to the benefit of the Group. Mr. McCue has been on the Board since 2002 and Messrs. Al Muhairbi and Al Mazrooei have been on the Board since 2008. Mr. Haugnaess was appointed to the Board of the Company on 20 February 2012. The Board considers all four to be independent in character and judgment, having considered the criteria for assessing the independence of a Director as set out in paragraph B1.1 of the Code.

Chairman of the Board and Chief Executive Officer

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

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

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

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

- executes the Group's business plans and objectives
- establishes organisation structure, plans and policies and effectively implements the same
- recommends the Group's business plans and budgets prior to Board approval
- monitors and appraises performance of all key personnel
- reviews operational and financial performance of the Group against established goals
- is primarily responsible for external relationships with host governments
- communicates with investors, analysts, institutional shareholders and supports the Chairman to communicate the Board's views to retail shareholders

Meetings and attendance

	Board	*Audit Committee*[1]	*Remuneration Committee*[1]	*Nominations Committee*[1]
Number of meetings	3	4	1	3
Mohammed Al Ghurair[3]	3/3	n/a[2]	1/1	3/3
Abdul Jaleel Al Khalifa[3]	3/3	n/a[2]	n/a[2]	n/a[2]
Nigel McCue	3/3	4/4	1/1	3/3
Saeed Al Mazrooei	3/3	4/4	1/1	n/a[2]
Ahmad Al Muhairbi[3]	3/3	4/4	n/a[2]	3/3
Ahmad Sharaf[3]	3/3	n/a[2]	1/1	3/3

Notes:
(1) During 2011, certain Directors who were not Committee members attended meetings of the Audit, Remuneration and/or Nominations Committees by invitation. These details have not been included in the table.
(2) n/a – not applicable (where a Director is not a member of the Board or the Committee on the relevant date) as the table reflects only attendance by members.
(3) Denotes that this Director also attended visits to the field operations during 2011.

Although the Board of the Company only met three times during 2011, there were numerous Board meetings of major operating subsidiary companies. All Board meetings, whether at the Company or subsidiary level took place in Dubai, U.A.E. except for the AGM (which was held in London, England, in May 2011). Further, the Directors regularly communicate outside of the formal process of Board and Committee meetings.

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

External advice
All Directors have access to independent professional advice at the Group's expense, as and when required. All Directors have access to the advice and services of the Company Secretary, who has responsibility for ensuring that the Board procedures are followed and for governance matters. The appointment of the Company Secretary is one of the matters reserved for the Board. Alex Ridout has advised the Board in the role of Company Secretary since June 2006.

Management working committees
In order to assist and support the CEO in the implementation of the Group's business strategy and plans, the CEO has established a number of management working committees, notably including the following:
(1) Executive Committee:
- (a) comprises the CEO, the Chief Operating Officer ('COO', who has been employed with the Group since March 2011) and the General Manager of Petroleum Development along with five other senior managers;
- (b) is a primary advising body enabling the CEO to make informed decisions through periodic discussion and deliberations on critical strategic, operational and financial matters relating to management of the Group;
- (c) met a total of 15 times in 2011 and discussed key topics including the business plan and budgets, risk management, insurance cover and treasury policies.

(2) Major Tender Board:
- (a) comprises the CEO, COO and General Manager of Petroleum Development along with four other senior managers;
- (b) is responsible for approving the contract strategies and awards of all major contracts (i.e. with a value in excess of US$3 million), as well as being accountable for ensuring the effectiveness and transparency of the Group's procurement processes; and
- (c) met more than three times per month during 2011 and approved a number of major contract awards including among others for the Block 4 riser platform, subsea pipelines, Dzhygalybeg (Zhdanov) B drilling platform, plug and abandonment services, the polyclinic and the 2012 extension to the crude oil sales contract.

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

Performance Evaluation process
In line with its earlier commitment and with the provisions of the Code, the Board is in the process of appointing an external facilitator to coordinate and manage the process for the performance evaluation of the Board, its Committees and the individual Directors for 2011. The objective of this performance evaluation process is to ensure that the personnel appointed to the Board continue to perform their duties in accordance with the highest standards. In order to meet this objective, the performance evaluation process will be conducted using a methodology of conducting interviews with individual directors and a separate review of collective board processes. This performance evaluation process is under way as at the date of printing and is expected to be completed by the end of March 2012. The results of the performance evaluation process will be disclosed by the Company in due course.

Regardless of the outcome of the facilitated evaluation process, the Board recognises that the issues for improvement, notably succession planning and the Board's own structure and composition, continue to be areas of focus. While the Board regularly reviews its own performance, the Board will only look to strengthen its membership by appointing additional Directors with expertise or experience, which can be of value to the Company. In light of the above, as recently announced on 20 February 2012, Thor Haugnaess was appointed to the Board of the Company as an Independent Non-executive Director; his induction into the Company and wider Group is under process.

During 2011, there was a meeting between the Chairman and the other Non-executive Directors without the CEO present and a meeting between the Senior Independent Director and the other Directors without the Chairman present (to evaluate their respective performances). The Board has concluded that it operates in an open and transparent manner.

Committees of the Board

The Board has established the Audit, Remuneration and Nomination Committees and all three have written terms of reference setting out their authority and duties. The Board is reviewing and updating the terms of reference for each Committee of the Board as part of a broader process to update the Company's corporate governance mechanisms, arising from changes in the Code. These terms of reference for each of the Nominations, Remuneration and Audit Committees are available on Dragon Oil's website at www.dragonoil.com.

Audit Committee

The change in the Audit Committee's terms of reference reflected its increasingly important role in the assurance and oversight function within the Group. While the Audit Committee is primarily responsible for the integrity of the Group's financial statements and for the relationship with the Group's external auditor, the Committee also reviews and oversees the effectiveness of the systems for internal control, risk management and internal audit and investigations. The Committee then reports to the full Board on the results of its oversight function.

The Audit Committee currently comprises Mr. Nigel McCue (Chairman), Mr. Ahmad Al Muhairbi and Mr. Saeed Al Mazrooei. Mr. McCue has served for more than eight years on the Committee whereas Messrs. Al Muhairbi and Al Mazrooei have both served on it since 20 May 2007. The Company Secretary acts as secretary to the Audit Committee.

The Board considers that each of the Committee 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. All the Directors received training on corporate governance during 2011 and this development programme will continue in future years.

The Audit Committee met a total of four times during the year (2010: four times) and attendance at the meetings was as per the table on page 55. The principal topics for discussions by the Audit Committee are as set out in the adjacent chart but specifically included the financial statements and the process for appointing new external auditors.

Topics at Audit Committee meetings

	2011	*2010*
External audit matters including presentations and external auditor independence	**20%**	35%
Financial statements and related matters	**11%**	29%
Tender for new external auditors	**63%**	0%
Internal audit matters, deferred to January 2012	**0%**	27%
Other matters	**6%**	9%

The previous auditor, PricewaterhouseCoopers, had been in office with the Company since 2002 and the Committee considered that it was important to benchmark the incumbent against other prospective auditors. On that basis, the management (under the supervision of the Committee) conducted a formal, competitive tendering process during 2Q-3Q 2011, to evaluate proposals from prospective auditors against various technical and commercial evaluation criteria. A team from each candidate auditor, including the incumbent, presented to the Audit Committee regarding the key aspects of their proposal and answered questions. Based on this presentation and a written proposal against defined evaluation criteria the Company announced in July 2011 that it had appointed Ernst & Young as auditors of the Group.

Ernst & Young have unrestricted access to the Chairman of the Audit Committee. Ernst & Young did not perform any non-audit services for the Group in 2011. The audit remuneration as disclosed in Note 22 of the financial statements was in respect of audit of subsidiaries, review of the Group interim financial statements and other assurance services.

As one of the selection criteria during the tendering process, the Audit Committee reviewed the objectivity and independence of Ernst & Young and was satisfied that Ernst & Young was, is and will continue to be independent and to provide high quality and objective services without conflict.

Remuneration Committee

Details of the composition of the Remuneration Committee, as well as a full review of the Remuneration Committee's activities during the year, are contained in the Directors' Remuneration Report at pages 60 to 63.

Nominations Committee

Mr. Ahmad Al Muhairbi (Chairman), Mr. Ahmad Sharaf, Mr. Nigel McCue and Mr. Mohammed Al Ghurair comprise the Nominations Committee, with the Company Secretary acting as secretary to the Nominations Committee. Mr. McCue has served for more than eight years on the Committee whereas Messrs. Sharaf, Al Ghurair and Al Muhairbi have all served on it since 20 May 2007. Mr. Al Muhairbi and Mr. McCue are both Independent Non-executive Directors.

The Nominations Committee met three times during 2011 (2010: one). The increased number of meetings highlighted the Board's heightened awareness of the need to review and refresh its membership in due course. The Committee's principal topics included the interview and appointment of the Group's COO, Mr. Al Ansari, the composition of the Board and the review of the résumés of a number of candidate directors. The Committee also interviewed and arranged for the appointment of Mr. Haugnaess as a new Independent Non-executive Director in February 2012.

The Company's general policy for Board renewal is to implement a clear succession plan to ensure an efficient and effective transition in the event of an appointment of new Directors and given the length of service of most of the current Directors, the Committee will look to develop a formal succession plan during 2012, both for the Board and for the Committee. The Committee will continue to review prospective candidate Directors but it may or may not engage the services of external search agency or use open advertising, as it so determines to be in the best interests of the Company.

Compliance with the Code

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

The Code

B. Effectiveness

B.1.1/D.1.3 Mr. Nigel McCue holds share options in the Company, which were granted in 2004 and which vested in 2008. 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 served more than nine years on the Board of the Company having been appointed in April 2002. The Board is confident in Mr. McCue's independence and in his ability to provide valuable skills to the Company. As required by the Code, he will be submitted for re-election by the shareholders at the 2012 AGM. The Board considers that Mr. McCue's independence is not prejudiced or compromised despite the longevity of his service. His extensive knowledge of the Group's business permits him to challenge constructively management data and assumptions.

B.2.1 Only 50% of the membership of the Nominations Committee is comprised of Independent Non-executive Directors, namely Mr. Al Muhairbi and Mr. McCue. However, while the remaining members are nominee Directors of the majority shareholder, they contribute constructively and objectively to the deliberations of the Committee. Further, given the total number of Directors on the Board, it is necessary to use all available Directors to diversify the membership of the different Board committees.

B.2.3 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. In accordance with the provisions of the Code, all Directors of the Company will be submitted for re-election by the shareholders at the 2012 AGM. The letters of appointment for Non-executive Directors include a three-month notice period. The 'rigorous review' of Mr. McCue's directorship will form part of the performance evaluation process noted above at page 55.

B.4.2 The Chairman did not formally agree the individual training needs for the Directors; however, during 2011, all six Directors attended a training course on corporate governance, which was provided by an external service provider. This training and development of Directors will continue over the coming years.

B.6.1-.6.3 The Board has not completed the performance evaluation process for itself or the Committees or individual Directors as at 20 February 2012. However, in line with its earlier commitment and with the provisions of the Code, the Board is in the process of appointing an external facilitator to coordinate and manage the process for the performance evaluation of the Board, its Committees and the individual Directors for 2011. This performance evaluation process is under way as at the date of printing and is expected to be completed by the end of March 2012. The results of the performance evaluation process will be disclosed by the Company in due course.

D. Remuneration

D.1.5 The CEO has a formal contract of employment with an indefinite term of service but with an express termination notice period of three months. This is in line with normal employment contracts for the U.A.E. where the CEO is based.

D.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; nevertheless, they contribute constructively and objectively to the deliberations of the Committee. Further, given the total number of Directors on the Board, it is necessary to use all available Directors to diversify the membership of the different Board committees.

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

E. Relations with Shareholders

E.1.1 Most of the communications with institutional shareholders, analysts and investors is undertaken by the CEO with the support of the Chairman and members of management. The CEO ensures that the views of shareholders are communicated to the wider Board on a regular basis throughout the year. The Chairman and the Senior Independent Director make themselves available for discussions with shareholders as and when required and have met with various shareholder representatives and analysts, as well as retail investors, prior to and after the 2011 AGM.

The Irish Annex

1.1-1.3, 2.1 The Nominations Committee evaluated a number of candidates to be Directors during 2011 but, as recently announced on 20 February 2012, a new Independent Non-executive Director, Thor Haugnaess was appointed to the Board of the Company as an Independent Non-executive Director; his induction into the Company and wider Group is under process. As noted above, the Nominations Committee considers the current board size and structure to be appropriate for a company of the same size and involved in the same business as the Company. The Board considers that four independent non-executive directors are sufficient, since this number meets both the requirements of the U.K. Corporate Governance Code and the Company's own corporate governance needs. Accordingly, the Committee does not propose to identify a pool of candidates through a formal process as anticipated by the Irish Annex.

3.1-3.3 The Board has not completed the performance evaluation process for itself or the Committees or individual Directors as at 20 February 2012. See the response to the Code requirements for section B.6.1-.6.3 on page 57 for further details.

Related Party Transactions

The Group has its head office in Dubai, U.A.E., 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 of the services received are set out in Note 27 of the consolidated financial statements on page 93.

Communication with Shareholders

In order to canvas the views of investors and analysts and to seek their continuing support, Dragon Oil's senior management has regular meetings and conference calls with our majority shareholder as well as the broader investor base (both institutional and retail), as well as analysts. In this way, we are able to address any concerns at an early stage and to maintain our policy of transparency, continuity and timely dissemination of information to the market. With the aid of our joint corporate brokers and advisers, we host results meetings and simultaneous conference calls to present our financial results to the market community with particular focus on the sell-side analysts.

In 2011, the senior management (including the CEO, COO, General Manager of Petroleum Development and Director of Finance) conducted both one-on-one and group meetings with institutional investors in the U.K., Ireland, France, Germany, Switzerland and Austria and attended two high-profile investor conferences in London, U.K. Over the course of the year, the management met over 110 institutions, existing and potential shareholders, some of them on several occasions. The senior management team make themselves available for a significant number of conference calls on a regular basis with institutional investors around the world.

Dragon Oil benefits from being able to call upon the services of our joint brokers, Davy and Nomura International, which have worked for Dragon Oil for over 13 years and one year respectively. Both are key advisers who regularly brief senior management on developments both at the Company level and at the wider, market level. This joint brokership has worked well as the different strengths of each broker have complemented one another to expand the range of investors being targeted for investment into the Company and to gather market data.

The Group issues its financial and operational results, drilling updates and other news releases promptly via Regulatory News Service, the company news service from the London Stock Exchange. The news releases appear simultaneously on our website, www.dragonoil.com, on the Home Page and throughout the website. The Email Alerts function within the Investor Relations section under the Regulatory News allows shareholders and other interested parties to subscribe to news updates. The Group archives all key information and documentation on its website with a dedicated Investor Centre for its shareholders.

Most of the communications with shareholders is undertaken by the CEO with the support of the Chairman, the COO, the General Manager of Petroleum Development, the Director of Finance and the Investor Relations Officer. The CEO ensures that the views of shareholders are communicated to the wider Board on a regular basis throughout the year. The Chairman and the Senior Independent Director make themselves available for discussions with shareholders if required and have met with various shareholder representatives and analysts, as well as retail investors, prior to and after the 2011 AGM, to answer questions and understand their key areas of interest or concern.

Dragon Oil holds its AGM in London, U.K. and welcomes shareholder participation. At the 2011 AGM, our Chairman, CEO and Director of Finance all made presentations to our investors with an increased level of granular detail regarding the operations and finances of the Group, all of which was well received. The AGM is an opportunity for individual shareholders, particularly retail investors, to put questions directly to the Board members and the senior management during and after the formal session. Notice of AGM is sent to shareholders at least 20 working days before the meeting.

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

Internal Control

Towards the end of 2011 into early 2012, the Group updated both its risk management process (facilitated by PricewaterhouseCoopers) and its controls framework (through an internal review mechanism). The material risks of the Group are as set out at page 44. The primary internal control procedures comprise the formal delegation of authorities by the Board to the executive management, and then a number of subsidiary mechanisms including inter alia a financial authorities manual, tendering procedures and various financial and operational policies.

The control processes are complemented by effective monitoring and reporting mechanisms, not least of which are the annual reports to and reviews by the Audit Committee. The Directors are responsible for the implementation and review of the Group's system of internal control appropriate to the various business environments in which it operates. The system has been designed to enable the Group to identify, evaluate and manage significant risks faced by the Group and includes the safeguarding of 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; and
> 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.

Assurance

The Board, through the Audit Committee, obtains assurance against risks through audits conducted by the Internal Audit Department ("IA Department"). The IA Department, in conjunction with the Audit Committee, provides assurance primarily on the adequacy of the system of internal controls in the Group. The IA Department plan governs its 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 the IA Department to conduct such special assignment as they deem fit. The IA Department reports functionally to the Audit Committee and administratively to the CEO.

Each year, the Audit Committee reviews and assesses the IA Department's annual report as part of the Group's three-year IA Work Cycle Plan. During 2011, IA Department was able to undertake most of the planned audit reviews in areas such as abandonment and decommissioning process review, human resources review, oil accounting and measurement and treasury management process review. Two internal audits – IT and part of the HSE internal audit – were deferred into 2012 because of resourcing constraints.

As part of the ordinary reporting cycle for the IA Department, it presented to the Audit Committee in January 2012 in respect of the audit reviews that it undertook during 2011 and reported its findings as well as outstanding recommendations, which are in the process of being implemented by the management team. In turn, the Audit Committee has reviewed the reports and presentations from the IA Department and from the external auditors and has monitored the progress in implementation of the recommendations relating to internal controls. In addition, to the two above-mentioned internal audits, the focus areas for the IA Department during 2012 will be an audit of marketing and sales processes, contracts and tendering as well as PSA compliance matters.

On behalf of the Board

Alex Ridout
Company Secretary of Dragon Oil plc
20 February 2012

The U.K.'s Directors' Remuneration Report Regulations 2002 require the auditors of a U.K.-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. This report has been prepared so as to be consistent with the regulations even though they do not apply to the Company (as the Company is Irish-incorporated). The report is therefore divided into separate sections to disclose the audited and unaudited information.

Remuneration Policy

The Group's underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Group. This objective has been and continues to be applied as consistently and fairly as possible to all Group personnel over a prolonged period of time. Only in this way will the Group be able to attract, retain and motivate high calibre executives and employees who can perform to the highest levels of expectations.

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

The Remuneration Committee has clarified its role in determining the remuneration packages and benefits for certain senior management, namely for the CEO, the COO and the General Manager of Petroleum Development. The remuneration packages and benefits for other managers and personnel are determined by the CEO in consultation with the HR Department. However, the Remuneration Committee applies a similar philosophy in determining the remuneration for the senior management as is applied in respect of all other employees. No Director participates in the deliberation or approval of his own remuneration package.

Remuneration Committee

Mr. Saeed Al Mazrooei (Chairman), Mr. Ahmad Sharaf, Mr. Nigel McCue and Mr. Mohammed Al Ghurair comprise the Remuneration Committee, with the Company Secretary acting as secretary to the Remuneration Committee. Mr. McCue has served for more than eight years on the Committee whereas Messrs. Sharaf and Al Mazrooei have both served on it since 20 May 2007. Mr. Al Ghurair was appointed to the Committee as from 19 June 2008. Mr. Al Mazrooei and Mr. McCue are both Independent Non-executive Directors.

Each member of the Remuneration Committee has direct, recent and relevant experience for the recruitment of executive managers, including specifically within the oil and gas industry, arising from their involvement in other companies; as such, each is able to contribute fully and to challenge proposals submitted to the Committee.

The Remuneration Committee met only once during 2011 (2010: once) although, as noted at page 53, there was considerable discussion regarding executive remuneration at the Board level as well. This reflected the increased focus of the wider Board to link performance-related pay to key performance indicators.

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

> the framework for and the broad remuneration policies for the Group;
> the specific terms for the remuneration of the Chairman, CEO, the COO and the General Manager of Petroleum Development; and
> proposals for incentive plans, including the review and approval of the Employee Stock Purchase Plan 2011 and the grant of share options to employees under the Group's 2009 Share Option Scheme.

Further details of the activities of the Remuneration Committee 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 Directors' remuneration contained in LR 6 of the Irish Listing Rules. No Director votes on or discusses the terms of his own remuneration.

During 2011, the Group management has used the services of several independent HR consultants, namely Mercer Human Resources Consulting, Hay Group and Towers Watson (the "HR Consultants"), to provide it with independent advice on various remuneration matters. The HR Consultants have provided the Committee with advice relating to the determination of remuneration packages for the senior managers and in connection with a proposal for a new long-term incentive plan to replace the share option schemes. None of the HR Consultants provides any other services to the Group except advice on and assistance with the implementation of the remuneration policy.

Service contracts for Executive Directors

The Executive Director's remuneration package comprises of three key elements: guaranteed compensation, the annual bonus and the long-term incentives. This is in line with standards for Executive Directors' remuneration packages within the oil and gas industry; in addition, the Committee takes into account the local remuneration practices within the U.A.E. when setting the Executive Director's remuneration package. The package is evenly weighted between fixed pay and variable pay and, as is typical, the variable pay elements include a number of factors which link performance to level of remuneration.

Each year, the Board evaluates the various mechanisms for remunerating and rewarding the Executive Director and the Executive Director's annual bonus is assessed by reference to an objective assessment of the Group's financial and operational performance, as well as review of the performance of the individual in question. The Remuneration Committee recognises that 2011 represented yet another record-breaking year for the Group, in all key respects namely financial and operational; the Group must reward the past performance and incentivise future performance of its sole Executive Director accordingly. For details on long-term incentive plans and the methodology in allocating share options, please refer to page 62.

The Executive Director's permanent contract of employment can be terminated by either the Director or the Company on three months' notice. Directors are not appointed for specific terms and all Directors are subject to retirement from the Board at annual general meetings.

Service contracts for Non-executive Directors

The Independent Non-executive Directors have letters of appointment that can be terminated by either the Director or the Company on three months' notice. There is no legally binding commitment as to the term of office; however, any appointment or reappointment will be subject to the Company's Articles of Association that provide for 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 approved by the Chairman and the sole Executive Director, in consultation with key management personnel and pursuant to advice from the HR 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.

Audited

Directors' Remuneration

	Fees 2011 US$'000	*Salary 2011 US$'000*	*Bonus 2011 US$'000*	*Benefits US$'000*	*Share options – value of services provided US$'000*	*Total 2011 US$'000*	*Total 2010 US$'000*
Executive Director							
Abdul Jaleel Al Khalifa	**–**	**440**	**599**	**416**	**185**	**1,640**	1,261
Non-executive Directors							
Mohammed Al Ghurair	**193**	**–**	**–**	**–**	**–**	**193**	187
Nigel McCue	**144**	**–**	**–**	**–**	**–**	**144**	137
Ahmad Sharaf	**126**	**–**	**–**	**–**	**–**	**126**	122
Ahmad Al Muhairbi	**143**	**–**	**–**	**–**	**–**	**143**	137
Saeed Al Mazrooei	**140**	**–**	**–**	**–**	**–**	**140**	135
	746	**440**	**599**	**416**	**185**	**2,386**	1,979

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 20 February 2012:

	At 1 January 2011		*At 31 December 2011*		*At 20 February 2012*	
	Ordinary shares	*Share options(1)*	*Ordinary shares*	*Share options(1)*	*Ordinary shares*	*Share options(1)*
Executive Director						
Abdul Jaleel Al Khalifa	–	480,000	**–**	**600,000**	–	600,000
Directors						
Nigel McCue	125,000	250,000	**125,000**	**250,000**	125,000	250,000
	125,000	730,000	**125,000**	**850,000**	125,000	850,000
Company Secretary						
Alex Ridout	10,000	233,333	**20,000**	**150,000**	20,000	150,000
	135,000	963,333	**145,000**	**1,000,000**	145,000	1,000,000

(1) The share options are options for Ordinary Shares in Dragon Oil plc, granted in accordance with the 2002 Share Option Scheme or the 2009 Share Option Scheme, as may be applicable, and which options are exercisable in accordance with the applicable Scheme.

	Date of grant	As at 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 December 2011	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
	13.04.10	120,000	–	–	–	120,000	478.25	–	14.04.13	12.04.20
	06.09.11	–	120,000	–	–	120,000	465.5	–	07.09.14	05.09.21
Nigel McCue	31.12.04	250,000	–	–	–	250,000	69.0	–	01.01.08	30.12.14
		730,000	120,000	–	–	850,000				
Company Secretary										
Alex Ridout	14.12.06	106,667	–	106,667	–	–	170.84	528.5	15.12.09	13.12.16
Alex Ridout	06.04.09	26,666	–	26,666	–	–	177.00	528.5	04.04.11	02.04.18
Alex Ridout	06.04.09	50,000	–	–	–	50,000	177.00	–	07.04.12	05.04.19
Alex Ridout	13.04.10	50,000	–	–	–	50,000	478.25	–	14.04.13	12.04.20
Alex Ridout	21.04.11	–	50,000	–	–	50,000	556.75	–	22.04.14	20.04.21
		963,333	170,000	133,333	–	1,000,000				

Throughout 2011 none of the Directors' share options lapsed. The opening market price of the Ordinary Shares in Dragon Oil plc on 4 January 2011 was Stg. 520p, the closing price of the Ordinary Shares on 30 December 2011 was Stg. 457p and the market prices in the Ordinary Shares ranged between Stg. 426p and Stg. 609p during the year.

Long-term incentive plans
As noted above, the Board recognises that 2011 represented yet another record-breaking year for the Group and must continue to incentivise future performance of its sole Executive Director and its entire management team accordingly. The Board has to consider measures, which are required in order to be competitive with the long-term incentive plans being offered by peer companies within the oil and gas sector.

2009 Share Option Scheme
Share options are designed to attract, retain and provide its Executive Directors and key employees with a long-term performance incentive to deliver growth and shareholder value. Share options were awarded in 2011 in accordance with, and will be governed by, the 2009 Share Option Scheme, and under conditions and performance measures which included the following:

> Vesting period
> Performance Indicators
  – increasing the level of average annual production
  – achieving an enterprise-wide reserve replacement ratio
  – completing set individual performance targets or goals
> General conditions such as control of option grant flow rate generally and limits on participation.

Dragon Oil plc previously awarded share options to its Directors and to its employees in accordance with the Group's 2002 Share Option Scheme. No further options will be granted under this scheme although a Director and some employees continue to hold share options under this earlier scheme, and they will be governed by the terms and conditions of that scheme.

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

The first 'accumulation period' runs from 1 October 2011 until 31 March 2012 and the Board was pleased to note that there was a high participation from the employees within the Dubai Headquarters. Over the coming years, there will be a greater focus on encouraging participation in other Group offices where such plans are less common, requiring additional education and explanation.

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
20 February 2012

Independent Auditor's 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 2011 which comprise the Group and Company Balance Sheets, Group Income Statement, Group Statement of Comprehensive Income, Group and Company Cash Flow Statements, Group and Company Statements of Changes in Equity and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as 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 (U.K. and Ireland).

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 for use in 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 for use in 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 the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether, at the balance sheet date there exists a financial situation which may require the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations 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 if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and other transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description in the Corporate Governance Statement set out in the directors' report of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated financial statements is consistent with the consolidated financial statements. In addition, we review whether the Corporate Governance Statement reflects the parent company's compliance with the nine provisions of the U.K. Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, Chief Executive Officer's Statement, Operating and Financial Review, Corporate Social Responsibility, Directors' 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 (U.K. 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.

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 by the European Union, of the state of affairs of the Group as at 31 December 2011 and of its profit for the year then ended;

> 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 Companies Acts, 1963 to 2009, of the state of affairs of the Parent Company as at 31 December 2011; 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 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 and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group Financial Statements is consistent with the Group Financial Statements.

In our opinion, the Company balance sheet does not disclose 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.

George Deegan
For and on behalf of Ernst & Young
Dublin
20 February 2012

Group balance sheet

As at 31 December

	Note	2011 US$'000	2010 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**1,353,978**	1,176,361
Current assets			
Inventories	11	**6,988**	47,035
Trade and other receivables	12	**184,581**	98,273
Term deposits	13	**1,718,271**	1,195,148
Cash and cash equivalents	13	**87,499**	141,457
		1,997,339	1,481,913
Total assets		**3,351,317**	2,658,274
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	14	**80,169**	80,774
Share premium	15	**231,635**	230,296
Capital redemption reserve	16	**77,825**	77,150
Other reserve	17	**5,489**	4,074
Retained earnings		**2,193,427**	1,700,652
Total equity		**2,588,545**	2,092,946
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	**623**	–
Deferred income tax liabilities	23	**115,815**	83,231
		116,438	83,231
Current liabilities			
Trade and other payables	18	**402,981**	340,023
Current income tax liabilities	23	**243,353**	142,074
		646,334	482,097
Total liabilities		**762,772**	565,328
Total equity and liabilities		**3,351,317**	2,658,274

Approved by the Board on 20 February 2012

Mohammed Al Ghurair
Chairman

Nigel McCue
Director

The notes on pages 72 to 94 are an integral part of these financial statements.

Group income statement
Year ended 31 December

	Note	2011 US$'000	2010 US$'000
Revenue	19	**1,150,513**	780,409
Cost of sales	20	**(266,539)**	(264,683)
Gross profit		**883,974**	515,726
Administrative expenses	20	**(28,010)**	(28,206)
Other income		**241**	203
Operating profit		**856,205**	487,723
Finance income	21	**15,533**	26,952
Profit before income tax		**871,738**	514,675
Income tax expense	23	**(223,322)**	(128,592)
Profit attributable to equity holders of the Company		**648,416**	386,083
Earnings per share attributable to equity holders of the Company	24		
Basic		**125.95c**	74.94c
Diluted		**125.61c**	74.69c

Group statement of comprehensive income
Year ended 31 December

	2011 US$'000	2010 US$'000
Profit attributable to equity holders of the Company	**648,416**	386,083
Total comprehensive income for the year	**648,416**	386,083

Approved by the Board on 20 February 2012

Mohammed Al Ghurair
Chairman

Nigel McCue
Director

The notes on pages 72 to 94 are an integral part of these financial statements.

Group cash flow statement

Year ended 31 December

	Notes	2011 US$'000	2010 US$'000
Cash generated from operating activities	25	**1,105,273**	672,165
Income tax paid		**(89,459)**	(77,458)
Net cash generated from operating activities		**1,015,814**	594,707
Cash flows from investing activities			
Additions to property, plant and equipment	7,18	**(406,782)**	(424,103)
Additions to intangible assets	8	**–**	(103)
Interest received on bank deposits	21	**15,533**	26,952
Amounts placed on term deposits (with original maturities greater than three months)	13	**(523,123)**	(324,680)
Net cash used in investing activities		**(914,372)**	(721,934)
Cash flows from financing activities			
Proceeds from issue of share capital	14,15	**1,409**	1,574
Dividends paid	28	**(118,684)**	–
Shares repurchased	14,16	**(38,125)**	–
Cash (used in)/generated from financing activities		**(155,400)**	1,574
Net decrease in cash and cash equivalents		**(53,958)**	(125,653)
Cash and cash equivalents at beginning of year		**141,457**	267,110
Cash and cash equivalents at end of year	13	**87,499**	141,457

The notes on pages 72 to 94 are an integral part of these financial statements.

Company balance sheet
As at 31 December

	Note	2011 US$'000	2010 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	9a	**10,998**	8,415
Current assets			
Loans to subsidiary undertakings	9b	**524,831**	456,103
Other receivables	12	**506**	367
Cash and cash equivalents	13	**1,070**	1,431
		526,407	457,901
Total assets		**537,405**	466,316
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	14	**80,169**	80,774
Share premium	15	**231,635**	230,296
Capital redemption reserve	16	**77,825**	77,150
Other reserve	17	**5,489**	4,074
Retained earnings		**59,528**	73,593
Total equity		**454,646**	465,887
LIABILITIES			
Current liabilities			
Loan from a subsidiary undertaking	10a	**82,361**	–
Other payables	18	**398**	429
Total equity and liabilities		**82,759**	429
		537,405	466,316

Approved by the Board on 20 February 2012

Mohammed Al Ghurair
Chairman

Nigel McCue
Director

The notes on pages 72 to 94 are an integral part of these financial statements.

Company cash flow statement

Year ended 31 December

	Notes	2011 US$'000	2010 US$'000
Cash used in operating activities	25	**(3,594)**	(5,993)
Cash flows from investing activities			
Loans advanced to subsidiary undertakings	9b	**(68,728)**	(91,447)
Dividends received from a subsidiary undertaking		**145,000**	95,000
Cash provided by investing activities		**76,272**	3,553
Cash flows from financing activities			
Loan advanced by a subsidiary undertaking	10a	**82,361**	–
Proceeds from issue of share capital	14,15	**1,409**	1,574
Dividends paid	28	**(118,684)**	–
Shares repurchased	14,16	**(38,125)**	–
Cash (used in)/generated from financing activities		**(73,039)**	1,574
Net decrease in cash and cash equivalents		**(361)**	(866)
Cash and cash equivalents at beginning of year		**1,431**	2,297
Cash and cash equivalents at end of year	13	**1,070**	1,431

The notes on pages 72 to 94 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 2010		80,687	228,809	77,150	3,138	1,313,439	1,703,223
Total comprehensive income for the year		–	–	–	–	386,083	386,083
Shares issued during the year	14,15	87	1,487	–	–	–	1,574
Employee share option scheme:							
– value of services provided	14	–	–	–	2,066	–	2,066
Transfer on exercise of share options		–	–	–	(1,130)	1,130	–
Total transactions with owners		87	1,487	–	936	1,130	3,640
At 31 December 2010		80,774	230,296	77,150	4,074	1,700,652	2,092,946
Total comprehensive income for the year		–	–	–	–	648,416	648,416
Shares issued during the year	14,15	70	1,339	–	–	–	1,409
Employee share option scheme:							
– value of services provided	14	–	–	–	2,583	–	2,583
Transfer on exercise of share options		–	–	–	(1,168)	1,168	–
Dividends	28	–	–	–	–	(118,684)	(118,684)
Shares repurchased and cancelled	14,16	(675)	–	675	–	(38,125)	(38,125)
Total transactions with owners		(605)	1,339	675	1,415	(155,641)	(152,817)
At 31 December 2011		**80,169**	**231,635**	**77,825**	**5,489**	**2,193,427**	**2,588,545**

Company

	Notes	Share capital US$'000	Share premium US$'000	Capital redemption reserve US$'000	Other reserve US$'000	Retained earnings/ (Accumulated losses) US$'000	Total US$'000
At 1 January 2010		80,687	228,809	77,150	3,138	(20,012)	369,772
Total comprehensive income for the year		–	–	–	–	92,475	92,475
Shares issued during the year	14,15	87	1,487	–	–	–	1,574
Employee share option scheme:							
– value of services provided	14	–	–	–	2,066	–	2,066
Transfer on exercise of share options		–	–	–	(1,130)	1,130	–
Total transactions with owners		87	1,487	–	936	1,130	3,640
At 31 December 2010		80,774	230,296	77,150	4,074	73,593	465,887
Total comprehensive income for the year		–	–	–	–	141,576	141,576
Shares issued during the year	14,15	70	1,339	–	–	–	1,409
Employee share option scheme:							
– value of services provided	14	–	–	–	2,583	–	2,583
Transfer on exercise of share options		–	–	–	(1,168)	1,168	–
Dividends	28	–	–	–	–	(118,684)	(118,684)
Shares repurchased and cancelled	14,16	(675)	–	675	–	(38,125)	(38,125)
Total transactions with owners		(605)	1,339	675	1,415	(155,641)	(152,817)
At 31 December 2011		**80,169**	**231,635**	**77,825**	**5,489**	**59,528**	**454,646**

The notes on pages 72 to 94 are an integral part of these financial statements.

1 General information

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

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

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

These financial statements have been approved for issue by the Board of Directors on 20 February 2012.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), 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 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 accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Transactions (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The Group has chosen not to avail of this exemption and continues to disclose related party transactions as in prior years.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in the territories in which it operates. The amendment of the interpretation therefore had no effect on the financial position or performance of the Group.

2 Summary of significant accounting policies Continued

2.1 Basis of preparation Continued

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

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments has no impact on the financial position or performance of the Group.

> IFRS 3 Business Combinations: The measurement options available for non-controlling interest ("NCI") were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

> The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3. The Group has adopted these as of 1 January 2011.

> IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

> IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

> IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

> IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)

> IAS 27 Consolidated and Separate Financial Statements

> IAS 34 Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

> IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)

> IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and amendments issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective, subject to EU endorsement.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ("OCI")

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012. This amendment is not expected to have any impact on the Group's financial position or performance as the Group currently does not have any investment property or non-depreciable assets.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

2 Summary of significant accounting policies Continued

2.1 Basis of preparation Continued

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact of the amendment.

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
The amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The clarifying amendments to IAS 32 are effective for the annual periods beginning on or after 1 January 2014. The Group is currently assessing the impact of the amendment.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group’s financial position or performance.

IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
The amendment requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment affects disclosure only and has no impact on the Group’s financial position or performance.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The Interpretation is effective for annual periods beginning on or after 1 January 2013. The Interpretation has no impact on the Group’s financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. IFRS 9 was further amended on 16 December 2011 to defer the mandatory effective date from 1 January 2013 to 1 January 2015 so that all phases of the project will have the same effective date. The Group is yet to assess IFRS 9’s full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015, or such other later date when it is effective.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation- Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on its financial position and performance.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (“JCEs”) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact that this standard will have on its financial position and performance.

2 Summary of significant accounting policies Continued

2.1 Basis of preparation Continued

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

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact of this standard.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.2 Basis of 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 (including special purpose entities) 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.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. 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"), which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CODM that makes strategic decisions.

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

2.4 Foreign currencies

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

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.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. Foreign exchange gains and losses are taken to the income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the Group's net investment in subsidiaries. These are taken directly to equity until the disposal of the net investment at which time they are recognised in the income statement. Gains or losses on non-monetary assets and liabilities measured at fair value in a foreign currency are taken to the income statement when the gains or losses on the underlying item is taken to the income statement. If the gain or loss on the underlying item is taken to equity then the foreign currency gain or loss also goes to equity.

2.5 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.

Inventory of drilling spares is classified under 'Property, plant and equipment' and is not depleted until it is put to use as development and production assets. In prior years, this inventory was classified as 'Inventories' under 'Current assets'. Costs of development and production assets also include licence acquisition costs, development drilling, infrastructure projects and a proportion of directly attributable administrative and overhead costs.

2 Summary of significant accounting policies Continued

2.5 Property, plant and equipment Continued

(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 ("E&E") assets

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

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.

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.

2.7 Depletion and impairment

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 oil and gas taking into account development expenditures necessary to bring those reserves into production. Gas reserves are converted into barrels of oil equivalent ("boe") based on the energy conversion rate for the purposes of determining the depletion charge. Changes in estimates of commercial reserves or future field development costs affecting the unit-of-production calculations for depletion are accounted for prospectively.

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

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets and liabilities

The Group classifies its financial assets as those at fair value through profit or loss and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired, and is determined at initial recognition. Financial assets are derecognised when the right to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The Group classifies its financial liabilities as those at fair value through profit or loss, and trade payables and determines the classification at initial recognition. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires.

2.8.1 Financial assets

(a) Derivative financial instruments

The Group has previously used derivative financial instruments to manage its oil price exposure. Where applicable, 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.

(b) 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 less provision for impairment using the effective interest method. 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, possibility 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.

2 Summary of significant accounting policies Continued

2.8 Financial assets and liabilities Continued

2.8.1 Financial assets Continued

(c) 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.

2.8.2 Financial liabilities

(a) 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; otherwise, they are classified as non-current liabilities.

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

(b) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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.

2.9 Inventories

Inventories of crude oil 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 and comprises direct purchase costs and cost of production. 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 supplies.

2.10 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.

2.11 Share capital and share premium

Ordinary shares issued are classified as equity and recorded at par. The excess of the proceeds received, over the aggregate par value is recognised as share premium, net of incremental costs directly attributable to the issue of new shares.

Where the Company purchases it's own equity shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. Cancellation of ordinary shares reduces the number of outstanding shares in issue but not the Company's authorised share capital.

2.12 Taxation

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, in which case, the tax is also recognised in other comprehensive income or directly in equity respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities or the expected value (weighted average probability) approach.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the Group financial statements. However, deferred income tax is not recognised if it arises from the initial recognition of goodwill, or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies Continued

2.12 Taxation Continued

(b) Deferred income tax Continued

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.13 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 U.A.E. The U.A.E. labour laws provide for a lumpsum payout at termination. Some of the Group's employees were members of the Group's Provident Scheme ("the Scheme") to which the Company contributed an agreed percentage of the member's base salary. The Scheme's assets were 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 U.A.E. labour legislation. The charge in any year was recorded in the income statement and the related contribution transferred to the scheme. The Scheme was discontinued in June 2010 and all end of service benefits from this date are in accordance with U.A.E. labour laws.

Under the laws of the U.A.E., the Group contributes a proportion of the salary of U.A.E. nationals towards the pension fund to the General Pension Authority, which is recorded in the income statement.

2.14 Share-based payment plans

(a) Employee share option plan

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of the Company. 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 the compensation cost for cancelled awards based on their original value calculated at the grant date over the vesting period and the incremental value of the re-issued 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 grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to other reserve.

(b) Employee share purchase plan ("ESPP")

The Group introduced an ESPP in October 2011. This plan enables eligible employees including Executive Directors to make contributions, through payroll deductions, toward the purchase of the Company's shares at a 15% discount on the market price, either at the start or the end of a six month accumulation period. Individual ESPP participants are restricted from contributing more than limits specified in the plan. An ESPP trust has been created to warehouse the Company's ordinary shares purchased, which will be transferred to the participating employees at the end of the accumulation period. No performance conditions are imposed in the ESPP plan. The ESPP trust has been consolidated in the financial statements in accordance with Standing Interpretation Committee (SIC) 12 'Special Purpose Entities'.

2 Summary of significant accounting policies Continued

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that the Group would be required to settle the obligation and the amount has been reliably estimated. Provisions are recorded at management's best estimate of expenditure required to settle the obligation at the balance sheet date. Provisions are not recognised for future operating losses.

2.16 Revenue recognition

(a) Sales of crude oil

Revenue represents sales of crude oil and related income and comprises the fair value of the consideration received or receivable for the sale of crude oil by the Group in the ordinary course of business to customers. Revenue arising from the sale of crude oil is recognised when the significant risks and rewards of ownership have passed 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 underlifts

The accounting policy with respect to crude oil underlifts is set out in Note 2.10.

(c) Finance income

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

2.17 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.

2.18 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.

2.19 Dividend distribution

Interim dividends are considered to be declared when approved and paid by the Board. In the case of final dividends, these are declared when approved by the shareholders at the AGM.

2.20 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the finance income or finance expense over the period to maturity or repayment. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the instrument.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk which can adversely affect the Group's expected future cash flows or the Group's assets and liabilities. These risks are evaluated by management on an ongoing basis to assess and manage critical exposures.

The 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 during 2010 or 2011 or 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 underlifts would have been higher/lower by US$0.4 million (2010: crude oil overlifts would have been higher/lower by US$1.6 million).

3 Financial risk management Continued

3.1 Financial risk factors Continued

(a) Market risk Continued

(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 rate risk.

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

During the year ended 31 December 2011, if interest rates on the deposits had been 0.5% higher/lower, the interest income would have been higher/lower by US$6 million (2010: US$4.8 million).

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, term deposits 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 U.A.E.. The deposits are mainly held with reputable independently rated banks with a Moody's 'A' rating with 3.4% (2010: 2%) of the deposits in banks with a Moody's minimum rating of 'Baa1'. 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 currently all 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 (2010: one customer) representing the trade receivable at the year end. There have been no instances of default in the past on the trade receivables from this customer and subsequent to the year-end, all amounts have been collected in full (Note 12).

An amount of US$32 million (2010: nil) is prepaid to a contractor towards rig rental and management charges. This amount is secured by a payment guarantee issued by an international bank with Moody's 'Aa2' rating.

(c) Liquidity risk

The Group is involved in oil and gas exploration, development and production that requires high capital expenditure for field development. The Group closely monitors and manages its liquidity risk by forecasting the Group's cash position on the basis of expected cash flows taking into account volatility in oil prices and significant increases in the costs. The Group seeks to ensure that it has an adequate ongoing capacity to safeguard its ability to continue as a going concern.

The Group is currently financed entirely from shareholders' equity 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 2011				
Trade and other payables	**403,604**	**403,604**	**402,981**	**623**
31 December 2010				
Trade and other payables	340,023	340,023	340,023	–

3.2 Capital risk management

The Group defines capital as the total equity of the Group. The Group's objectives when managing capital are to provide returns for shareholders and benefits for stakeholders and to safeguard the Group's ability to continue as a going concern. The Group is not subject to any externally-imposed capital requirements.

The Group monitors the long term capital requirements of the business in order to assess the need for changes to the capital structure to meet the objective and to maintain flexibility. The Board manages the capital structure and may vary the dividend payment to shareholders, issue new shares or acquire new debt facilities to maintain or adjust capital structure, as appropriate.

3 Financial risk management Continued

3.2 Capital risk management Continued

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2011.

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

3.3 Fair value estimation

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

> 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 2011, the underlift receivable 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 2011.

4 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as well as contingent assets and liabilities at the date of the balance sheet, and the reported amounts of revenues and expenses during a reporting period. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The critical accounting judgements and estimates used in the preparation of financial statements that could result in material adjustments to the income statement and the carrying amounts of assets and liabilities are discussed below:

Carrying value of development and production assets

In arriving at the carrying value of the Group's development and production assets, significant assumptions in respect of the depletion charge have been made. These significant assumptions include estimates of oil and gas reserves, future oil and gas prices, finalisation of the gas sales agreement and future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.

The Group revised its estimated long-term view of oil prices from US$70 per barrel to US$75 per barrel from 1 August 2011. The effect of an upward revision in the estimated long-term oil price is to lower the level of reserves attributable to the Group and to increase the depletion charge per barrel.

The Group's estimated long-term view of netback prices for gas is US$3.5 per Mscf, based on the current outlook.

> If the estimate of the long-term oil price had been US$20 per barrel higher at US$95 from 1 August 2011 and the netback price of gas had been US$1 per Mscf higher at US$4.50 from 1 January 2011, the reserves attributable to the Group would decrease, with a consequent increase in the depletion charge of US$6.7 million for the year.
> If the estimate of the long-term oil price had been US$20 per barrel lower at US$55 from 1 August 2011 and the netback price of gas had been US$1 per Mscf lower at US$2.50 from 1 January 2011, the reserves attributable to the Group would increase, with a consequent decrease in the depletion charge of US$12.7 million for the year.

If the gas sales were delayed to 2016, the depletion charge would increase by US$2.3 million.

The depletion computation assumes the continued development of the field to extract the assessed oil and gas reserves and the required underlying capital expenditure to achieve the same. For this purpose, it also 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 of the exemption from presenting its individual income statement to the annual general meeting and from filing it with the Companies Registration Office. The Company's profit for the financial year determined in accordance with IFRS is US$141.6 million (2010: profit of US$92.5 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 Group headquarters 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 represented the Group's interest in certain exploration blocks in Yemen which have been written off.

Revenue includes an amount of US$1,132.7 million (2010: US$466 million) arising from the sale of crude oil to one customer through Azerbaijan (2010: two customers), US$13.1 million (2010: nil) arising from the sale of crude oil to an independent third party that has an Iranian swap agreement (2010: nil), US$4.4 million (2010: US$ nil) recognised from the underlift of entitlement to crude oil produced and US$0.3 million (2010: US$0.1 million) arising from other sales. Revenue during 2010 included US$314.3 million from the sale of crude oil to one customer in Iran.

7 Property, plant and equipment

	Development and production assets US$'000	*Other US$'000*	*Total US$'000*
Cost			
At 1 January 2010	1,499,533	5,078	1,504,611
Additions for the year	459,606	9	459,615
Amounts written off during the year	–	(3,088)	(3,088)
At 31 December 2010	1,959,139	1,999	1,961,138
Additions for the year	350,877	89	350,966
Drilling supplies	32,070	–	32,070
At 31 December 2011	2,342,086	2,088	2,344,174
Depletion and depreciation			
At 1 January 2010	594,557	1,744	596,301
Charge for the year	188,378	98	188,476
At 31 December 2010	782,935	1,842	784,777
Charge for the year	205,330	89	205,419
At 31 December 2011	988,265	1,931	990,196
Net book amount			
At 31 December 2011	**1,353,821**	**157**	**1,353,978**
At 31 December 2010	1,176,204	157	1,176,361

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

Inventory of drilling supplies has been reclassified in the current year under 'Property, plant and equipment'. This inventory is not depleted until it is put to use as development and production assets. Comparative information has not been restated on the grounds of materiality.

8 Intangible assets

Exploration and evaluation assets

	US$'000
At 1 January 2010	1,054
Additions for the year	103
Amounts written off during the year (Note 20)	(1,157)
At 31 December 2010	–
At 31 December 2011	**–**

9 Investments in and loans to subsidiary undertakings

Company

(a) Investments in subsidiary undertakings

	US$'000
Cost	
At 1 January 2010	29,259
Fair value of share options granted to employees of a subsidiary undertaking	2,066
At 31 December 2010	31,325
Fair value of share options granted to employees of a subsidiary undertaking	2,583
At 31 December 2011	33,908
Provision for impairment	
At 1 January 2010 and 31 December 2010 and 2011	22,910
Net book amount	
At 31 December 2011	**10,998**
At 31 December 2010	8,415

(b) Loans to subsidiary undertakings

	US$'000
Cost	
At 1 January 2010	370,226
Advanced during the year, net	91,447
At 31 December 2010	461,673
Advanced during the year, net	68,728
At 31 December 2011	530,401
Provision for impairment	
At 1 January 2010 and 31 December 2010 and 2011	5,570
Net book amount	
At 31 December 2011	**524,831**
At 31 December 2010	456,103

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:

	2011 US$'000	2010 US$'000
Assets as per balance sheet		
Loans and receivables		
Trade and other receivables excluding prepayments and advances to suppliers	**143,905**	92,324
Term deposits	**1,718,271**	1,195,148
Cash and cash equivalents	**87,499**	141,457
	1,949,675	1,428,929

	2011 US$'000	2010 US$'000
Liabilities as per balance sheet		
Liabilities at amortised cost		
Trade and other payables	**403,604**	340,023

10a Financial instruments by category Continued

Company

	2011 US$'000	2010 US$'000
Assets as per balance sheet		
Loans and receivables		
Loans to subsidiary undertakings	**524,831**	456,103
Other receivables	**506**	367
Cash and cash equivalents	**1,070**	1,431
	526,407	457,901

	2011 US$'000	2010 US$'000
Liabilities as per balance sheet		
Liabilities at amortised cost		
Loan from a subsidiary undertaking	**82,361**	–
Other payables	**398**	429
	82,759	429

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

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 12.

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

	2011 US$'000	2010 US$'000
Aa2	**40,350**	–
Aa3	**206,406**	–
A1	**516,176**	506,843
A3	**979,776**	802,906
Baa1	**61,535**	25,560
Non-rated	**1,509**	1,274
Cash at bank and term deposits	**1,805,752**	1,336,583
Cash in hand	**18**	22
Cash and cash equivalents and term deposits	**1,805,770**	1,336,605

Cash and cash equivalents of the Company are held with a bank with an external credit rating of Aa3 and A1 (Moody's) (2010: A2).

11 Inventories

	2011 US$'000	2010 US$'000
Crude oil	**788**	724
Other supplies	**7,335**	47,184
	8,123	47,908
Provision for obsolete inventories	**(1,135)**	(873)
	6,988	47,035

Inventory of drilling supplies has been reclassified in the current year under 'Property, plant and equipment' (Note 7). Comparative information has not been restated on the grounds of materiality.

The cost of crude oil recognised as an expense and included in cost of sales amounted to US$265 million (2010: US$252.5 million).

12 Trade and other receivables

	Group		Company	
	2011 US$'000	*2010 US$'000*	*2011 US$'000*	*2010 US$'000*
Trade receivable	**138,416**	90,873	**–**	–
Crude oil underlift receivable	**4,445**	–	**–**	–
Other receivables	**983**	1,380	**456**	303
Receivable from a related party	**61**	71	**50**	64
Prepayments and advances to suppliers	**40,676**	5,949	**–**	–
	184,581	98,273	**506**	367

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

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

	Group		Company	
	2011 US$'000	*2010 US$'000*	*2011 US$'000*	*2010 US$'000*
Fully performing	**138,416**	90,873	**–**	–

At 31 December 2011, the Group faced a concentration of credit risk with one (2010: one) customer accounting for 100% (2010: 100%) of the trade receivables at that date. This customer, a state-owned oil and gas corporation, has an established record of promptly settling its financial commitments to the Group. At 31 December 2011, the Group had letters of credit amounting to US$138.4 million (2010: US$87 million) as collateral against the trade receivable.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value less collateral security of receivables mentioned above. Comparative information presented above has been amended to accord to the current year presentation.

13 Cash and bank balances

	Group		Company	
	2011 US$'000	*2010 US$'000*	*2011 US$'000*	*2010 US$'000*
Cash at bank and in hand	**42,424**	134,191	**1,070**	1,431
Deposits with an original maturity of three months or less	**45,075**	7,266	**–**	–
Cash and cash equivalents	**87,499**	141,457	**1,070**	1,431
Term deposits with an original maturity of over 3 months	**1,718,271**	1,195,148	**–**	–
	1,805,770	1,336,605	**1,070**	1,431

Group
Cash and bank balances include an amount of US$279 million (2010: US$174.4 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 0.14% and 1.68% (2010: 0.85% and 2.7%) per annum.

Term deposits with original maturities of over three months earned interest during the year at rates between 0.22% and 3.25% (2010: 0.21% and 5%) per annum.

Deposits and other balances are held with twelve banks (2010: nine). 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. The carrying value of cash and cash equivalents and term deposits approximate their fair value.

Company
Balances are held with two banks (2010: one).

14 Share capital

	Number of shares ('000)	Ordinary shares US$'000
At 1 January 2010	**514,989**	80,687
Issue of shares:		
– Share option scheme (i)	**639**	87
At 31 December 2010	**515,628**	80,774
Issue of shares:		
– Share option scheme (i)	**490**	70
Shares repurchased and cancelled (Note 16)	**(5,000)**	(675)
At 31 December 2011	**511,118**	80,169

The total authorised number of ordinary shares is 700 million shares (2010: 700 million shares) with a par value of €0.10 per share (2010: €0.10 per share). All issued shares are fully paid. During 2011, the Company repurchased and cancelled 5 million shares (2010: nil) for an aggregate consideration of US$38.1 million (2010: nil) including transaction costs of US$0.5 million (2010: nil).

(i) Share option scheme

Share options are granted to directors and to selected employees of a subsidiary company under the 2002 and 2009 Share Option Schemes. Share options granted under the 2002 Share Option Scheme were conditional upon the completion of continuing service with the Group for a specified period. Share options granted under the 2009 Share Option Scheme were conditional upon the completion of continuing service and fulfilment of certain non-market performance conditions. The exercise price of the share options is in accordance with the approved Share Option Scheme. The details of the options granted are given below.

	Date of grant	Options ('000)	Vesting conditions
Grants in 2004	31–Dec–04	3,160	Vested
Grants in 2006	14–Dec–06	1,840	Vested
	4–Apr–08	540	Cancelled/Forfeited
	4–Apr–08	460	Cancelled/Forfeited
Grants in 2008		1,000	
	6–Apr–09	100	Vested
	6–Apr–09	400	7-Apr-12
	6–Apr–09	1,210	1/3 annually
Reissue 1	6–Apr–09	153	Vested
Reissue 2	6–Apr–09	180	Vested
Grants in 2009		2,043	
	13–Apr–10	840	14-Apr-13
	13–Apr–10	650	1/3 annually
Grants in 2010		1,490	
	21–Apr–11	790	22-Apr-14
	21–Apr–11	820	1/3 annually
	06–Sep–11	120	05-Sep-14
Grants in 2011		1,730	

The re-issued options in 2009 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 (2010: £0.61 per option).

14 Share capital Continued

(i) Share option scheme Continued

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

	2011		2010	
	Weighted average exercise price £	Options ('000)	Weighted average exercise price £	Options ('000)
Outstanding at 1 January	**2.8220**	**3,745**	1.6218	3,063
Granted	**5.5042**	**1,730**	4.7825	1,490
Forfeited	**3.8076**	**(215)**	3.0104	(169)
Exercised	**1.7687**	**(490)**	1.5887	(639)
Outstanding at 31 December	**3.8585**	**4,770**	2.8220	3,745
Exercisable at 31 December	**2.0085**	**1,322**	1.4443	1,038

The significant inputs to the Black Scholes option pricing model are:

	2011		2010
	Grant date: 06 Sep 11	Grant date: 21 Apr 11	Grant date: 13 Apr 10
Share price at grant date	**£4.65**	**£5.66**	£4.7625
Exercise price	**£4.655**	**£5.5675**	£4.7825
Expected volatility	**53%**	**44% to 55%**	55% to 63%
Expected risk free rate per annum	**1.27%**	**1.36% to 2.26%**	1.46% to 2.51%
Interval in years for measurement of volatility	**4.5**	**2.5, 3.5 and 4.5**	2.5, 3.5 and 4.5
Dividend yield per annum	**1.6%**	**1.6%**	1.6%

The expected volatility estimates used in the valuation have been calculated based on the historical volatilities of the Company's share price over various historical periods, weighing the historical volatility over periods commensurate with the expected term of the options.

The weighted average fair value of options granted during the year determined using the Black Scholes option pricing model was £1.35 per option (2010: £1.23).

The weighted average share price at the dates of exercise for the options exercised during the year was £5.4432 (2010: £4.9214).

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

		Options	
Expiry date	Exercise price £	2011 '000	2010 '000
30 December 2014	0.6900	**285**	285
13 December 2016	1.7084	**320**	493
05 April 2019	1.7700	**1,153**	1,547
11 April 2020	4.7825	**1,322**	1,420
20 April 2021	5.5675	**1,570**	–
05 September 2021	4.655	**120**	–
		4,770	3,745

During the year, a total fair value charge of US$2.6 million (2010: US$2.1 million) was recorded in staff costs (Note 22(b)) and a corresponding amount recorded in the other reserve (Note 17). Included in the total fair value charge is an incremental fair value charge of US$0.01 million (2010: US$0.02 million) in respect of the modified share options.

(ii) Employee share purchase plan

The ESPP is an all-employee plan which enables eligible employees including Executive Directors to save out of salary up to a prescribed limit for each accumulation period. Under the plan, employees are granted the Company's shares at a 15% discount on the market price, either at the start or the end of a six month accumulation period.

The Group recognised a total charge of US$0.1 million (2010: nil) for the ESPP.

15 Share premium

	2011 US$'000	2010 US$'000
At 1 January	**230,296**	228,809
Premium on shares issued during the year	**1,339**	1,487
At 31 December	**231,635**	230,296

16 Capital redemption reserve

The capital redemption reserve arises from a reorganisation of the Company's share capital in 2002. During 2011, the nominal value of 5 million shares (2010: nil) repurchased and cancelled was transferred to the capital redemption reserve account. This reserve is non-distributable.

17 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	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Trade payables	**47,640**	78,639	**–**	–
Accruals	**46,448**	62,331	**309**	351
Crude oil overlift payable	**–**	12,680	**–**	–
Abandonment and decommissioning liability	**308,806**	185,828	**–**	–
Other creditors	**710**	545	**89**	78
	403,604	340,023	**398**	429
Less: Non-current portion	**623**	–	**–**	–
	402,981	340,023	**398**	429

Trade payables and accruals include amounts of US$45.1 million (2010: US$76.6 million) and US$25 million (2010: US$49.4 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.

19 Revenue

	2011 US$'000	2010 US$'000
Sales of crude oil	**1,146,068**	780,409
Crude oil underlifts	**4,445**	–
	1,150,513	780,409

20 Cost of sales and administrative expenses

	2011 US$'000	2010 US$'000
Cost of sales	**266,539**	264,683
Administrative expenses	**28,010**	28,206
	294,549	292,889

Analysed as follows:		
Depletion and depreciation (Note 7)	**205,419**	188,476
Field operating costs	**44,415**	46,163
Field staff costs	**28,742**	19,648
Other staff costs	**14,562**	12,466
Crude oil marketing costs	**665**	14,443
Net foreign exchange losses	**342**	267
Exploration and evaluation expenditure written off (Note 8)	**–**	1,157
Crude oil overlifts	**(12,680)**	(4,227)
Other administrative costs	**13,084**	14,496
	294,549	292,889

Comparative information presented above has been amended to accord to the current year presentation.

21 Finance income

	2011 US$'000	2010 US$'000
Interest on bank deposits	**15,533**	26,952

22 Profit before income tax

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

	2011 US$'000	2010 US$'000
Staff costs (Note 22(b))	**43,304**	32,114
Depletion and depreciation (Note 7)	**205,419**	188,476
Operating lease expenses	**1,337**	1,752
Auditor's remuneration – Group		
– Statutory audit of Group accounts	**197**	189
– Other assurance services	**186**	226
– Tax advisory services	**–**	113
	383	528
Auditor's remuneration – Company		
– Statutory audit of parent individual accounts	**10**	10
– Other assurance services	**–**	18
– Tax advisory services	**–**	81
	10	109

(b) Staff costs

	2011 US$'000	2010 US$'000
Wages and salaries	**45,361**	33,669
Social security costs	**1,121**	1,011
End of service benefits	**634**	717
Employee share options – value of services provided (Note 14)	**2,583**	2,066
	49,699	37,463
Less : Capitalised as part of development and production assets	**(6,395)**	(5,349)
	43,304	32,114

22 Profit before income tax Continued

(b) Staff costs Continued

	2011 Number	2010 Number
Average monthly number of persons employed by the Group during the year:		
Petroleum operations	**1,024**	890
Finance, administration and others	**199**	214
	1,223	1,104

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

	2011 US$'000	2010 US$'000
Fees for services as directors	**746**	718
Other emoluments	**1,640**	1,261
	2,386	1,979

Details of the directors' remuneration are disclosed in the directors' remuneration report on page 61.

23 Current and deferred income tax

	2011 US$'000	2010 US$'000
Analysis of income tax expense:		
Current tax		
– Amounts relating to current year	**190,738**	111,194
– Amounts relating to prior year	**–**	3,072
Net deferred tax	**32,584**	14,326
	223,322	128,592

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

	2011 US$'000	2010 US$'000
Profit before income tax	**871,738**	514,675
Tax calculated at domestic tax rates applicable to profits in the primary jurisdiction 25% (2010: 25%)	**217,935**	128,669
Tax effect of expenses not deductible	**6,116**	6,859
Effect of different tax rates in countries in which the Group operates	**(4,047)**	(6,636)
Current tax amounts relating to prior year	**–**	3,072
Others	**3,318**	(3,372)
	223,322	128,592
Analysis of the net deferred tax liability:		
Deferred tax liability to be settled after more than 12 months	**114,704**	86,402
Deferred tax liability to be settled within 12 months	**1,111**	–
Deferred tax asset to be recovered within 12 months	**–**	(3,171)
	115,815	83,231

The effective tax rate was 25.62% (2010: 24.98%).

At the year end, current income tax of US$243.4 million (2010: US$142.1 million) was payable.

23 Current and deferred income tax Continued

Deferred income tax assets and liabilities are offset since they relate to income taxes levied by the same taxation authority. The movement in deferred income tax liabilities and assets during the year is as follows:

Deferred tax liabilities

	Production and development asset depletion US$'000	*Crude oil underlifts US$'000*	*Total US$'000*
At 1 January 2010	77,902	–	77,902
Charged to the income statement	8,500	–	8,500
At 31 December 2010	86,402	–	86,402
Charged to the income statement	28,302	1,111	29,413
At 31 December 2011	**114,704**	**1,111**	**115,815**

Deferred tax assets

	Crude oil overlifts US$'000	*Others US$'000*	*Total US$'000*
At 1 January 2010	4,228	4,769	8,997
Charged to the income statement	(1,057)	(4,769)	(5,826)
At 31 December 2010	3,171	–	3,171
Charged to the income statement	(3,171)	–	(3,171)
At 31 December 2011	**–**	**–**	**–**

The Group has unutilised tax losses carried forward at 31 December 2011 from two entities amounting to US$58.5 million (2010: US$54.2 million). There is no time limit on the carry forward of such losses. A deferred income tax asset has not been recognised as the Group does not expect that future taxable profits will be available from these entities to utilise these losses.

During 2008, the effective tax rate applicable to the Group's operations in Turkmenistan was increased by 5% to 25% by the Hydrocarbon Resources Law of 2008. The Group has continued to apply this rate in determining its tax liabilities as at 31 December 2011. The Group is in discussions with the authorities in Turkmenistan about the applicability of this rate to periods prior to 2008, but it does not believe that these prior periods are affected by this increase. 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

	2011 US$'000	*2010 US$'000*
Profit attributable to equity holders of the Company	**648,416**	386,083

	2011 Number '000	*2010 Number '000*
Weighted average number of shares:		
Basic	**514,815**	515,210
Assumed conversion of potential dilutive share options	**1,388**	1,693
Diluted	**516,203**	516,903

Earnings per share attributable to equity holders of the Company:		
Basic	**125.95c**	74.94c
Diluted	**125.61c**	74.69c

24 Earnings per share Continued

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive options over ordinary shares.

25 Cash generated from/(used in) operating activities

Group

	Note	2011 US$'000	2010 US$'000
Profit before income tax		**871,738**	514,675
Adjustments for:			
– Depletion and depreciation	7	**205,419**	188,476
– Crude oil underlifts	19	**(4,445)**	–
– Crude oil overlifts	18	**(12,680)**	(4,227)
– Write-off of property, plant and equipment	7	**–**	3,088
– Employee share options – value of services provided	14	**2,583**	2,066
– Write-off of intangible assets	8	**–**	1,157
– Interest on bank deposits	21	**(15,533)**	(26,952)
Operating cash flow before changes in working capital		**1,047,082**	678,283
Changes in working capital:			
– Inventories	11	**7,977**	(3,656)
– Trade and other receivables	12	**(81,863)**	(41,009)
– Trade and other payables	18	**132,077**	38,547
Cash generated from operating activities		**1,105,273**	672,165

Company

	Note	2011 US$'000	2010 US$'000
Profit before income tax		**141,576**	92,475
Adjustments for:			
– Dividend income from a subsidiary undertaking		**(145,000)**	(95,000)
Operating cash flow before changes in working capital		**(3,424)**	(2,525)
Changes in working capital:			
– Other receivables	12	**(139)**	85
– Other payables	18	**(31)**	(3,553)
Cash used in operating activities		**(3,594)**	(5,993)

26 Commitments and contingent items

(a) Capital commitments

The capital commitments at the year end were as follows:

	Group		Company	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Contracted for but not yet incurred	**655,315**	663,874	**–**	–

(b) Other financial commitments

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

	2011 US$'000	2010 US$'000
Due within one year	**166**	166
Due between two to five years	**303**	470
	469	636

26 Commitments and contingent items Continued

(c) Letters of credit

The following commitments were outstanding as at 31 December 2011:

Letters of credit of US$20.4 million were in issue at 31 December 2011 (2010: US$20.5 million) towards the supply of equipment and services.

At 31 December 2011, the Company had a continuing guarantee for US$30 million (2010: US$30 million) for undrawn trade finance facilities of subsidiary undertakings.

(d) Taxation

At 31 December 2011, there was 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 Government of Turkmenistan. The agreement determines the rights and obligations of Dragon Oil (Turkmenistan) Ltd., inter alia, to carry out development activities through work plans and annual budgets. It also grants various tax, currency control and related concessions. However, there are no financial commitments, other than those disclosed above, arising from the terms of the PSA.

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 Emirates National Oil Company Limited (ENOC) LLC ("ENOC"). At the year-end, two members of the Board, Mr. Ahmad Sharaf (appointed 25 April 2007) and Mr. Mohammed Al Ghurair (appointed 25 April 2007) are nominees of ENOC.

	2011 US$'000	*2010 US$'000*
Trading transactions:		
(i) Sale of crude oil – company under common control	–	18,117
(ii) Sale of services – company under common control	**282**	278
	282	18,395
(iii) Purchase of services – companies under common control	**1,443**	2,246
Other transactions:		
(i) Finance income – companies under common control	**8,119**	17,577
Year end balances		
(i) Receivables – companies under common control	**61**	71
(ii) Term deposits – companies under common control	**930,059**	785,668
(iii) Cash and cash equivalents – companies under common control	**49,717**	17,238
(iv) Payables – companies under common control	**379**	460

Related party transactions of the Company mainly relates to loans to/from subsidiary undertakings which are disclosed under Note 9(b) and Note 10(a).

(b) Key management compensation

	2011 US$'000	*2010 US$'000*
Non-executive directors' fees	**746**	718
Salaries and short-term benefits	**4,791**	2,950
Short-term benefits	**5,537**	3,668
End of service benefits	**138**	165
Share-based payments	**1,096**	825
	6,771	4,658

Key management includes non-executive directors' and members of the Executive Committee.

28 Dividends paid

	2011 US$'000	2010 US$'000
Declared and paid during the year:		
Dividends on ordinary shares:		
Final dividend for 2010: US cents 14 per share (2009: nil)	**72,242**	–
Interim dividend for 2011: US cents 9 per share (2010: nil)	**46,442**	–
	118,684	–

29 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, HM12, 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 Oil (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

30 Subsequent event

At a meeting held on 19 February 2012, the board of directors' of the Company have proposed a final dividend of USc11 per share (2010: USc14 per share) be paid to the shareholders in respect of the full year 2011. The total dividend to be paid is US$56.2 million (2010: 72.2 million). In accordance with the accounting policy under IFRS set out in note 2.19, this dividend has not been included as a liability in these financial statements. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

Proved And Probable Commercial Reserves (Unaudited)

Commercial reserves

	Turkmenistan							
	Working interest				Entitlement			
	2011			2010	2011			2010
	Oil and condensate mmbbl	Gas bscf	Total petroleum mmboe	Total petroleum mmboe	Oil and condensate mmbbl	Gas bscf	Total petroleum mmboe	Total petroleum mmboe
As at 1 January	**639**	**1,559**	**899**	617	**309**	**636**	**415**	282
Revisions	**41**	**(63)**	**30**	39	**17**	**(43)**	**10**	38
Gas reserves	**–**	**–**	**–**	260	**–**	**–**	**–**	106
Production	**(22)**	**–**	**(22)**	(17)	**(12)**	**–**	**(12)**	(11)
As at 31 December	**658**	**1,496**	**907**	899	**314**	**593**	**413**	415

Notes:
1. Dragon has a 100% working interest in the Cheleken Contract Area in Turkmenistan.
2. Commercial reserves are estimated quantities of proven and probable oil and gas reserves that available data demonstrates, with a specified degree of certainty, to be recoverable in future from known reservoirs that are considered commercially producible. The working interest of the proved and probable commercial reserves 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 and gas reserves, future oil and gas prices, future development costs including the cost of drilling, infrastructure facilities and other capital and operating costs.
3. Based on the results of the recent assessment by an independent energy consultant, the Group has upgraded its reserves to 658 million barrels of oil and condensate at the year-end and 1.5 TCF of gas reserves corresponding to 250 million boe. Recognition of gas reserves is based on a plan for development, a reasonable expectation of a market for the expected sales quantities of gas, availability of infrastructure in place or planned to be installed.
4. Revisions are attributed to the change in cost estimates and long-term price assumptions in accordance with the fiscal terms of the PSA. The revision in the oil and condensate reserves during the year includes a volume of 23.3 million barrels of condensate reserves to be recovered from the gas stream.

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

Five-year financial summary

	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000
Group income statement					
Revenue	**1,150,513**	780,409	623,480	706,118	596,614
Cost of sales	**(266,539)**	(264,683)	(282,277)	(193,220)	(198,659)
Gross profit	**883,974**	515,726	341,203	512,898	397,955
Administrative expenses, net of other income	**(27,769)**	(28,003)	(26,758)	(18,138)	(17,611)
Other losses	**–**	–	–	(20,748)	(15,256)
Operating profit	**856,205**	487,723	314,445	474,012	365,088
Net finance income	**15,533**	26,952	30,553	25,050	19,172
Profit before income tax	**871,738**	514,675	344,998	499,062	384,260
Income tax expense	**(223,322)**	(128,592)	(85,971)	(130,020)	(80,346)
Profit after tax	**648,416**	386,083	259,027	369,042	303,914
Earning per share (US cents)					
Basic	**125.95**	74.94	50.30	71.81	59.50
Diluted	**125.61**	74.69	50.20	71.58	59.25
Group balance sheet					
Non-current assets	**1,353,978**	1,176,361	909,364	777,499	640,046
Net current assets	**1,351,005**	999,816	882,922	748,526	476,738
Non-current liabilities	**116,438**	(83,231)	(89,063)	(83,677)	(56,357)
Equity attributable to the Company's equity shareholders	**2,588,545**	2,092,946	1,703,223	1,442,348	1,060,427

Glossary/Definitions/Abbreviations

2C
Proved and probable contingent gas resources

A&D
Abandonment and decommissioning

AGM
Annual General Meeting

Assessment of reserves
Reserves certification based on a seismic survey conducted by an independent reserves auditor

boe
barrels of oil equivalent

bn
billion

bopd
barrels of oil per day

CEO
Chief Executive Officer

CGC
Corporate Governance Code issued by the Financial Reporting Council in June 2010

Combined Code
The Combined Code on Corporate Governance issued by the Financial Reporting Council

COO
Chief Operating Officer

CPF
Central Processing Facility

CSR
Corporate Social Responsibility

Dragon Oil/the Group
Dragon Oil plc and its various subsidiary companies

Dual completion
Two pay zones in the same well that produce independent flow paths in the same well

DWT
Dividend Withholding Tax

E&P
Exploration and Production

ENOC
Emirates National Oil Company Limited (ENOC) L.L.C.

EPIC
Engineering, procurement, installation and commissioning

EPS
Earnings per share

ERP
Enterprise Resource Planning

EU
European Union

FEED
Front End Engineering Design

FOB
Free On Board

GBP
Pound Sterling

GBp
Pence

GTP
Gas Treatment Plant

HR
Human Resources

HR Consultants
Mercer Human Resources Consulting, Hay Group and Towers Watson

HSE
Health, Safety and Environment

IAS
International Accounting Standards

ICGA
The new Irish Corporate Governance Annex to the Corporate Governance Code

IFRS
International Financial Reporting Standards

km
kilometre

Listing Rules
The listing rules of the Irish Stock Exchange and the U.K. Listing Authority

LTIPs
Long-Term Incentive Plans

mmscfd
million standard cubic feet per day

mn
million

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

Pigging
Pigging in the context of pipelines refers to the practice of using pipeline inspection gauges or ‘pigs’ to perform various maintenance operations on a pipeline (such as cleaning and inspection). This is done without stopping the flow of oil in the pipeline

Platform
Large structure used to house employees and machinery needed to drill wells in a reservoir to extract oil and gas for transportation to shore

Probable reserves (2P)
Reserves based on median estimates, and claim a 50% confidence level of recovery

Proved reserves (1P)
Reserves claimed to have at least a 90% certainty of recovery under existing economic and political conditions, and using existing technology

PSA
Production Sharing Agreement is a contractual arrangement for exploration, development and production of hydrocarbon resources in the Cheleken Contract Area

TCF
Trillion Cubic Feet

U.A.E.
United Arab Emirates

U.K.
The United Kingdom of Great Britain and Northern Ireland

US cents
United States Cents

US$
United States Dollars

Workover
Well intervention involving invasive techniques, such as wireline, coiled tubing or snubbing

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