Continuing to meet our targets

Dragon Oil plc Annual Report 2012

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The Essential Read

For the second year in a row, revenues exceeded US$1 billion due to strong oil prices and solid production growth. The Group's cash generating abilities remained strong: we generated US$1bn from operations during the year.

Read more on page 04

Our performance

Production challenges in early 2012 were successfully dealt with allowing us to close the year with the average December gross production of 73,500 bopd. We also entered two countries winning in bidding rounds for exploration assets.

Read more on page 22

Governance

We welcomed a new Independent Non-executive Board member and a Company Secretary to our team.

Read more on pages 49 and 50

Financial statements

This section provides Independent Auditor's Report to the Members of Dragon Oil plc, financial statements and notes to the financial statements.

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Dragon Oil (Ticker: DGO) 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.

The Essential Read

2012 was a strong year both on the financial and operational fronts.

For 2012, we reported robust financial and operational results. We surpassed US$1 billion in revenues as a result of strong oil prices and growth in production despite the challenges we faced during the year.

Summary

We earned over US$1 billion in revenues for a second year in a row due to strong oil prices and solid production growth. Our cash generating abilities remained strong: we generated US$1bn from operations during the year. The Group continued to return capital: the dividend payout of about 25% allowed us to reward our shareholders with a higher interim dividend and the Board of Directors recommended a higher 2012 final dividend of 15 US cents. This brings the total dividend for the year to 30 US cents. We also felt it was right to carry out a share buyback programme to return US$200mn to our shareholders, which was successfully completed last October.

During 2012, we had to deal with sand control issues. Our best resources - talented and experienced colleagues - across all operational departments acted together to solve the issue as quickly as was possible within the challenging operating environment of the Caspian Sea. Despite the sand control issue, we achieved a solid 10% gross production growth having completed more wells than we had originally planned.

Infrastructure expansion onshore and offshore supports our drilling programme and production growth. In 2012, work continued on the two new platforms for the Dzhygalybeg (Zhdanov) field, A and B. Tendering processes for a number of new platforms are currently ongoing and we have plans to install more platforms as we continue to develop the reserves in the Cheleken Contract Area.

We secured a marketing route for the full volume of our export entitlement production until the end of 2014 via Baku, Azerbaijan, that has proven to be a reliable outlet for our crude oil to-date.

Further progress was made on executing our diversification strategy. In Iraq, Dragon Oil, in a consortium of companies, was awarded exploration Block 9 in the Basra region, while in Afghanistan, again in a consortium of companies, we were selected as the winning bidder for two blocks, Sanduqli and Mzar-i-Sharif. In the offshore block in Tunisia, the Bargou Exploration Permit, we expect to commence drilling in March this year and look forward to seeing the results of this exploration activity.

We continue our search for the right-fit assets in the regions of interest, namely Africa, the Middle East, Central and parts of Asia.

Operational highlights

+15

15 wells completed against an initial target of between 13 and 15 wells

67,600bopd

Average gross production rose by 10%

180%

Reserves replacement rate

677mn

Oil and condensate 2P reserves increased to 677mn barrels

2

new countries entered in consortia of companies with contracts for exploration assets

Financial highlights

US$1,155mn

Revenue

Revenue exceeded US$1 billion

119.49 US cents

2012 Earnings per share (basic)

2012 full-year EPS diluted of 119.26 US cents

US$1,737mn

Cash balance, net of abandonment and decommissioning funds

Unleveraged position maintained

30 US cents

Full-year dividend

2012 final dividend of 15 US cents and interim dividend of 15 US cents

US$200mn

Share buyback

The programme undertaken in June to October 2012 to return value to shareholders

2013 is promising to be an exciting year for us to work as a strong team for the benefit of all our stakeholders.

In 2012, we advanced on the diversification front having entered two new countries where, in consortia of companies, we were awarded contracts for exploration assets.

January — March 2012

The Board of Directors

Thor Haugnaess from the oil services industry appointed Independent Non-executive Director to the Board of the Company.

Read more on page 49

The management

Ali Al Hauwaj joined as Exploration Manager to head Dragon Oil's exploration team and develop the Group's exploration expertise in line with the Group's strategy.

Read more on page 51

April — June 2012

Iraq

Dragon Oil, in a consortium of companies, awarded an exploration, development and production contract for Block 9 in Iraq.

Read more on page 32

Share buyback

The programme launched in recognition of the Group's strong financial position and significant cash generating abilities.

Read more on page 32

July — September 2012

Drilling on track

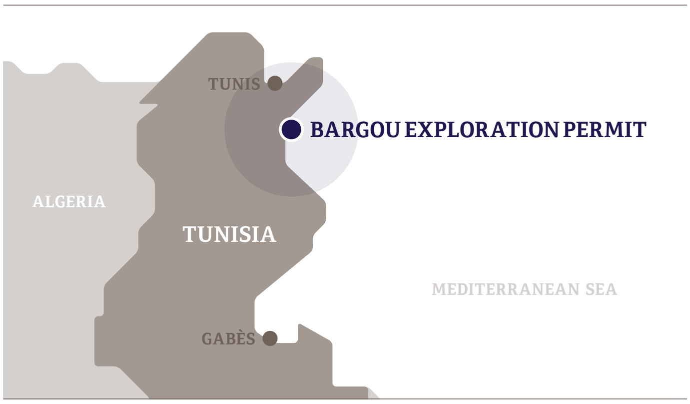
12 wells, including two sidetracks, completed in the first eight months of the year.

Read more on page 28

Drilling rig

The jack-up rig "GPS Jupiter" secured to drill the Hammamet West-3 well, offshore Tunisia.

Read more on page 32



October — December 2012

Afghanistan

Dragon Oil, in a consortium of companies, selected as the winning bidder for two blocks, Sanduqli and Mzar-i-Sharif, in Afghanistan.

Read more on page 32

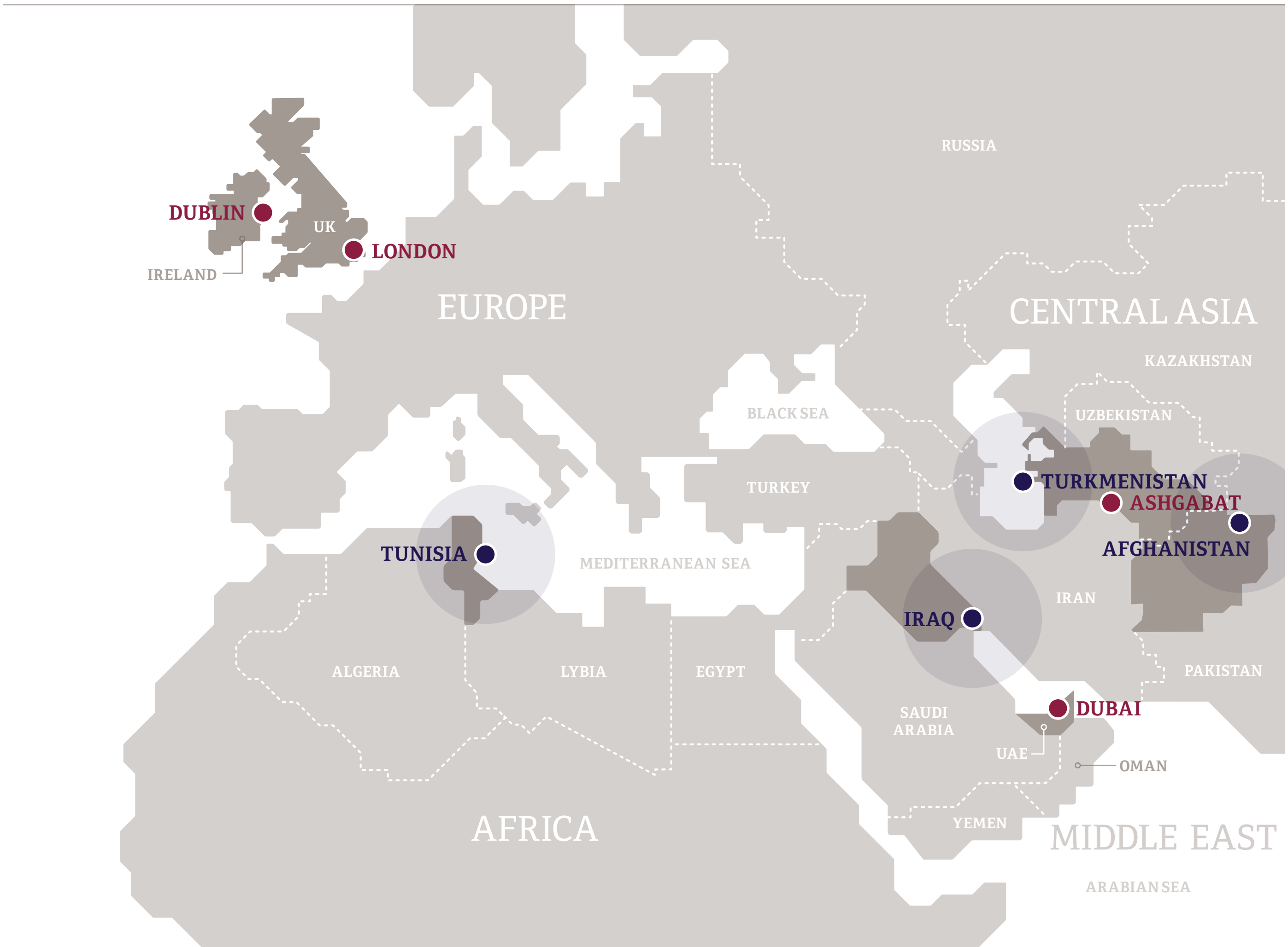
Drilling rigs

Two 2,000 horse-power platform-based ("land") rigs with specifications secured for drilling operations in the Cheleken Contract Area, Turkmenistan.

Read more on page 28

Dragon Oil's principal producing asset is the Cheleken Contract Area, offshore Turkmenistan. Our exploration assets are in Tunisia and Iraq; in 2012, we were also selected as the winning bidder for two blocks in Afghanistan.

Where we operate



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

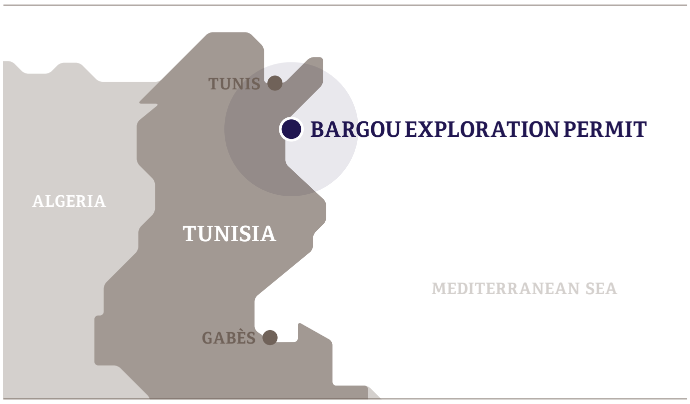
OUR PRODUCTION & EXPLORATION SITES

OUR OFFICES

Production: Turkmenistan ▸

The Cheleken Contract Area covers approximately 950km² (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. The area is being developed under a Production Sharing Agreement.

Read more on page 28



Exploration: ◂ Tunisia

The Bargou Exploration Permit, is located in the Gulf of Hammamet in the Mediterranean Sea, offshore Tunisia and covers an area of 4,616km² in water depths of approximately 50 to 100 metres. The Bargou Joint Venture comprises Dragon Oil (55%), Cooper Energy (30%) and Jacka Resources (15%).

Read more on page 32

Exploration: Iraq ▸

Block 9 is located in the Basra province, onshore Iraq, and covers an area of 866km². Kuwait Energy will be the operator for Block 9, participating with a 70% contractor share, while Dragon Oil has 30%.

Read more on page 32

Exploration: ◂ Afghanistan

Dragon Oil, in a consortium of companies comprising Kuwait Energy, Turkiye Petrolleri A.O. (TPAO) and the Ghazanfar Group, has been selected as the winning bidder for two blocks, Sanduqli and Mzar-i-Sharif, in the Afghan-Tajik Phase 1 Oil & Gas Tender.

Read more on page 32

Group at a glance

Continued development of the Cheleken Contract Area

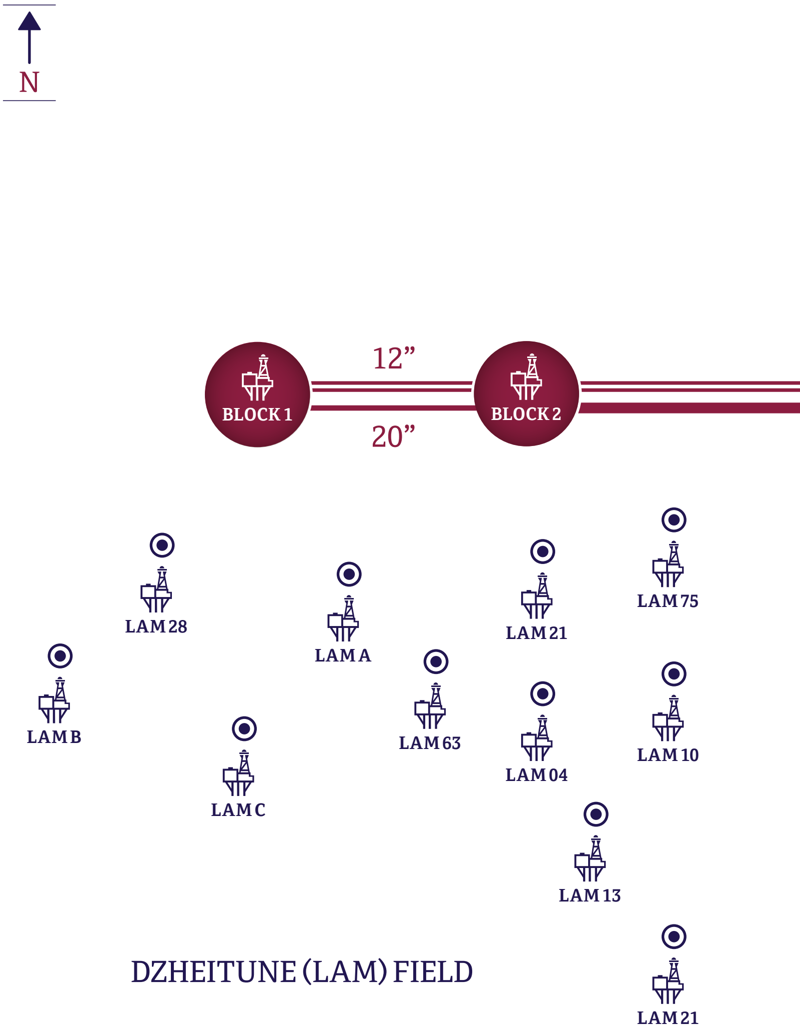
How it happens in the Cheleken Contract Area

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

Dragon Oil has been successfully operating in Turkmenistan for over 12 years. We have invested more than US$2.6bn in expanding the oil production and infrastructure in the Cheleken Contract Area, and as such, we are one of the largest foreign investors in Turkmenistan.

The Group has a medium-term development programme, which targets the 100,000 barrels of oil per day production rate to be achieved in 2015 and then maintained for at least five years. We employ over 1,400 employees of whom approx. 1,300 are working in Turkmenistan and a majority of whom are Turkmen nationals.

Read more on page 28



The Cheleken Contract Area (Lam and Zhdanov)

BLOCK

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

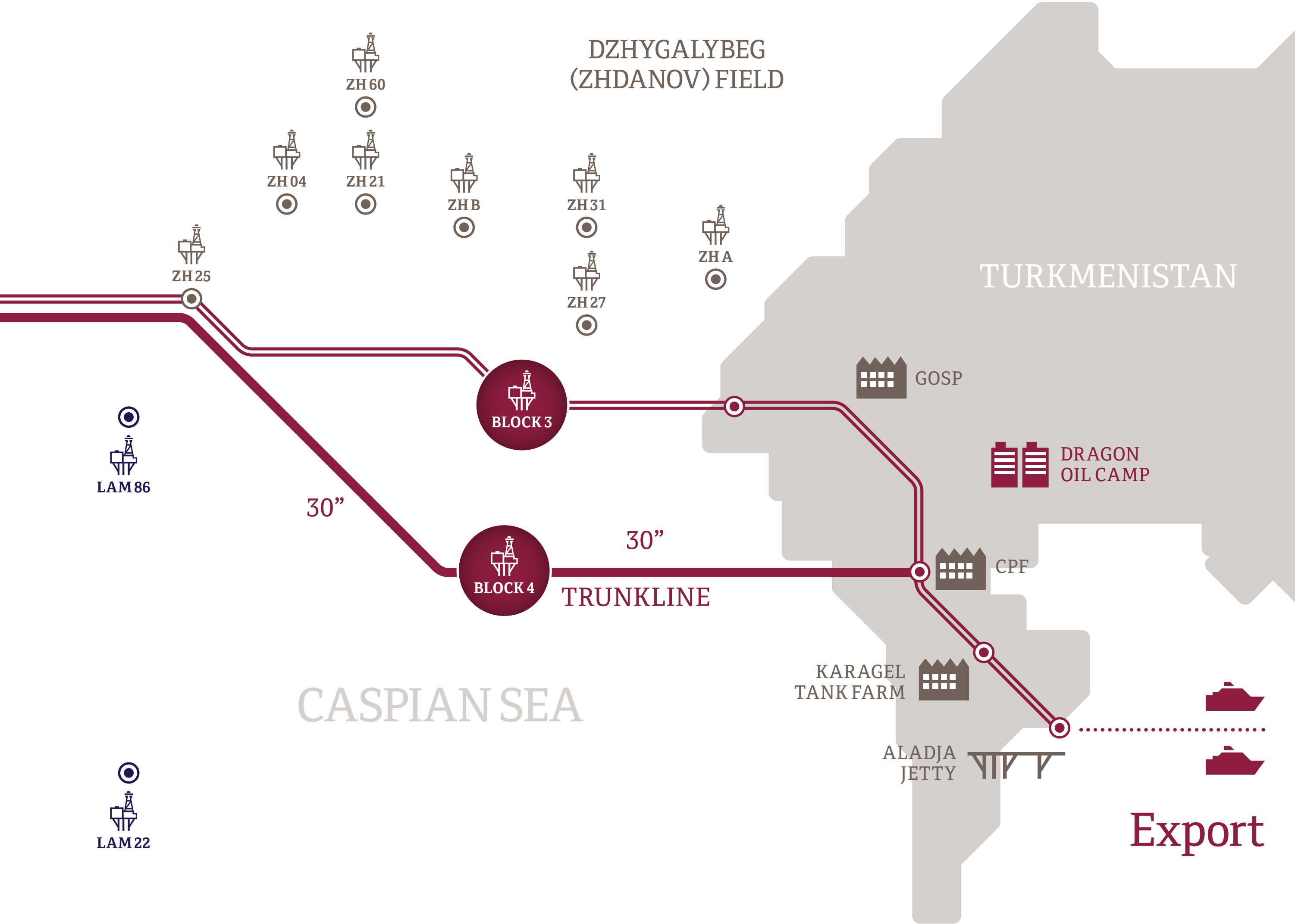
677mn barrels

Today's targets

- Target to reach a 100,000 bopd gross production rate in 2015 and maintain it for a minimum of five years starting from 2016.
- Evaluate options to enhance oil recovery from the reservoir by performing and analysing results of a water injection pilot project.
- Pursue opportunities in Turkmenistan to monetise the gas reserves and resources.

Future targets

- Target the 2013 average gross production growth at the lower end of the medium-term guidance of 10-15% on average per annum and target production growth of around 15% in 2014 and 2015.
- Perform the water injection pilot project at the Dzheitune (Lam) 75.
- Progress plans to build the Gas Treatment Plant.



Dzheitune (LAM) Field

LAM

Since 2000, Dragon Oil has drilled new wells, constructed and installed three new wellhead and production platforms, refurbished and upgraded existing platforms and performed workovers. The first well was drilled in 1967, first production commenced in 1978.

+77 new wells

Dzhygalybeg (Zhdanov) Field

ZH

The initial exploration and prospecting of the Zhdanov structure began in 1965. The first well with commercial oil and gas was drilled in 1966. Dragon Oil has completed a number of successful workovers in the Zhdanov field.

+1 new block

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

Achieving our goals

We achieve this through four key pillars: operational excellence, cost efficiency, organic growth and corporate activity.

Key Pillars

Operational excellence

Read more on page 24

Cost efficiency

Read more on page 36

Organic growth

Read more on page 28

Corporate activity

Read more on page 32

Objectives	Achievements	Future targets
▶ Continue to build infrastructure to support the drilling programme and production ▶ Flexible drilling programme based on platform-based and jack-up rigs ▶ Target sweet spots based on 3D seismic data and well history ▶ Reduce facility downtime	▶ The Dzhygalybeg (Zhdanov) Block-4 gathering platform and associated in-field pipelines completed and installed ▶ We install platforms suitable for drilling with a platform-based or jack-up rig or a combination of both ▶ We select targets based on the hydrocarbon distribution and oil reserves in every zone	▶ Plans to continue installing new platforms as we progress towards our 100,000 bopd target and beyond ▶ Secure platform-based and jack-up rigs for an uninterrupted drilling campaign ▶ Manage and maintain facilities and infrastructure at industry standards ▶ Re-map continuously the subsurface targets and drill to various depths
▶ Competitive bidding process for goods and services ▶ Platforms upgraded for additional slots to add capacity ▶ Disciplined budgetary controls ▶ Cost kept within pre-determined limits	▶ For every project, we conduct a competitive bidding process where we set out specific requirements governing quality, delivery and integrity ▶ Three slots were added on the Dzheitune (Lam) 28 platform ▶ Operating cost was higher at US$4/bbl primarily due to higher manpower costs and increased level of field activity	▶ Rigorous bidding process criteria will continue to apply to all projects ▶ Add slots on existing platforms on an ongoing basis to ensure flexibility in drilling sequence ▶ We aim to keep the costs within a reasonable range despite inflation and limited resource availability in the Caspian Sea region
▶ Increase production and mitigate decline rates ▶ Increase processing capacity ▶ Organic reserves growth by drilling and extending boundaries ▶ Generate growth in cash from operations	▶ A solid 10% growth achieved in 2012 despite the sand control issues ▶ The tendering process to select an EPIC contractor to increase the Group's crude oil storage capacity at the CPF is ongoing ▶ 180% reserves replacement – increase in oil and condensate 2P reserves is mainly due to an increase in reserves in shallow areas of the field ▶ The increase in operating cash was primarily attributable to production growth and sustained crude oil price	▶ Expect to grow 2013 average gross production at the lower end of the medium-term guidance of 10-15% on average per annum and target production growth of around 15% in 2014 and 2015 ▶ Expand processing capacity as and when required ▶ Drill appraisal wells, perform water injection pilot project ▶ We expect to maintain strong operating cash flow on the back of production growth
▶ Diversfication strategy: exploration interests and development assets ▶ Diversify in new geographical areas	▶ An exploration, development and production contract for Block 9 awarded to a consortium of companies, including Dragon Oil ▶ A consortium of companies, including Dragon Oil, has been selected as the winning bidder for two blocks, Sanduqli and Mzar-i-Sharif, in Afghanistan	▶ Continue to add exploration blocks and/ or a producing asset in the regions of interest to us: Africa, the Middle East and parts of Asia

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

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.

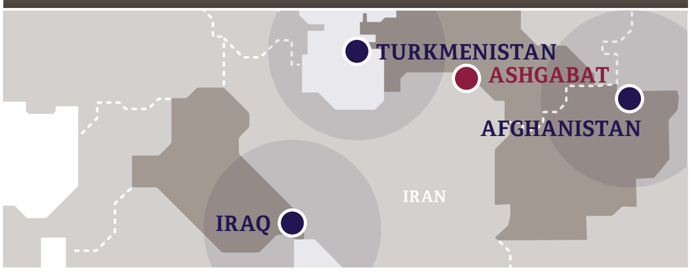
Our Vision

- 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.

1. Continued development of the Cheleken Contract Area

2. Gas monetisation

3. Diversification



2012 targets	Achievements	Future targets
▶ Complete between 13 and 15 wells in 2012 ▶ Target annual production growth of 15% in 2012 ▶ Dzhygalybeg (Zhdanov) A platform due in 2H 2012 ▶ Plans to award a contract in 2012 to build the Dzheitune (Lam) D and E platforms ▶ New jack-up rig under construction ("Caspian Driller") expected for delivery in 1H 2012 ▶ Additional platform-based rig is currently being sourced to be mobilised in 2H 2012	▶ We completed 15 wells, including two sidetracks of existing wells ▶ The average daily gross production grew by 10% due to impact from sand control issues ▶ Average daily production rate for the month of December 2012 was 73,500 bopd ▶ The contract to continue the use of the currently deployed jack-up rig extended for another two years ▶ Two platform-based rigs secured for drilling in the Dzhygalybeg (Zhdanov) field ▶ 180% organic reserves replacement of 2P oil and condensate reserves ▶ Marketing route for the full export volumes secured for two years to 31 December 2014 *Read more on page 24*	▶ Complete 13 to 15 wells and two workovers in 2013 and around 20 development wells per year in 2014 and 2015 ▶ Grow the 2013 average gross production at the lower end of the medium-term guidance of 10-15% on average per annum ▶ Target production growth of around 15% in 2014 and 2015 ▶ Drilling from the Dzhygalybeg (Zhdanov) A and B platforms due to commence in 2H 2013 ▶ Plans to award a contract in 2013 to build the Dzheitune (Lam) D and E platforms ▶ The delivery of the Caspian Driller is expected in mid-2013 ▶ Reach the 100,000 bopd production target in 2015 ▶ Evaluate options to enhance oil recovery from the reservoir by performing and analysing results of a water injection pilot project
▶ Minimise flaring and progress gas monetisation subject to market conditions	▶ We have the approval in place to go ahead with the tendering process to select a contractor to build a Gas Treatment Plant to strip condensate and produce export quality gas *Read more on page 32*	▶ Progress plans to build the Gas Treatment Plant to strip condensate and produce export quality gas
▶ Actively pursue the diversification strategy	▶ We added an exploration asset in Iraq and were selected as the winning bidder for two blocks in Afghanistan *Read more on page 32*	▶ Continue to pursue actively the diversification strategy

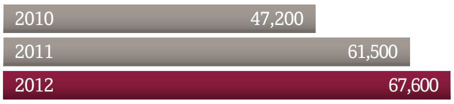
Dragon Oil's deliverability on commitment to create value for stakeholders is measured through five key result areas. These measurements seek to assess the Group's long-term growth as a safe operator and environmentally conscientious partner.

Key result areas

Production (bopd)

Read more on page 28

67,600bopd



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

Operating cost per barrel (US$)

Read more on page 36

US$4.0pb

The Group is committed to maintaining the operating cost within a reasonable and manageable range, which is also comparable wherever possible to industry and its peers' standards.

Performance in year

2012
The average gross production growth during the year was 10% due to curtailed production in 2Q 2012 as a result of the sand control issues.

2012
Operating cost per barrel was higher at US$4/bbl primarily due to higher manpower costs and increased level of field activity.

Outlook

2013
We expect to grow the 2013 average gross production at the lower end of the medium-term guidance of 10-15% on average per annum.

2013
We aim to keep the costs within a reasonable range despite inflation and limited resource availability in the Caspian Sea region.

Reserves replacement (%)

Read more on page 30

180%

2010	228
2011	183
2012	180

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

2012
The 2012 year-end oil and condensate 2P reserves were upgraded to 677mn barrels after having allowed for the year's production. The increase in oil and condensate 2P reserves is mainly due to successful drilling in and production performance of shallow areas of the field.

2013
Continue activities that may potentially lead to reserves replacement, such as drilling appraisal wells and implementation of the water injection pilot project.

Operating cashflow before working capital changes (US$)

Read more on page 37

US$1bn

2010	678
2011	1,047
2012	1,023

The Group's goal is to ensure that operating cash flow funds our capital expenditure in the Cheleken Contract Area, dividend payments and return of capital to shareholders.

2012
The increase in operating cash was primarily attributable to production growth and sustained crude oil price.

2013
We expect to maintain strong operating cash flow on the back of production growth.

Lost time incident frequency (LTIF)

Read more on page 42

1.26LTIF

2010	1.46
2011	1.30
2012	1.26

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

2012
LTIF reflected an improvement over last year at 1.26.

2013
Our aim is to keep reducing the LTIF as we grow and work more hours, making our operations safer.

Enterprise Risk Management (ERM) Framework:
The Dragon Oil ERM Framework consists of three core elements: governance, process and culture & compliance.

Managing business risk

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

Read more on page 52

Governance

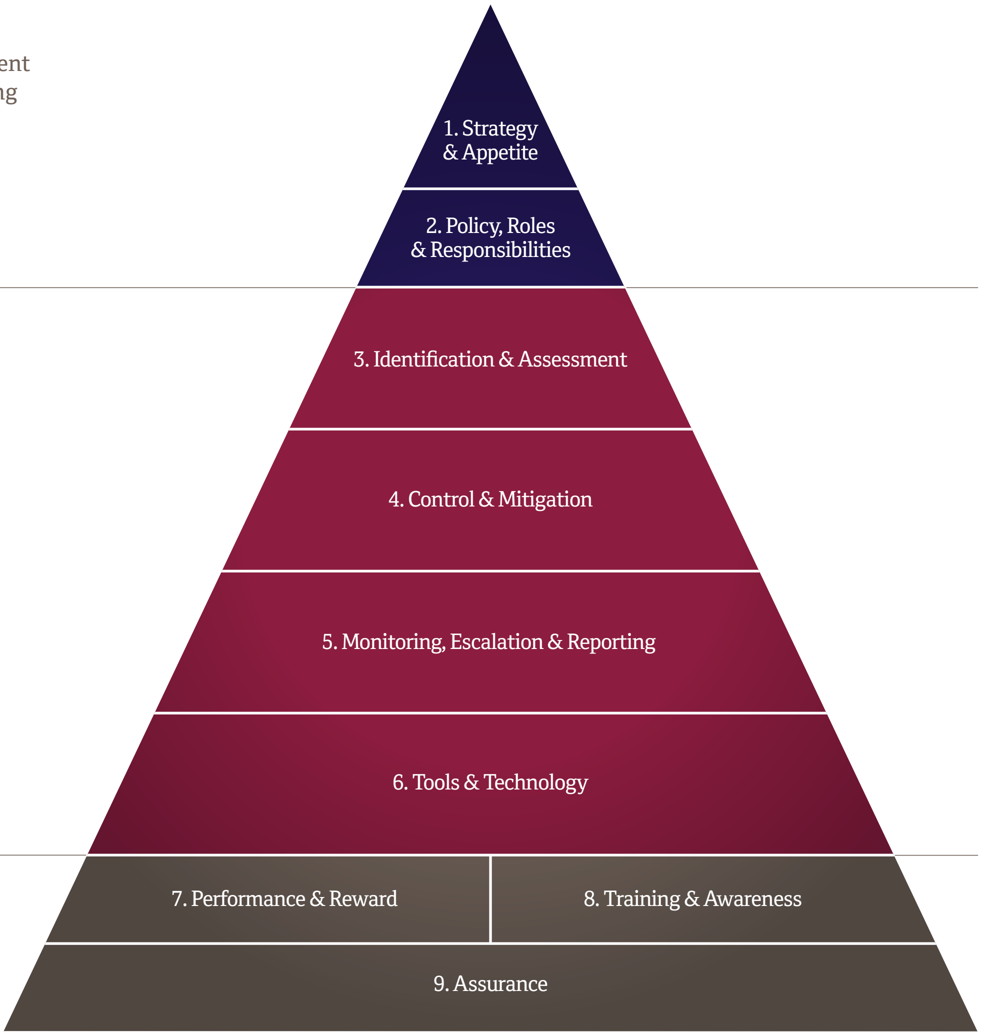
The Board is committed to risk management by setting up a clear structure and defining roles and responsibilities.

Process

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

Culture & Compliance

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



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

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

3. Risk Identification and Assessment

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

4. Risk Control and Mitigation

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

5. Risk Monitoring, Escalation and Reporting

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

6. Infrastructure (Tools and Technology)

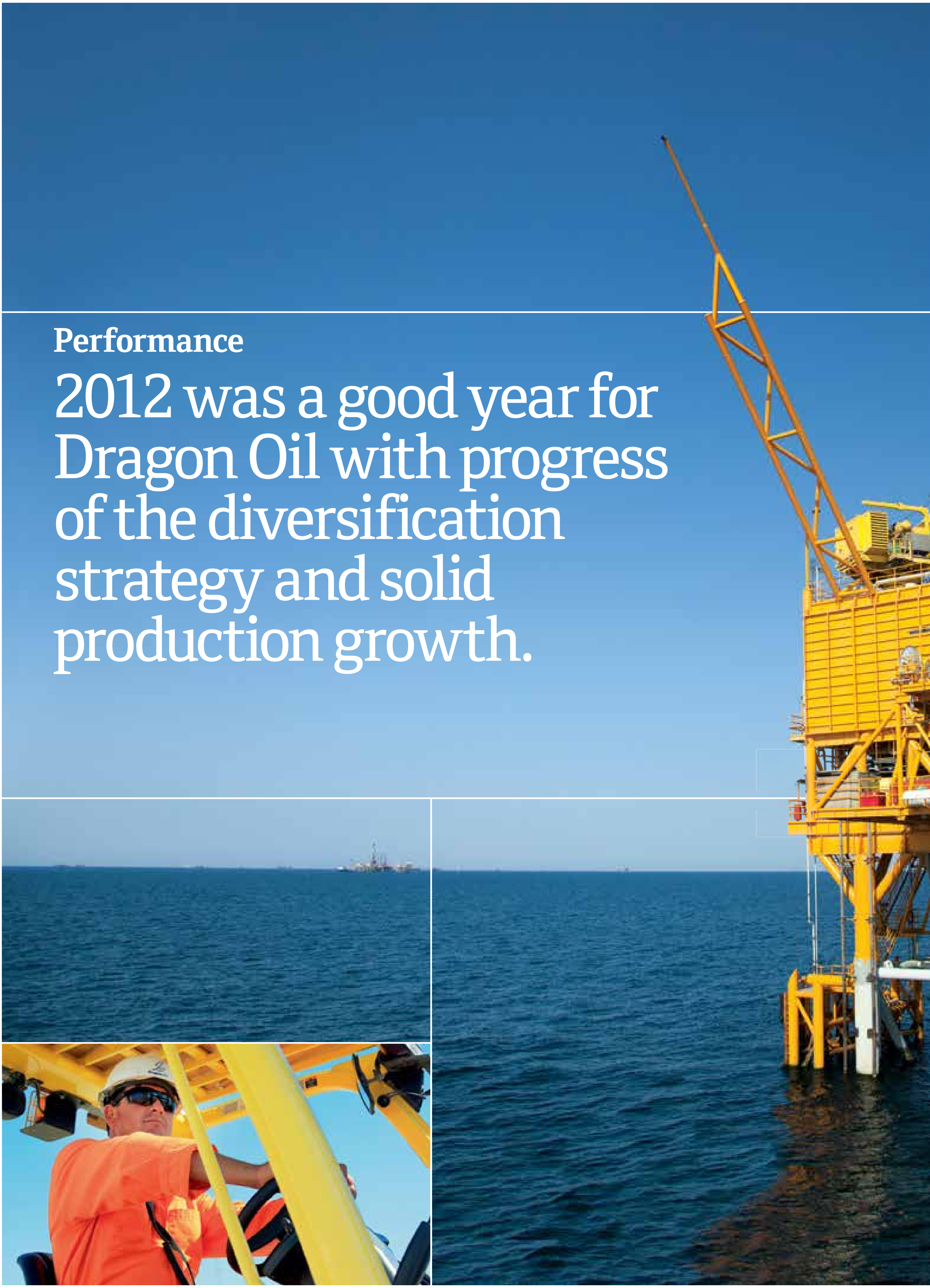
- Risk Management technology and IT systems that support and enable the business to embed the risk management processes and deliver risk relevant data.

7 & 8. Awareness and Communication

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

9. Assurance over Significant Risks

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



Performance

2012 was a good year for Dragon Oil with progress of the diversification strategy and solid production growth.


LAM B

While the world in 2012 was, for many, a place of uncertainty and volatility, Dragon Oil continued on course and on schedule to our next destination — 100,000 bopd of gross production from the Cheleken Contract Area in 2015.

For many companies – and indeed countries – 2012 was a year they would like to forget. Yet in our own space, the oil price proved its resilience and strength once again, averaging around US$112 and maintaining its solid run of around two and a half years.

Dragon Oil put in resilient performance in 2012, despite experiencing some challenges along the way. In delivering good results, we showed how we are equipped to meet adverse issues head-on, and have the team spirit and expertise to win through.

A sound year
We had a good year with gross production up by a healthy 10% despite temporary operational issues, addressed by our management and staff quickly and professionally. The gross production in 2012 averaged 67,600 bopd and we exited the year with a strong December average production of 73,500 bopd. Dragon Oil's revenue exceeded US$1bn for a second consecutive year and the Group generated US$600mn in net profit, allowing the Board to recommend a higher final dividend for 2012.

Our strategy
These results were achieved through continuing to follow our clear and consistent strategy, with three areas of focus.

The first is to accelerate the development of the Cheleken Contract Area in Turkmenistan. This is our major asset, located in the Eastern Section of the Caspian Sea. We operate the project under a PSA. Our drilling of 15 wells, at the top end of our expectations, was another important benchmark in pursuing this objective. We are on track to reach our target of 100,000 bopd in 2015 and then maintain this level for at least five years thereafter while we explore water injection potential.

The second is to develop opportunities for gas. Timing is key here: the market is waiting for an upturn. In the interim, we plan to start construction of a Gas Treatment Plant in 2013, ready to strip condensate and produce processed gas.

The third area of focus is to diversify into other hydrocarbon exploration and development opportunities outside of Turkmenistan. The coming year will see us drilling in Tunisia's Bargou Permit, as well as progressing our participation in projects in Iraq and Afghanistan.

All the while, we are assessing development possibilities in Africa, the Middle East and parts of Asia.

Returning value to shareholders
We are always looking to align our strategy of creating value with the interests of our loyal shareholders. We introduced the dividend policy in 2011, and in 2012, given the Group's continued strong performance and healthy balance sheet, we were delighted to announce an increase of 67% in the interim dividend to 15 US cents. In addition, we are recommending a higher final dividend of 15 US cents.

The Company's US$200mn share buyback programme, undertaken in June-October last year, is another strand of this strategy. In a volatile market climate, we were pleased to be able to return some significant value to our shareholders. Our retail shareholders in particular found this to be a welcome boost.

At the same time, our priority is to retain a sizeable cash reserve for our diversification ambitions. Therefore, we aim to strike a very careful balance between returning value to shareholders, retaining enough for the growth of the Group and being ready and able to enhance both when opportunities materialise.

The board and corporate governance

During the year, we welcomed Thor Haugnaess to our Board. Thor brings 25 years of oil services experience to the Board and the depth of his knowledge and expertise will undoubtedly contribute to the further success of the Group.

What has remained unchanged is our commitment to the highest standards of corporate governance at Dragon Oil. This includes the criteria for recruiting directors and refreshing the Board; the way we split roles and responsibilities; and immovable standards governing integrity and ethics.

During the year we engaged an independent facilitator to coordinate the evaluation of the Board's performance in 2011. The assessment found that the Board was robust and comprised a wealth of operational, technical and regional experience. It also identified the potential for improvement in succession planning and in Board and committee structures. We will conduct an internal performance evaluation during the year, and directors' training is also planned as part of our periodic programme to sharpen governance skills.

Raising our game

I have always admired the management guru, the late Peter Drucker. He described leadership as "lifting a person's vision to higher sights, the raising of a person's performance to a higher standard".

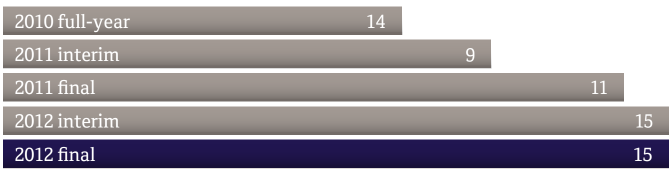
For example, in 2012 we invested nearly US$1mn in training, internally and externally, across the business. This included 49 high achievers from across our core departments who were selected for special training that will boost their skills and enhance our performance.

I have always seen this success as a consolidated effort of our Board, management and our employees. The support of the State Agency and other Turkmen authorities was vital and necessary to achieve the 2012 results.

Finally, I would like to thank all our loyal shareholders and we look forward to another year of success in 2013.

Mohammed Al Ghurair
Chairman

Dividend
(US cents per share)



This was a year where we showed our ability to cope with difficulties. We drilled at the top of our expectations, dealt with unexpected issues and put in place the infrastructure for a productive 2013.

Certainly, in 2012 we encountered challenges, but that makes our overall performance for the year all the more satisfying. We exited the year with growth of a creditable 10% despite a period of curtailed production. We demonstrated our ability to face, assess and solve problems, quickly and effectively.

We also made further progress with our diversification plans; invested in infrastructure being built or installed for 2013; and cemented still further our credentials as good corporate citizens in the home of our main asset in Turkmenistan.

Our ambitious target of 100,000 bopd also remains on track.

Delivering on drilling

In 2012, we also showed our ability to continuously optimise our plans. By re-mapping our potential targets we found that we could exceed our scheduled drilling while still using the same drilling fleet. This resulted in 15 wells having been completed (target was between 13 and 15).

The flow rates were mixed, but we are keeping in mind some deep zone targets in these wells for the future; we believe this will add more potential.

We are looking forward to sustaining the momentum of our drilling in 2013, with two new platform rigs secured and the arrival of the new jack-up rig Caspian Driller.

Sanding: assessed, addressed, resolved

Sand control is vital to reliable production in many clastic reservoirs where sand can present a major challenge to well production. Mindful of industry-wide experience of sand control, almost two years ago we initiated a programme of completing most new wells with sand screens. We put in place enhanced sand control processes including a desander on the Dzheitune (Lam) 63 platform and sand monitoring and disposal downstream of the wells.

In 2Q 2012, we identified certain sand control issues and had to choke down some of our wells. This reduced production rates in certain areas while we explored various ways of mitigating the issue. We installed two new de-sanding units at the Dzheitune (Lam) wells, increased de-sanding in the processing facility and continued to install sand screens on new wells.

Our actions proved successful. A few months after the issue revealed itself we had resumed production at previous levels, while restricting sand production to below industry averages.

I believe that the true measure of a company is revealed when challenges come to the fore. Our team rose to the task, assessing the conditions, procuring and installing the appropriate equipment and bringing about a swift and effective conclusion to the sand control issue.

2012 Highlights

Health, safety and environment

We firmly believe that to create a sustainable business sound HSE performance is important. With improving HSE performance in mind, we take it into account when making any business-related decision. We will look to implement all measures to protect the health and safety of our workforce as well as to protect the environment in which we operate.

Over the last few years, Dragon Oil has introduced and implemented a variety of policies and procedures to decrease the Lost Time Incident Frequency (LTIF) rate.

Strong management

The demands of offshore facilities and the drilling fleet are always considerable, but in the Caspian Sea region they are more pronounced due to limited contracting resources. This is particularly true of jack-up rigs and new infrastructure. It is an issue that affects all the leading players, and I believe it is a testament to our management team that we have maintained – and indeed came at the top of our expectations – our drilling targets, initiated and progressed a number of infrastructure projects.

We draw our expertise from far and wide; indeed, we have 40 nationalities at Dragon Oil, and the synergy of their skills creates a potent force. Our capabilities in the areas of logistics, procurement, project execution, drilling and production growth consistently translate into tangible results. Keeping those skills fresh and current is also a constant priority. We invest heavily in training to keep our teams abreast of new technologies and techniques.

Diversification

In 2012, we continued our active search for new opportunities that can broaden the base of the Group. In particular, our searches have been focused on Africa, parts of Asia and the Middle East, looking to replicate our extensive expertise gained in Turkmenistan in other shallow offshore or onshore locations.

We are fortunate in having considerable financial resources available for the right opportunity, whilst we continue with our screening process. We are clear that any new development opportunity must offer an exploration upside and play to our strengths, as well as be sensibly priced.

Although 2012 did not result in any signatures in the development arena, we are continuing to invest time and resources in screening multiple assets. Meanwhile, we were pleased to make good progress with our participation in three exploratory blocks.

▶ Tunisia – the Bargou Exploration Permit
We anticipate being able to start drilling this shallow offshore block (4,616 km^2) in March 2013.

▶ Iraq – Block 9
In May 2012, a consortium including Dragon Oil was awarded an exploration, development and production service contract for Block 9 in Iraq's fourth bidding round and, in January 2013, the Iraqi Ministry of Oil signed the final service contract with the consortium. This onshore block (900 km^2) is in the Basra province.

67,600bopd

Average gross production from the Cheleken Contract Area grew by 10%.

15 wells

Fifteen wells completed, at the top end of our expectations.

3

Presence in three countries with exploration assets: Tunisia, Iraq and Afghanistan.

- **Afghanistan – Sanduqli and Mzar-i-Sharif blocks**
  Dragon Oil has bid successfully with Kuwait Energy, Turkiye Petrolleri A.O. (TPAO) and a local partner, the Ghazanfar Group, on two blocks. The contract terms are being negotiated with the government.

Gas: preparing for an upturn
There are times when the climate demands a patient waiting game, and our plan for gas is certainly one. Although prospects for a viable gas market exist in the medium term, our plans are to go ahead with extracting valuable condensate with an option to produce and deliver processed gas as and when demand picks up. To this end we will soon be tendering out the construction of a Gas Treatment Plant with a higher processing capacity of 360 mmscf/day as compared to the previous plan of 220 mmscf/day. Meanwhile, our current gas production is around 150 mmscf/day, and we have continued to supply unprocessed gas to the local compressor station at Hazar, and to the local community and nearby factories.

Water injection and other upsides
We look forward to the pilot water injection project to explore the potential of water injection to increase recovery, having seen encouraging results from our injectivity tests. We have finalised the procurement of the equipment for the programme, which we will deploy initially in the Dzheitune (Lam) 75 area and then potentially in the Dzheitune (Lam) 13 area. On conclusion of the project, we intend to examine the opportunity of implementing it on a wider scale.

In addition, we are looking at

- artificial lifts of crude oil from wells using jet pumps and a range of other means. This has the potential to increase production and reserves of the existing wells;
- drilling appraisal wells within the next three years to delineate the Dzheitune (Lam) and Dzhygalybeg (Zhdanov) fields. We expect this will help define new production areas for platforms to be installed; and
- drilling in the Dzhygalybeg (Zhdanov) field for the first time in 2013, and any upside in potential will positively impact our production forecasts in the future.

As we move closer to 2015, we will be approaching our 100,000 bopd target.

Reserves
As in the previous year, we have added to our oil and condensate reserves, achieving a 180% reserves replacement against 2012 gross production. The drilling campaign in the Dzheitune (Lam) area has been largely targeted at good quality shallow sands. The drilling results and production performance of wells in this area have justified an increase in 2P reserves.

In 2012, we completed an update on reserves prepared by an independent petroleum consultant. Based on their assessment, the 2012 year-end oil and condensate 2P reserves were upgraded to 677 million barrels (31 December 2011: 658mn). The gas 2P reserves and contingent resources remained at a similar level of c. 3.0 TCF (31 December 2011: 3.0).

Supporting local communities
We never forget that the success of Dragon Oil is hard-wired to the welcome and cooperation of its host countries. In Turkmenistan we are fortunate to work productively with the government and we are supported by a skilled and highly committed local workforce.

In turn, it is only right that we play our part in improving the quality of life in Hazar (our centre of operations) and the well-being and prospects of its people.

In early 2013, we completed a polyclinic building, including related infrastructure, at a cost of US$5mn and we are proud to be opening the clinic for the people of Hazar, offering a range of essential treatments.

We have carried out refurbishment projects of local schools; we buy instruments for schools and sports supplies for clubs; we sponsor sports activities for people; and we have contributed to the local infrastructure projects.

In our operations, we are also determined that the local area benefits wherever possible. Some 91% of our workforce in Turkmenistan is made up of local people, and four of our platforms and gathering stations have been built or assembled in Hazar. Indeed, we endeavour to have 20% local component for EPIC contracts.

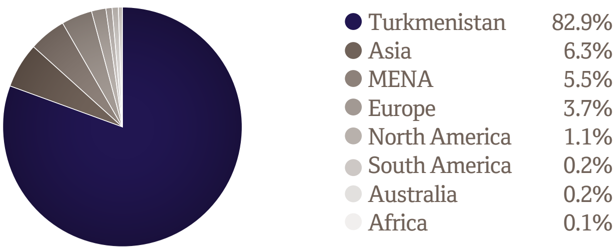
Ready for a significant year
I believe that 2012 will prove to be an important springboard for our activities in 2013 and beyond.

Both the Dzhygalybeg (Zhdanov) A and B platforms will be ready for drilling in 2H 2013. Mid-year should also see the arrival of the Caspian Driller and the first results of the water injection project. 2013 will also see exploration drilling activities and initial well results in the Tunisian offshore block, as well as preparations for exploration activities in Iraq.

Our vision to become a multi-asset Company is driving our expansion strategy; last year we entered two more countries with exploration blocks. Couple this with the capabilities of the team that delivered at the top end of its drilling targets and coped so successfully with the year's challenges, and our focus on diversification, gas monetisation and the 100,000 bopd target in 2015 target remains firm.

Dr Abdul Jaleel Al Khalifa
Chief Executive Officer

Nationalities



Organic growth

In 2012, we targeted shallow layers of the Dzheitune (Lam) field that proved to be of good quality.

Revenue
(US$mn)

We earned US$1 billion in revenues as a result of strong oil prices and growth in production despite sand control issues in 2Q 2012, which constrained production rates in certain wells, but are now under control.

Turkmenistan

Production

The average gross field production for 2012 reached 67,600 bopd (2011: 61,500 bopd) on the back of 15 wells completed in the Dhzeitune (Lam) area. The solid 10% growth was achieved despite the constraining impact from the sand control issues announced in 2Q 2012, which were more than offset by the increased production flow from the higher number of wells completed in 2012. The issues were resolved within a few weeks and production continued to grow: by mid-August the production rate was above 70,000 bopd. The initial schedule of completing between 13 and 15 wells during 2012 was upgraded to 15 wells.

The entitlement production for 2012 was approximately 48% (2011: 53%) of the gross production. Entitlement barrels are finalised in arrears and are dependent on, amongst other factors, operating and development expenditure in the period and the realised crude oil price. The lower proportion of entitlement barrels in 2012 is primarily due to the workings of the Production Sharing Agreement ("PSA") for the Cheleken Contract Area.

Marketing

11.6 mn barrels (2011: 11.4 mn barrels) of crude oil were sold in 2012. The volumes sold were marginally higher than the previous year's level mainly due to higher production, offset by lower entitlement and changes in the lifting and inventory positions.

In 2012, Dragon Oil exported 100% (2011: approximately 99%) of its crude oil production through Baku, Azerbaijan.

In January 2013, the Group reached an agreement that secured a reliable export route for all its anticipated entitlement production until 31 December 2014, FOB (free-on-board) the Aladja Jetty, through Baku, Azerbaijan. It is expected that the realised crude oil prices under this contract will be in the range of a 14-17% discount to Brent.

The Group was in an overlift position of approximately 0.1 mn barrels of crude oil at the end of 2012 (31 December 2011: underlift position of 0.05 mn barrels of crude oil).

Drilling

We retain flexibility in our drilling programme and will optimise it as we progress through the year. We deployed rigs on the new Dzheitune (Lam) C platform and where we have additional spare capacity, the Dhzeitune (Lam) 28, A and 13 platforms.

The Group also re-assesses continuously the subsurface targets and drills to various depths based on the hydrocarbon distribution and oil reserves in every zone. The targets in 2012 were mostly in shallow layers, where we performed single or dual completions or sidetracks of existing wells. The Group had realised shorter drilling times and, consequently, more wells were completed during the stated period. We also retain an option of returning to deeper targets in the future.

The initial flow rates from the completed wells vary due to a number of factors, including depth of completions, maturity of the area and type of completion (a dual or single completion or a sidetrack). Overall, the results were largely in line with our expectations.

During 2012, Dragon Oil completed a 15-well drilling programme in the Dzheitune (Lam) field. The following table summarises the results of this drilling programme:

Well	Completion date	Depth (metres)	Type of completion	Initial test rate (bopd)
13/140A	January	2,237	Single sidetrack	2,123
A/165	January	3,060	Dual	2,272
28/166	February	2,810	Single	1,975
C/167	March	2,765	Dual	3,396
13/168	April	2,791	Single	1,008
28/169	May	2,010	Single	2,097
C/170A	June	2,730	Dual	2,072
13/171*	June	2,893	Single	–
28/172	June	2,007	Single	1,976
C/173	July	3,015	Dual	2,918
28/174	July	1,976	Single	1,705
13/144C	July	2,637	Single sidetrack	956
C/175	September	2,721	Single	1,420
A/176	November	1,786	Single	1,462
A/177	December	3,085	Single	1,796

***Note:**
No commercial oil flow, we are evaluating the feasibility of using this well for water injection purposes at a later date.

Since the beginning of the year, we have completed the Dzheitune (Lam) 28/178 development , which is currently being tested.

Three drilling rigs operated for Dragon Oil for most of 2012. Two of these rigs, a jack-up and a leased platform-based rig, are expected to be used in 2013 for all of the year. The contract to continue using the currently deployed jack-up rig has been extended for another two years until May 2015. The contract for the use of the leased platform-based rig has been extended to complete another three wells.

The two platform-based rigs the Group awarded at the beginning of 4Q 2012 are scheduled to commence drilling in the Dzhygalybeg (Zhdanov) field in 2H 2013. We expect the delivery of the Caspian Driller jack-up rig in mid-2013.

Average production (on a working interest basis)
(Barrels of oil per day)

2010	47,200
2011	61,500
2012	67,600

Marketing of crude oil
(mn barrels)

2010	10.8
2011	11.4
2012	11.6

Average realised crude oil price
(US$ per barrel)

2010	72
2011	101
2012	100

Operational excellence

In 2012, we completed 15 wells, at the top end of our expectations.

Water injection project

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. We have converted one of the wells in the target Dzheitune (Lam) 75 area into an injector-type well and will commence injection of water and monitoring shortly as part of the pilot water project. Similar activities are being undertaken in the Dzheitune (Lam) 13 area.

Infrastructure

The Dzhygalybeg (Zhdanov) A platform modules will be mobilised in 1Q 2013 to the field and the platform is expected to be ready for drilling in 2H 2013. Drilling is scheduled to commence thereafter from this platform using one of the platform-based rigs. The Dzhygalybeg (Zhdanov) B platform, which is being assembled in Dragon Oil's yard in the harbour area in Hazar, Turkmenistan near our operations, is scheduled for installation in 2H 2013. Drilling from this platform is expected to commence in 2H 2013. Both platforms have 16 slots each: eight for drilling with a jack-up rig and eight for drilling using a land rig.

We expect to award contracts to build and install the Dzheitune (Lam) D and E platforms and associated pipelines in due course. Construction is expected to take up to two years once the contracts are awarded. These platforms will be built for drilling with a jack-up rig with eight slots each initially.

The tendering processes to award contracts for the construction and installation of another two platforms in the Dzheitune (Lam) field and associated pipelines are ongoing. We expect to be able to award contracts for the construction of these platforms in 1H 2013.

The Group's plans to triple its crude oil storage capacity are progressing. The tendering process to select an engineering, procurement, installation and construction contractor to increase the Group's crude oil storage capacity at the Central Processing Facility is in the bids evaluation stage. We expect the award of the contract to happen in 1H 2013 and the construction phase to take two years with a number of tanks built on a priority basis.

Within the first phase of its strategy for plugging, abandonment and decommissioning of the old non-producing wells and non-producing platforms in the Cheleken Contract Area, Dragon Oil has plugged and abandoned two non-producing old wells. The execution of this strategy is part of the abandonment and decommissioning activities the Group plans to undertake under the PSA. Up to 13 non-producing wells remain to be logged for evaluation before being completely plugged and abandoned. The cost of the project is to be covered from the abandonment and decommissioning funds.

Reserves and resources

Based on the results of the recent assessment by an independent energy consultant, the 2012 year-end oil and condensate 2P reserves were upgraded to 677 (31 December 2011: 658) mn barrels after having allowed for the 2012 production of 25 mn barrels. The oil and condensate contingent resources of 59 mn barrels compared with 88 mn barrels as of 31 December 2011; the decrease is on account of a change in the resource base after recognising an increase in 2P reserves.

The gas 2P reserves remained at 1.5 TCF while the gas contingent resources remained at 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.

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.

	As at 31 December 2012		As at 31 December 2011		As at 31 December 2010	
Proved and Probable	Oil and Condensate	Gas	Oil and Condensate	Gas	Oil and Condensate	Gas
Remaining Recoverable Reserves	mn barrels	TCF	mn barrels	TCF	mn barrels	TCF
Gross field reserves to 1st May 2035	677	1.5	658	1.5	639	1.6
2C Resources						
Gross oil and condensate contingent resources	59	–	88	–	47	–
Gross gas contingent resources	–	1.4	–	1.4	–	1.4

Capital Expenditure – infrastructure
(US$mn)

Capital Expenditure – drilling
(US$mn)

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

Organic growth

180%

Reserves replacement. The increase in oil and condensate 2P reserves is mainly due to successful drilling in and performance of shallow areas of the field.

Gas Monetisation

We have the approval to commence the tendering process for an engineering, procurement, installation and construction project for the Gas Treatment Plant and will proceed in due course; the construction phase is likely to take two to three years after the contract is awarded in 2H 2013.

The processing capacity of the plant is expected to be higher at 360 mmscfd of gas as compared to a previous plan of 220 mmscfd, which, according to our estimates, which are to be verified at a later stage, should allow us in the future to strip around 3,600 barrels of oil equivalent per day of condensate and blend our share of condensate with our entitlement share of crude oil. The split of the produced condensate is subject to the same terms under the PSA as for crude oil.

Tunisia

The Bargou Joint Venture, comprising Dragon Oil (55%), Cooper Energy (30%) and Jacka Resources (15%), has secured a drilling rig from Grup Servicii Petroliere SA ("GSP") and well management services from AGR Petroleum (ME) Ltd – Dubai for drilling an exploration well in the Bargou Exploration Permit, offshore Tunisia. Drilling is scheduled to commence in March 2013. The drilling of the well will be managed by Cooper Energy. The Joint Venture has applied for a one-year extension to the current exploration phase (taking it to 2014). This will allow for additional analysis of the results of the forthcoming well.

Iraq

Dragon Oil (30%) and Kuwait Energy (70% and operator) as a consortium have been awarded an exploration, development and production service contract for Block 9 in Iraq's fourth bidding round. The formal contract between the Iraqi Ministry of Oil and the consortium was signed in January 2013.

Block 9 is located in the Basra province. The block spans over 900 km². The work commitment on the block within the initial five-year exploration period will include de-mining of the area in the first instance, seismic acquisition and interpretation and drilling an exploration well.

Afghanistan

A consortium of companies comprising Dragon Oil, Kuwait Energy, Turkiye Petrolleri A.O. (TPAO) and the Ghazanfar Group has been selected as the winning bidder for two exploration blocks, Sanduqli and Mzar-i-Sharif, in the Afghan-Tajik Phase 1 Oil & Gas Tender. The consortium has been invited to enter into negotiations with the Afghanistan Ministry of Mines for the exploration, development and production activities in the two blocks, which are expected to take place and conclude in 1Q 2013.

Dragon Oil's diversification strategy remains to screen 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 and balanced portfolio of exploration and development assets for the Group.

Share Buyback Programme

In June-October 2012, Dragon Oil undertook a US$200mn share buyback programme to purchase up to a maximum of 5% of the then issued share capital of the Company. A share buyback programme is an efficient means to return some of the cash resources to our shareholders without impacting upon the Group's ability to grow production organically and diversify through acquisitions of assets. The shares were purchased and cancelled thus reducing the overall number of shares in issue and rewarding shareholders by increasing the future earnings per share. The programme concluded on 25 October 2012 with 100% of the allotted funds spent to acquire 22.6 mn shares for cancellation, at a weighted average price of GBP 5.68 per share.

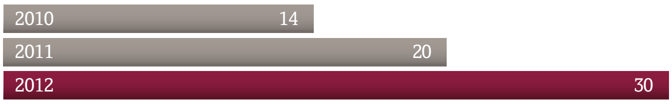
Dividends

The Board of Directors of Dragon Oil recommends the payment of a final dividend of 15 US cents per share. Together with the interim dividend of 15 US cents, the total dividend for the year ended 31 December 2012 is 30 US cents. The final dividend of 15 US cents is subject to shareholder approval at the Annual General Meeting to be held in London, UK on 30 April 2013. If approved, the final dividend of 15 US cents is expected to be paid on 3 May 2013 to shareholders on the register as of 5 April 2013.

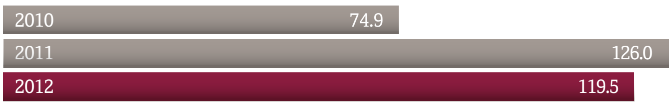
The following is the dividend timetable for the shareholders' information:

- 12 February 2013: Declaration of final dividend
- 3 April 2013: Ex-Dividend Date
- 5 April 2013: Record Date
- 30 April 2013: AGM
- 3 May 2013: Dividend Payment Date.

Full-year dividends
(US cents per share)



Earnings per share (basic)
(US cents)



Average headcount

Corporate activity

We expanded our portfolio of exploration assets having entered two more countries.

Our People

In 2012, the Group increased its average headcount to 1,368, a 12% increase over the previous year. In 2012, 235 new people joined Dragon Oil across its two main locations, the headquarters in Dubai, UAE, and operational and administrative sites in Turkmenistan. New people were hired for almost all departments operating from Dubai; while for operations in Turkmenistan we continued to hire in the areas of engineering, field development and production, HSE, maintenance and projects, as well as finance. Most of the hiring took place in Turkmenistan and most of the new hires were local people. We plan to continue to expand our workforce at a similar pace to support continued growth of the company and to ensure our medium-term goal to reach the 100,000 bopd target in 2015. A number of hires have been made to back our diversification strategy, for New Ventures and Exploration teams to support our expanding operations and our entry into other countries.

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 completed state-of-the-art polyclinic in Hazar, Turkmenistan near our operations will improve the quality of healthcare services provided to our employees, their families and the local community.

Corporate Social Responsibility

From 2011 to early 2013, Dragon Oil undertook a significant project, building a polyclinic in Hazar, Turkmenistan to provide healthcare services to our employees and the local community. In 2011, Dragon Oil completed the concept design and scope of work and awarded a contract for this US$5mn project to an international contractor. We are pleased to report that the polyclinic building and related infrastructure have been completed and we anticipate the inauguration shortly.

We continue to lend support to the local community by undertaking smaller-scale community-support projects, such as the refurbishment of a local school and nursery. We also sponsored a number of sport and art-related events and committees in Hazar, Balkanabad and Ashgabat, Turkmenistan.

Dragon Oil also completed a project in Basra, Iraq to improve sanitary facilities at three schools for girls.

Outlook for 2013 and 2014-15

For 2013, we expect to grow production at the lower end of the medium-term guidance of 10%-15% on average per year. The plan calls for completion of 13 to 15 wells and two workovers given the availability of drilling rigs. We are currently employing one jack-up rig and a leased platform-based rig and have awarded contracts for two more platform-based rigs. The leased platform-based rig will continue to drill from the Dzheitune (Lam) 28 platform, while the other two rigs are expected for delivery in 2H 2013 to commence drilling from the Dzhygalybeg (Zhdanov) A and B platforms. Drilling activity will be weighted towards the second half of the year after the awarded drilling rigs are delivered to the Cheleken Contract Area.

The details of the drilling programme are as follows:

- The leased platform-based rig is currently drilling the Dzheitune (Lam) 28/179 well and will drill one more well in 2013 from the same platform; once the wells are completed we will review our options to drill further three wells from a different platform;
- The jack-up rig is now undergoing planned maintenance after which it is due to complete four wells in the Dzheitune (Lam) area; the contract for its use has been extended until May 2015;
- The first platform-based rig is due to commence drilling from the newly installed Dzhygalybeg (Zhdanov) A platform in 2H 2013 and we expect to be able to complete one to two wells from this platform;
- The second platform-based rig is expected to start drilling from an upgraded Dzheitune (Lam) platform or the next installed Dzhygalybeg (Zhdanov) B platform in 2H 2013 and we expect to be able to complete one to two wells using this rig; and
- The delivery of the Caspian Driller is anticipated in mid-2013 and we plan to complete up to two-three wells using this rig in the second half of the year.

Over the 2013-15 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 2013 is expected to amount to approximately US$300mn, with the same amount to be spent on drilling.

Financial Summary

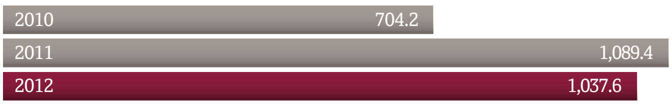
Dragon Oil has strengthened its balance sheet further in the last 12 months with a growth of 10% in net assets to US$2.9 billion. This comprises an increase of US$492mn in total assets, offset by an increase of US$221mn in total liabilities. The Group has no debt and is able to finance its operations internally with net cash generated from its operations in Turkmenistan.

A marginal increase in revenue to US$1,155mn and an 8% decrease in operating profit to US$791mn are attributed to a marginal increase in volumes of crude oil sales offset by higher cost of sales. Earnings per share were 5% lower and net cash from operations was 1% higher over 2011.

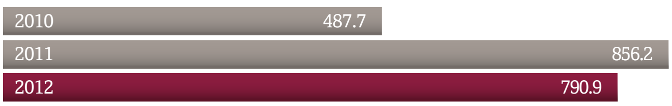
Key financial data

US$mn (unless stated)	2012	2011	Change
Revenue	1,155.1	1,150.5	0.4%
Cost of Sales	(329.2)	(266.5)	(24%)
Gross Profit	826.0	884.0	(7%)
Operating profit	790.9	856.2	(8%)
Profit for the year	600.0	648.4	(7%)
Earnings per share, basic (US cents)	119.5	126.0	(5%)
Earnings per share, diluted (US cents)	119.3	125.6	(5%)
Net assets	2,859.3	2,588.5	10%
Net cash from operating activities	1,025.6	1,015.8	1%
Net cash used in investing activities	(501.9)	(914.4)	(45%)
Debt	nil	nil	nil

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



Operating profit
(US$mn)



Income Statement

Revenue

Gross production levels in 2012 averaged about 67,600 bopd (2011: about 61,500 bopd) on a working interest basis.

Revenue for the year was US$1,155mn compared with US$1,151mn in 2011. A marginal increase of 0.4% over the previous year is primarily attributable to a 2% increase in the volume of crude oil sold over the previous year offset by a 1% decrease in the average realised crude oil price. The average realised crude oil price during the year was approximately US$100 per barrel (2011: US$101 per barrel) and was at an 11% (2011: 9%) discount to Brent during the year. The increase in the volumes of crude oil sold was lower than the production growth mainly due to lower entitlement in 2012 compared to 2011. The lower proportion of entitlement barrels in 2012 is primarily due to the operation of the fiscal terms of the PSA.

Operating profit

Gross profit is measured on an entitlement basis. The entitlement production was approximately 48% (2011: 53%) of the gross production in 2012. 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.

At the year-end, the Group was in an overlift position of approximately 0.1 mn barrels that is recognised and measured at market value (31 December 2011: underlift position of 0.05 mn barrels).

The Group generated an operating profit of US$791mn (2011: US$856mn), 8% lower than in the previous year.

The decrease in operating profit of US$65mn was primarily on account of higher cost of sales. The Group's cost of sales was US$329mn in 2012 compared to US$267mn in 2011, an increase of about 24%. Cost of sales includes operating and production costs and the depletion charge. The increase is primarily due to movement in the lifting position, higher field operating costs and increased depletion charge during the year.

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.

The increase in operating and production costs was primarily attributable to the changes in lifting positions of US$31mn and increased costs of US$26mn due to a higher level of field operations. The depletion and depreciation charge during the year was higher by about 3% at US$212mn (2011: US$205mn) primarily due to the adoption of the US$85/barrel as the estimated long-term oil price, offset by reserves replacement during the year.

Administrative expenses (net of other income) were higher at US$35mn (2011: US$28mn) primarily due to an increase in head office costs during 2012 on account of higher corporate activity.

Profit for the year

Profit for the year was US$600mn (2011: US$648mn), 7% lower than the previous year. The profit for the year includes finance income of US$18mn (2011: US$16mn) and a taxation charge of US$209mn (2011: US$223mn). Finance income increased in 2012 primarily due to higher cash and cash equivalents and term deposits maintained during the year and despite marginally 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 2012. 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 Earnings per share of 119 US cents for the year were 5% lower than the previous year (2011: 126 US cents).

Balance Sheet

Investments in property, plant and equipment increased by an amount of US$170mn primarily due to capital expenditure of US$382mn (2011: US$351mn) incurred on oil and gas interests 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 2012, 58% was attributable to infrastructure (2011: 47%) with the balance spent on drilling. The infrastructure spend during the year included construction of the Dzheitune (Lam) C, Dzhygalybeg (Zhdanov) A and B platforms, Dzhygalybeg (Zhdanov) Block-4 gathering platform, infield pipelines as well as the geophysical and geotechnical surveys to evaluate locations for future platforms.

Current Assets and Liabilities

Current assets rose by US$316mn primarily due to an increase of US$148mn in term deposits, US$191mn in cash and cash equivalents, US$5mn in inventories partly offset by a decrease of US$28mn in trade receivables. The cash and cash equivalents and term deposits at the year-end were US$2,144mn (2011: US$1,806mn), including US$407mn (2011: US$279mn) held for abandonment and decommissioning activities. Amounts of US$1,866mn (2011: US$1,718mn) are held in term deposits with original maturities greater than three months.

Current liabilities rose by US$194mn due to increases of US$129mn in the abandonment and decommissioning liability set aside to meet future obligations under the PSA based on increased production, US$14mn in overlift creditors, US$31mn towards the current tax liability and US$20mn in trade and other payables.

Cash flows

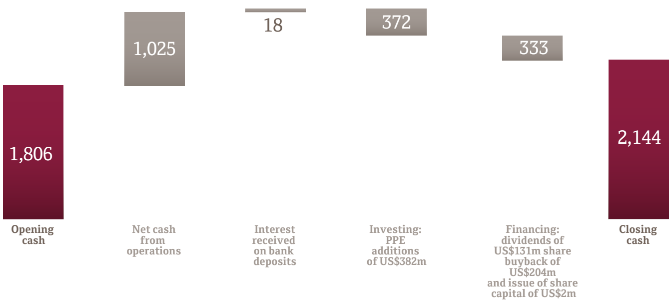
Net cash generated from operations during the year increased by US$10mn to US$1,026mn (2011: US$1,016mn). The increase was primarily attributable to the change in the working capital position offset mainly by higher tax paid.

Cash used in investing activities was US$502mn (2011: US$914mn), comprising capital expenditure of US$367mn (2011: US$407mn), placement of term deposits of US$148mn (2011: US$523mn) and addition to intangible assets of US$5mn (2011: nil), offset by interest received on cash and cash equivalents and term deposits of US$18mn (2011: US$16mn). Cash used in financing activities was US$333mn (2011: US$155mn) mainly on account of payment of dividends of US$131mn (2011: US$118mn) and execution of the share buyback programme of about US$200mn (2011: US$38mn).

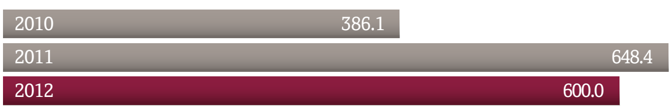
$ Cost efficiency

We aim to keep costs stable despite inflation and limited resources in the Caspian Sea region.

Cash Flow
(US$mn)



Net profit
(US$mn)



To be profitable is not enough. At Dragon Oil, we believe true success is only achieved when it is with genuine regard for our people, communities and environments.

Corporate values

We have six corporate values: Safety, People, Integrity, Stakeholder value, Excellence and Teamwork. Our six corporate values lie at the heart of our organisation. These are the values that guide us everyday and define how we achieve our goals. We believe that by introducing simple and easily understandable values, we will win employees' and stakeholders' support for all that we do.

1. Safety

We are committed to attaining the highest Health, Safety and Environment standards. Safety of our workforce, assets and the communities in which we operate is of paramount importance.

2. People

People are first. We create an innovative work environment that keeps people motivated, that encourages continued learning and offers open career paths.

3. Integrity

Trust, fairness and ethics are fundamental to our culture. We live and practise our internal Code of Conduct.

4. Stakeholder value

We deliver sustainable growth and value to all our stakeholders, shareholders, employees and the communities and countries in which we operate.

5. Excellence

We continue to deploy best practices and deliver to the highest quality standards.

6. Teamwork

We are committed to a cooperative working environment, where our employees and service providers work together with an excellent team spirit, building capabilities and ensuring best in class delivery.

1. Investing in our people
2. Health, safety & environment
3. Community support

Investing in our people

Human beings are the most important asset.

They question and discover; they create and devise; they inspire and motivate; they achieve, and then seek to achieve even more.

More than any state of the art machinery, they are crucial to a sector like ours that requires initiative, determination and the hunger for challenge.

This is why at Dragon Oil we set great store by focusing on our people. More specifically, we invest in them, inspire them and give them the opportunity to excel, both for themselves and the Company.

That way, we believe everyone wins.

Our HR strategy

In our HR strategy we continue to focus on a number of undertakings where we aim to:

- Develop and empower our Turkmen national employees, aiming to make them an independent and skilled workforce;
- Promote and support education for our more talented people;
- Provide a platform for innovative ideas and schemes for the overall betterment of the employee and the business;
- Fine-tune our policies, and initiate new ones, to cope with emerging challenges and market trends;
- Work hard to hire and retain the best possible pool of qualified candidates; and
- Look at ways to extend our educational reach to the local community.

Good employment: the key components

To work at Dragon Oil is to work in a motivational environment that fosters a pro-active and innovative attitude. We also strive to make our people feel valued, through the opportunities we provide and our open and honest culture.

91%

91% retention rate maintained in top-decile scores as a testament to our human resources strategy with focus on development, education and attractive career growth with the Group.

We address employees' expectations and perceptions in regular discussions, performance reviews and by looking outwards at market trends. Our Company-wide satisfaction surveys also provide vital feedback and inform our focus on making Dragon Oil an even better place to work.

We also contracted external consultants to review and then re-design the organisational structure at Dragon Oil Turkmenistan to streamline our operations. The study recommended some excellent organisational changes that can improve the integrity of the facilities and the efficiency of business processes.

Diversity is a core value of the Company and we hire talented people from all over the world. Dragon Oil is a collection of 40 nationalities and we welcome the rich variety of cultures and perspectives this brings. We also promote gender diversity wherever practical.

The Company was an active recruiter in 2012, with 235 new joiners. They filled a broad spread of roles at our headquarters in Dubai, UAE, and in Turkmenistan where they strengthened our capabilities in Engineering, Field Development and Production, HSE, Maintenance and Projects.

During 2012, Dragon Oil provided 141 training courses, mostly technical courses to meet operational requirements (compared with 86 training courses in 2011).

In addition, we have formed alliances with leading universities and other institutions to provide English language training to national employees, and have hired in-house instructors.

We believe that everyone who works with us in the field should have a good standard of accommodation and facilities. In the last year, we have invested in a continuous improvement programme, refurbishing our quarters both for employees and contractors. We have also created additional recreation and sporting facilities in Hazar for workers to enjoy.

Development of high-potential employees

A core priority of our HR strategy is to develop the skills and abilities of our Turkmen workforce.

In 2011, we set about compiling a list of high-potential national employees, and in 2012 we progressed this with a fast-track training and succession programme for 49 people, drawn from all the main departments. The overall training budget invested in 2012 was almost US$1mn.

The Company also introduced a programme to give selected employees assistance with higher education tuition fees. In 2012, we supported seven Turkmen employees in degree programmes under this initiative, compared with four the previous year. They also benefit from mentors whom we attach to nurture their progress.

We are also empowering Turkmen employees at all levels, with a succession plan of promotion. We select employees to receive a mix of on-the-job, internal and external training in their chosen careers. In the last year, 202 employees have been promoted at various levels as part of the pilot stages of the programme (compared with 77 employees in 2011). The aim is clear: to develop people who can hold responsible positions of power and authority to represent the Group in matters of business and take full in-charge responsibility.

We recognise that development of our people and the success of our Company go hand-in-hand. We therefore want to enhance career development opportunities for employees whenever possible, with a particular focus on our national employees in Turkmenistan, and assure the progress of the succession programme for our national employees.

With this in mind, we have introduced an internal job posting programme, an orderly and fair system to identify and place the most qualified person for each opening and to comply with contractual responsibilities. This programme helps employees to advance their careers actively and reach their professional goals through internal promotion and transfer opportunities. National employees are encouraged to apply for positions in Dragon Oil Turkmenistan for which they find themselves qualified.

During the year the Human Resources Department achieved full compliance with ISO 9001:2008.

Maximising our talents

We use various initiatives to encourage and inspire our people to perform to the very best of their abilities.

These include Employee of the Month and Employee of the Year programmes where we ask employees to nominate their colleagues for outstanding achievements that have benefited their teams and the organisation overall.

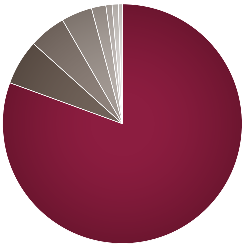
We also recognise that the best people to bring fresh ideas to the way we do things are the people who do the work. Our Innovation Sharing scheme encourages employees to think outside of the box and suggest fresh ideas that can become productive business solutions. We back the best with the required resources.

Employees are also assigned in cross-functional roles and given an opportunity to work in the headquarters in Dubai.

As we grow, we have stepped up our internal communications to make all employees feel informed and involved. The CEO held several employee meetings during the year to discuss operations, the Group's performance, our vision and mission and ongoing developments. On a more informal basis, our Dubai-based employees gathered together to celebrate Iftar (the evening meal when Muslims break their fast during the Islamic month of Ramadan) and the UAE National Day.

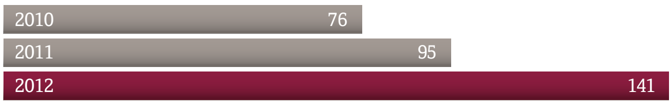
We continue to explore a range of ways to build on our communications activity, including our intranet and monthly bulletins.

Nationalities

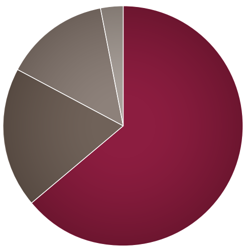


Turkmenistan	82.9%
Asia	6.3%
MENA	5.5%
Europe	3.7%
North America	1.1%
South America	0.2%
Australia	0.2%
Africa	0.1%

Number of courses, including HSE training



Areas of training for national employees



Technical	64%
Soft skills	19%
HSE	14%
English	3%

US$1mn

Almost US$1mn spent on training, including HSE training, for our employees across all our offices and operations.

Health, Safety and Environment

The Dragon Oil HSE mission

The Company firmly believes that sound HSE performance is vital to ensuring sustainable business. HSE is therefore considered an integral part of any business decision-making process. Dragon Oil is committed to take all reasonable measures at its disposal to protect the health and safety of its personnel as well as to protect the environment in which it operates.

2012 HSE highlights

The HSE field audit initiated by the management in 2011 was completed with the assistance of accredited third-party consultants. The audit aimed to ensure that we comply with all HSE international standards and best industry practices. The findings of the audit have helped us to identify areas of strength and weakness, and to take measures where they are needed.

In addition, the following key actions took place during the year:

- The Dragon Oil Environmental Management System (EMS) & Waste Management Plan (WMP) were introduced throughout the organisation. As part of our goal of achieving ISO certification, these initiatives were rolled out to strengthen our environmental practices and ethics. They include the operations of our contractors.
- The HSE department was re-organised in the field, with the introduction of dedicated Drilling and Projects HSE authorities to complement the Operational HSE authority.
- We introduced the Dragon Oil Fire and Gas Philosophy for all locations, offshore and onshore. This defines the shutdown decisions and sequence in emergencies such as fires, explosions and accidental gas releases. This industry-standard definition is critical before moving to the next stage; i.e. upgrading our shutdown system for all the facilities.
- We initiated the project of introducing the Group's Emergency Shutdown (ESD) Philosophy starting with the offshore ESD Project.

The primary objective for this project is to ensure the integrity of our existing facilities by providing the following:

- automatic activation of the shutdown sequence on critical facilities (mainly wellhead platforms);
- automatic activation of the fire and gas protection network;
- a standardised approach to react to fire and gas emergency situations;
- improvement of the safety and reliability standard of the shutdown system via the introduction of enhanced, up-to-date hardware and software, thus reducing human error factors in responding to fire and gas emergencies.

- We purchased additional personnel transfer capsules for offshore installations. These capsules are a safe means of transferring personnel offshore by means of cranes. They are especially valuable during rough weather conditions and in case of medical emergency evacuations from platforms.
- We conducted an annual corporate emergency response drill covering the three major command centres in Dubai, UAE, and Ashgabat and Hazar, Turkmenistan.
- The Group revised Dragon Oil Emergency Response Plan (ERP) in collaboration with an external consultant to improve our preparedness in case of emergency.
- The Group has started revising the Dragon Oil's Oil Spill Contingency Plan (OSCP) in collaboration with Oil Spill Response Limited (OSRL). The exercise will contribute to our understanding and implementation of more efficient measures to combat spills.
- We conducted a number of third-party HSE training courses for personnel operating in Hazar, Turkmenistan, to boost knowledge and understanding of:

- sea survival;
- life boat coxswain;
- fast rescue craft (FRC) operation;
- advanced first aid;
- permit to work (PTW), qualifying our personnel in processing PTW requirements and complying with PTW procedures.

- Dragon Oil participated for the first time in the Extraordinary General Meeting of the International Association of Oil & Gas producers (OGP) held in Doha, Qatar in April 2012. This resulted in the HSE department proposing a number of OGP-HSE initiatives, mainly with respect to an oil and blow-out control strategy and to a mutual aid initiative where operators form regional alliances to tackle emergencies such as major oil spills or blow-outs.

HSE Key Performance Indicator profile for 2012

Our KPIs relating to safety incidents are evidence of the adage that 'things that get measured get improved'. Over the last few years, Dragon Oil has made great strides in systematically driving down its Lost Time Incident Frequency (LTIF) rate, and we are fully focused on realising even greater success in the future. In 2012, we experienced a higher number of incidents due to increased activities, which we will be watching closely and addressing in 2013.

	2008	2009	2010	2011	2012
Lost time incidents	4	4	2	3	6
Total hours worked (millions)	4.2	4.5	5.2	5.7	4.8
Lost time incident frequency*	1.79	1.64	1.46	1.30	1.26

* The calculation is based on using the cumulative number of total hours worked since 2000 when the records began.

Environmental protection

The key to improved environmental behaviour lies in education: in making everyone aware of the positive actions we can all take, and the consequences for the planet if we do not.

Talking to children – the environment's future stewards – is an excellent place to start. With this in mind, Dragon Oil is planning to hold joint summer camps for young people along Turkmenistan's shores of the Caspian Sea. In addition, we are committing funds to heighten awareness among the local communities at large, as well as our own employees.

In November 2012, we were one of the sponsors of the Caspian Ecological Forum, hosted by Turkmenistan's Ministry of Nature Protection. The discussions brought together diverse parties including governmental organisations, UN bodies and the oil and gas companies. The focus was on using modern technology and knowledge to maintain air and sea quality; maintaining the environment in the land-locked Caspian Sea; and, in the words of President Berdimuhamedov of Turkmenistan, "preserving the sea's biodiversity and ecological balance".

Community support

It is a fundamental part of our ethos at Dragon Oil that we actively contribute to the well-being, progress and cultural life of our host communities.

In 2012, our community programme manifested itself in a host of different and important ways:

- A new polyclinic for Hazar. The building and related infrastructure for this almost US$5mn project are now completed and we hope for inauguration in early 2013. Once inaugurated, this state-of-the-art clinic will provide important out-patient services for the Hazar community and play a significant role in routine healthcare.
- Refurbishing Hazar's schools. In 2012, we completely refurbished three classrooms and corridors at School # 3 and two blocks, including sanitary facilities, at Nursery # 3. Also with children in mind, we bought New Year gifts for the Children's Fund of Turkmenistan.

LTIF

1.26

1.26 LTIF – our aim is to continue reducing the LTIF as we expand our operations and work more hours, making our operations safer.

- We energise local sport. Just some of our sporting projects include sponsorship of the Hazar Sport Committee; sports clubs in Ashgabad and Turkmenbashy; and the National Center of Special Olympics of Turkmenistan. We regularly purchase sports equipment and uniforms and sponsor inter-city competitions.
- We celebrate local arts. Activities include sponsoring a charitable concert of classical music for the Hazar community; purchasing musical instruments for the Children's Art school of Hazar and sponsoring a video of classical Turkmen music.
- We give a helping hand. We are delighted to sponsor clubs for disabled people in Balkanabad and Ashgabat, and the Turkmen Society of Blind and Deaf People.
- We provide medical support either by using the medical facilities at our camp in Hazar or by supplying medical equipment to the local Hazar hospital for diagnosis and treatment of local community patients.

On a daily basis, we provide help and assistance to Hazar's Mayor Administration and local organisations. We help develop infrastructure and resolve priority issues by providing materials, machinery, manpower and transport. In 2012, we undertook a project to install or replace street lamps in the town park and in the streets.

Further afield, Dragon Oil also completed a major project in Basra, Iraq, to improve sanitary facilities at three girls' schools.

ISO certification

In 2012, we achieved our goal of being awarded the ISO 9001, ISO 14001 and ISO 18001.

In addition to improving organisational quality, and providing a high-quality environment for skilled and talented employees, these certificates will also strengthen our credentials in international business.

The ISO 9001 certificate was gained by devising a roadmap towards establishing a Quality Management System (QMS) that is compliant with ISO 9001:2008. The journey was initiated in early November 2011, and required GAP Analysis, establishment of QMS Documentation, Quality Assurance Training, implementation and evaluation, and certification and maintenance. All these stages were successfully completed in all departments, both at headquarters and across the subsidiaries.

Every part of the business has been touched by this far-reaching initiative, and 16 employees have qualified for the role of auditors in internal quality audits. The task now is to achieve continuous improvement of the QMS through internal quality audits, surveillance, management reviews and taking firm action on any issues raised by customers.

At the same time, the Group has achieved ISO 14001 and ISO 18001 certification. A framework for conducting business in an environmentally responsible manner was established under ISO 14001 and a framework for providing a safe and healthy working environment was established under ISO 18001.

Dragon Oil obtained full ISO 14001 and OHSAS 18001 Certification for Dragon Oil, including our largest 100% subsidiary and operator of the Cheleken Contract Area, Dragon Oil (Turkmenistan) Ltd.

Supply chain management: local content

We believe in conducting ourselves according to the highest standards of business practice. This not only means being true to the Dragon Oil Code of Conduct, which we initiated in 2009; it means looking at how our business impacts the local host areas in which we work.

In 2011, we started to encourage actively our suppliers to use locally-sourced labour and materials. In 2012, we laid the foundation of this strategy by endeavouring that any tender we receive for major projects needs to comprise a minimum of 20% local content, if at all possible.

We are also leading by example. In 2010, we allocated land in the harbour area to contractors to allow them to construct platforms and gathering blocks near Dragon Oil's operations. This not only helped us to supervise the contractors and keep to deadlines, but also had the effect of bringing more local jobs and orders for supplies to the area.

In 2011, the Dzheitune (Lam) Block 1 and C platforms were built in our ship yard. In 2012, the Dzhygalybeg (Zhdanov) Block 4 gathering platform was also built there and the Dzhygalybeg (Zhdanov) B platform is currently under construction.

In 2012, we employed our own rig (Rig 40) in the Cheleken Contract Area, and its drilling operations were mostly performed by a local crew.

Use of local content brings benefits to everyone: our employees, our suppliers, the local community and our host government. In the future, we will therefore encourage contractors to use our ship yard – indeed, we plan to develop it into a full fabrication yard with expanded load-out capabilities, related facilities and berths.

Accountability

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.

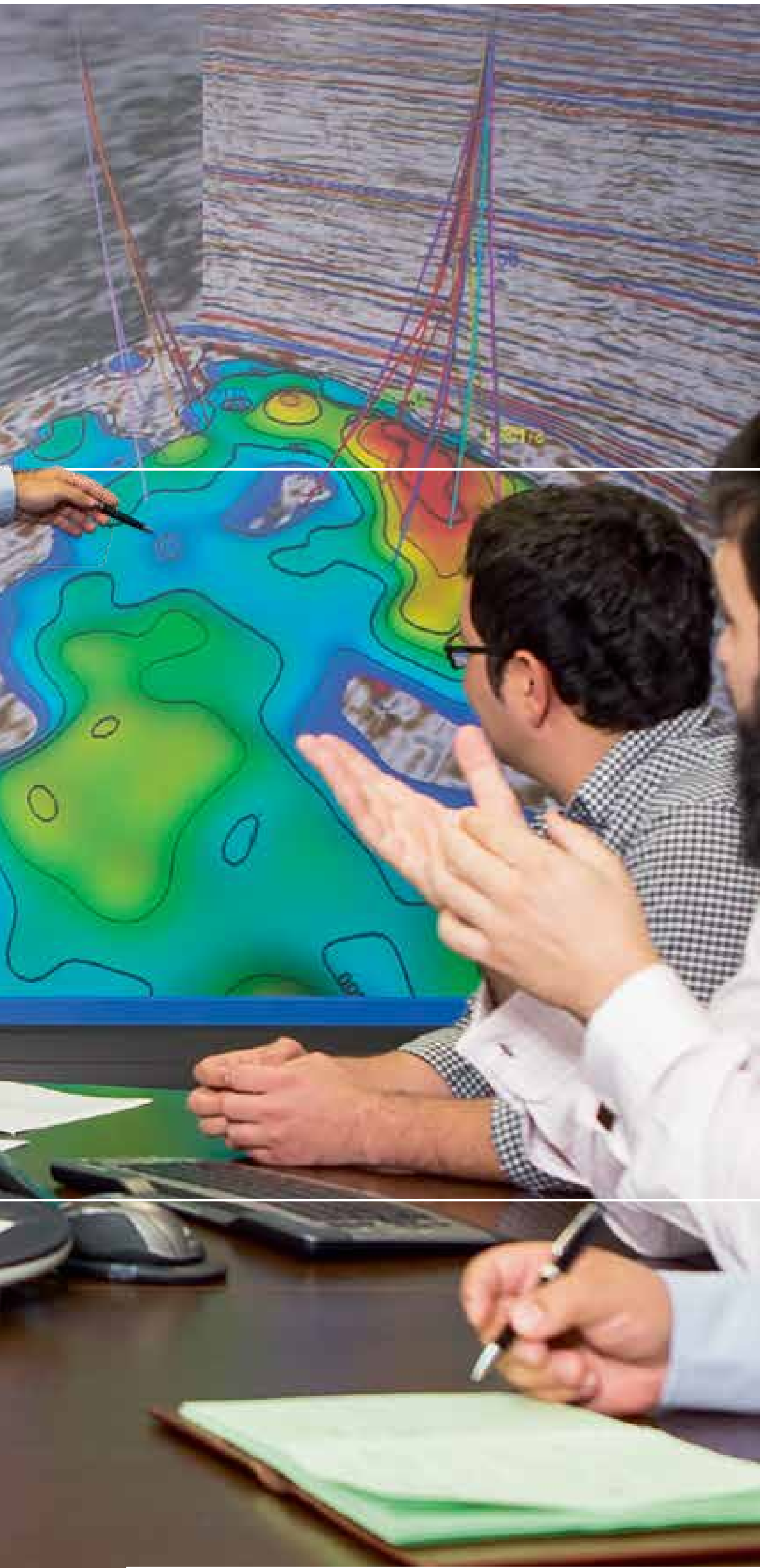
- Human Resources: Hussain Al Alaiwy, Director of Human Resources;
- HSE: Adel Alnadhari, HSE Manager who reports to the Chief Operating Officer;
- Governance: Annisa Loadwick, Legal Counsel;
- Risk Management: Hussain Al Ansari, Chief Operating Officer;
- Investor Relations: Tarun Ohri, Director of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

3

One wellhead production platform and two gathering blocks were built in our ship yard bringing more local jobs and orders for suppliers to the area.

Governance

High standards of governance and a strong management team help us to achieve our business objectives.



Dragon Oil's Board of Directors draws on the solid experience of its members in the oil and gas industry, oil services and finance to further the Group's success.

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 over 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 Committee.

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, a position 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. Mr Sharaf brings specialist knowledge and the ability to evaluate and critique new business venture opportunities in this sector, specifically in an international context. Mr Sharaf has worked in the international upstream oil and gas industry for over 15 years.

Currently Mr Sharaf is the Chief Executive Officer of Dutco Energy, a division of the Dutco Group, dedicated to expanding the Group's interests in the oil and gas sector. 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 UAE as well. Mr Sharaf was appointed to the Board in April 2007 and has now served more than five years as director. He serves as the Chairman of the Nominations Committee.

Previously Mr Sharaf worked at ConocoPhillips from 1990 – 2005 as well as for Dubai Holding in various leadership positions in the energy, health care and real estate sectors.

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 10 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 UK Corporate Governance Code (the "Code").

Mr McCue is a Director of Jura Energy Corporation, a TSX-listed company and was formerly a Director and CEO of Lamprell plc, which is also listed on the LSE. Mr McCue has over 37 years' experience in the petroleum industry, many years of which have been spent in senior roles at international oil and gas companies (including Lamprell plc, 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 Audit Committee, having served on it for over nine 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 then with Dubai Supply Authority. In December 2012, he was appointed as the Dubai Supreme Council of Energy "Dubai Energy Governing Body" Secretory General. 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 five years as director. He is currently a member of Dragon Oil plc's Audit and Nominations Committee and the Chairman of the Remuneration 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 UAE 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 UK. He was appointed to the Board on 22 May 2007 and has now served more than five years as director. He is currently the Chairman of the Audit Committee.

7. 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 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. Mr Haugnaess is an Independent Non-executive Director of InterOil Exploration and Production ASA listed on the Norwegian Stock Exchange.

Mr Haugnaess has an MSc in Petroleum Technology from the University of Trondheim (NTNU) in Norway. He was appointed to the Board on 20 February 2012. He is currently a member of Dragon Oil's Audit, Remuneration and the Nominations Committees.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We have a strong management team of experienced and talented professionals from all over the world.


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1. Hussain Al Ansari Chief Operating Officer
Hussain has 24 years' experience in the petroleum industry having worked with ARCO International, ENOC, Dolphin energy and Mubadala Petroleum Services Co. He has a Bachelor's Degree in Chemical Engineering from the University of California at Santa Barbara, USA.

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

3. Tarun Ohri Director of Finance
Tarun has over 26 years' experience in finance, accounting and audit predominantly in oil-related industries in Qatar and the UAE. He is an associate of the Institute of Chartered Accountants of India with a CISA qualification.

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

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

6. Julian Hicks Company Secretary
Julian trained as a UK-qualified solicitor and has almost 20 years' experience in the upstream oil and gas sector, with particular exposure to the UK, FSU and the MENA region. Julian joined Dragon Oil in 2013 and is a member of the Law Society of England & Wales and the Association of International Petroleum Negotiators.

7. 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.

8. Faisal Al Ansari Corporate Planning Manager
Faisal has over 28 years of experience in reservoir engineering and field development planning, business performance, corporate planning, logistics and marine operations. Faisal holds a Bachelor of Science degree in (B.Sc.) Double Major in Physics and Mathematics from the University of Lewis and Clark College, Portland, USA.

9. 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-UAE, Senior Consultant in Project Management for SITECH, Canada and Area Engineering Manager with Abu Dhabi Company for onshore oil operations prior to joining Dragon Oil.

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10. Roberto Espinoza Head of Reservoir Operations Team
Roberto worked with four international E&P operators for the last 20 years and built a solid expertise in a wide variety of field assignments in 10 different countries. Roberto is a recognised manager in Production, Reservoir and Subsurface disciplines with a focus on reservoir development, production optimisation and asset growth.

11. Ali Al Matar Engineering Manager
Ali has 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's Degree in Construction Engineering Management and a Bachelor's Degree in Chemical Engineering.

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

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

14. Ali Al Hauwaj Exploration Manager
Prior to joining Dragon Oil, Ali worked for Saudi Aramco for over 30 years. 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 Saudi Arabia's North-western region.

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

16. Jasim Mohammed Head of Information Technology
Jasim holds a higher Diploma in Information System and an Executive Master in Business Administration from Zayed University. He has more than 16 years of experience in leading and managing IT operations and corporate communication.

17. Rashid Redjepov Country Manager
Rashid trained as an economist and worked for over 15 years in various aspects of the upstream oil and gas industry of Turkmenistan, both in the public and the private sectors, before being appointed as Country Manager in November 2008.

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

19. 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.

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.

Principal risks and uncertainties

In 2011, the Group developed a structured Enterprise Risk Management ("ERM") framework, which was approved by the Board in 2012. Dragon Oil adopts a proactive approach to risk management. The ERM consists of policies, procedures and the Group's organisational structure with clear roles, responsibilities and accountabilities aimed at identifying, measuring, managing, reporting and monitoring identified risks. The Group adopts risk management strategies based on the nature and types of risks; mainly strategic, operational, financial and compliance risks.

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. The Board provides oversight of the strategic direction of the business and approves the annual budget and business plan. The business planning process extends over a five-year period and provides the principal parameters against which the performance of the Group is measured. These include annual objectives and targets covering production, development, exploration, HSE and financial performance. Business plans are approved by the Board together with risks to delivery and defined operational targets.

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.

In addition to the business planning and budgeting process, operational business units are expected through quarterly accountability reviews 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

The Board recognises that risk management is an ongoing process and, while significant steps have been achieved in the past, it is expected that the risk framework adopted in 2012 will underpin improved risk monitoring. The business units will report on the risks and mitigation action plans on a quarterly basis. This will be reviewed annually across the Group, ultimately by the Executive Committee and reported to the Audit Committee. However, the embedding process will take place over a number of years and so the integration of risk management with business plans and objectives will continue during 2013 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

During the year we have reviewed and evaluated the risks the Group faces. The risks are grouped into four categories: strategic, operational, financial and compliance. These risks can potentially adversely impact our employees, operations, performance and assets. The principal risks and uncertainties, together with the actions in mitigation, are set out in the table below.

	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. All 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 reached an agreement for marketing the full export entitlement oil production via Baku until 31 December 2014. It is expected that the realised crude oil prices under this contract will be in the range of a 14-17% discount to Brent. 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.
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 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.

	Potential impact that we face	Protecting the business
Operational risks		
Availability of drilling rigs	Despite the ongoing efforts to acquire additional jack-up and platform drilling rigs, it is recognised that there is an overall limitation of rig availability in the Caspian Sea. 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 2013. The contract for the Iran Khazar rig has been extended until May 2015. In the near term, there is a greater reliance on platform-based rigs and recently the Group secured two additional 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.	We have seen an increased number of high quality contractors tender for Dragon Oil's projects and a programme to diversify actively the Group's supplier base has been successful over the last three years, with many new companies now working for the Group, 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	Health, safety and environmental risks are inherently associated with oil extraction and recovery. The Group also has to meet country-specific environmental standards. An oil spill in the Caspian Sea and inadequate crisis management could adversely impact production capability and profitability.	Extensive monitoring and review of HSE policies and procedures as well as contracts with specialist service providers for the clean-up of oil spills have been concluded. Dragon Oil undertakes regular HSE training for operational staff together with annual HSE and crisis management exercises across the Group.
Asset integrity	Integrity of very old infrastructure, particularly in the Dzhygalybeg (Zhdanov) field, presents significant operational, maintenance and safety challenges and uncertainties, and increases 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.

	Potential impact that we face	Protecting the business

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 90 to 91.

Oil price volatility	Oil prices have been strong over the last four years but have proven to be highly volatile, both historically and recently. Wide fluctuations in the 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.
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. The oil, condensate and gas reserves and contingent resources are assessed annually by an independent energy consultant.
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 over 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 an enterprise-wide control framework.
Gas development project	Dragon Oil's project to develop the gas from the Cheleken Contract Area is dependent upon many factors including construction of the Gas Treatment Plant ("GTP"), demand for gas, execution of a gas sales agreement, accessibility to a gas transportation network, and overall economic conditions. They affect Dragon Oil's ability to develop its gas reserves.	A portion of the Group's unprocessed gas is being supplied into a nearby governmental compressor station where it is processed into the Turkmenistan network. There are specific plans and approvals in place to construct the GTP to recover significant condensate volumes 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 UAE. 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.	A 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 cash management policy has established limits on counterparty exposure.

	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.
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 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 US and non-US 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 are 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 leasig of 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 reputational, financial, legal, commercial or regulatory exposures to the Group.	System of risk management and internal controls are detailed under 'Internal Control' in the Corporate Governance section of this Report, on page 68.

On behalf of the Board

Mohammed Al Ghurair and Abdul Jaleel Al Khalifa
Directors of Dragon Oil plc
11 February 2013

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 2012. These will be laid before the shareholders at the Annual General Meeting ("AGM") of the Company, which is scheduled to be held on 30 April 2013 in London, UK.

Principal business activities

The Group's principal activity is the exploration, development and production of oil and gas in Turkmenistan, Tunisia and previously in Yemen. 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, R2 and Block 35 were relinquished due to lack of commerciality.

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.

Dragon Oil (30%) and Kuwait Energy (70% and operator) as a consortium have been awarded an exploration, development and production service contract for Block 9 in Iraq's fourth bidding round. The formal contract between the Iraqi Ministry of Oil and the consortium was signed on 27 January 2013.

A consortium of companies comprising Dragon Oil, Kuwait Energy, Turkiye Petrolleri A.O. (TPAO) and the Ghazanfar Group has been selected as the winning bidder for two blocks, Sanduqli and Mzar-i-Sharif, in the Afghan-Tajik Phase 1 Oil & Gas Tender. The consortium has been invited to enter into negotiations with the Afghanistan Ministry of Mines for the exploration, development and production activities in the two blocks, which are expected to take place and conclude in 1Q 2013. The Afghanistan Ministry of Mines received the consortium's bid in November 2012.

Information on the Group's various subsidiaries is set out on page 107.

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 22 to 23, the the Chief Executive Officer's ("CEO") Statement on pages 24 to 27 and the Operating and Financial Review on pages 28 to 37. The corporate key performance areas and the analysis of those indicators are set out in the table on pages 16 to 17. Information relevant to employee and environmental matters is set out on pages 38 to 45.

Results and Dividends

The results of the Group for the year ended 31 December 2012 are set out in the Group's income statement on page 79. Profit attributable to equity holders of the Company was US$600 million (2011: US$648 million), which has been transferred to Reserves. The Board of Directors of the Company has recommended a payment of a final dividend for 2012 of 15 US cents per share, subject to shareholder approval at the AGM to be held on 30 April 2013. Along with the interim dividend of 15 US cents per share (paid on 20 September 2012) the full-year dividend amounts to 30 US cents per share (2011: 20 US cents per share).

Election of Directors

The following individuals served as Directors during the period from 1 January 2012 up to 31 December 2012:

Director details

	Events during 2012
Mohammed Al Ghurair (Non-executive Director and Chairman, member of the Remuneration Committee) (UAE)	Re-elected on 18 April 2012
Ahmad Sharaf (Non-executive Director and Vice-Chairman and Chairman of the Nominations Committee) (UAE)	Re-elected on 18 April 2012
Abdul Jaleel Al Khalifa (Executive Director and CEO) (Saudi Arabia)	Re-elected on 18 April 2012
Nigel McCue (Senior Independent Non-executive Director, member of the Audit Committee) (UK)	Re-elected on 18 April 2012
Ahmad Al Muhairbi (Independent Non-executive Director, Chairman of the Remunerations Committee, member of the Nominations and Audit Committees) (UAE)	Re-elected on 18 April 2012
Saeed Al Mazrooei (Independent Non-executive Director, currently Chairman of the Audit Committee) (UAE)	Re-elected on 18 April 2012
Thor Haugnaess (Independent Non-executive Director, member of the Audit Committee, the Remuneration Committee and the Nominations Committee) (Norway)	Elected on 18 April 2012

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

In accordance with paragraph B.7.1 of the Code and the Company's Articles of Association, all Directors of the Board will retire and, being eligible, will offer themselves for re-election at the 2013 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 page 71.

Directors' Responsibilities Statement

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

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRS as adopted by the European Union; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the 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.

To the best of the Directors' knowledge, the Directors are not aware of any significant agreements to which the company is party that take effect, alter or terminate upon a change of control of the company following a bid.

Directors' statement pursuant to the Transparency Regulations

Each of the Directors, whose names and biographical details are listed on pages 48 to 49, 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 2013 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 financial statements.

Auditors

Ernst & Young have expressed their willingness to continue in office and are eligible for reappointment as the Group's auditors. 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 2013 AGM.

Charitable and/or Political Donations

During the year ended 31 December 2012, the Group made charitable donations in the amount of US$8,442 to Al Noor Training Centre, US$8,170 to Rashid Paediatric Therapy Centre and US$8,014 to The Royal Marsden Cancer Charity (2011: US$5,719 to Al Noor Training Centre) and no political donations were made (2011: nil). Al Noor Training Centre provides training for children with special needs; it is run under the auspices of the Ministry of Social Affairs, Dubai, UAE.

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 pages 98 to 99.

Major Shareholdings in the Company

As at 11 February 2013, Dragon Oil plc had been notified of the following significant shareholdings, which are in excess of 3%:

	No. of Ordinary Shares Issued	% of Share Capital
Emirates National Oil Company (ENOC) L.L.C (held directly)	265,263,515	54.19%
Baillie Gifford & Co. (held indirectly)	35,934,862	7.34%

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 67.

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 pages 98 to 99.

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

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

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

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

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 59. 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.

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

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

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

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

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

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

Share Capital Authorities
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 11 February 2013, 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.

The company does not at present have an authority to issue shares other than pre-emptively.

Purchase of Company's Own Shares
By Resolution 9 passed at the Company's 2012 AGM, the Directors were granted authority to make market purchases of the Company's Ordinary Shares up to 10% of the issued Ordinary Shares in Dragon Oil plc. This authority is due to expire at the conclusion of the 2013 AGM of the Company or 18 months from the passing of the resolution.

In June 2012, the Company implemented a US$ 200 million share buyback programme to repurchase shares in the Company in accordance with the above-mentioned Resolution 9, applicable laws and the Listing Rules. The buyback programme commenced on 6 June 2012 and was completed on 25 October 2012. The objective and purpose of the programme was to return value to the shareholders and 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 2013 AGM and will take advantage of the flexibility afforded by the resolution, if passed, as they deem appropriate. As at 11 February 2013, Dragon Oil plc held no shares in treasury.

Important events since 31 December 2012
Details of the important events that have occurred since 31 December 2012 can be found in the Operating and Financial Review on pages 28 to 37.

General Meetings

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

(a) declaration of a dividend;

(b) the consideration of the financial statements, 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 Companies (Amendment) Act 1983:
(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.

2013 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
11 February 2013

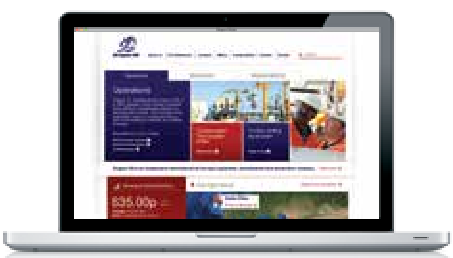
Corporate Governance Statement

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 23, the Board recognises its role in providing effective and clear leadership and direction on all matters relating to the business of the Group, and specifically on corporate governance. This creates a robust culture of business integrity and performance, with a view to generating value for the Company and the shareholders, whose views must be clearly communicated to the Board. 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 UK 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.uk. In addition, as an Irish-incorporated entity, the Company is required to comply with the corporate governance provisions set out in the Irish Corporate Governance Annex to the Code ("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 carried out a review of the Group's corporate governance practices and is during 2012 started 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. So while a number of the proposed changes were implemented during 2012, any further changes will be made in 2013. Details are as set out below in this Corporate Governance Statement.



www.dragonoil.com/governance

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 2012. The Board considers that, except where non-compliance is explained below at pages 66 to 67, 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 28 to 37). 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. The Board discussed a range of topics in 2012 including:

Topics at Board meetings

- Strategic issues including diversification, re-structuring, acquisitions, performance measures and corporate governance;
- Operational issues including important infrastructure projects, marketing, reservoir development and management;
- Financial matters including financial statements, budgeting and planning;
- External issues including investor relations and Host government relations;
- Personnel matters including executive remuneration, HR policies, recruitment and incentives.

Composition, succession and development

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 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 appointed to the Board on 20 February 2012. 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.

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 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 48 to 49, 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. The Directors regularly review the requirement to update and refresh their skills and knowledge. Mr Haugnaess received induction when he joined the Board in February 2012.

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 10 years, 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. He previously held share options, which he exercised in April 2012 and now holds 346,344 shares in the Company.

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 Non-executive 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. All outstanding share options have been exercised by Mr McCue in 2012. 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 B.1.1 of the Code.

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

Chairman of the Board and Chief Executive Officer

There is a documented split within the Group for the roles and responsibilities between the Chairman and the CEO, which are summarised as per the tables 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	2	6	3	1
Mohammed Al Ghurair	2/2	n/a[2]	3/3	1/1
Abdul Jaleel Al Khalifa	2/2	n/a[2]	n/a[2]	n/a[2]
Nigel McCue	2/2	5/6	1/3[4]	1/1
Saeed Al Mazrooei	2/2	6/6	1/3[4]	n/a[2]
Ahmad Al Muhairbi	2/2	6/6	3/3	1/1
Ahmad Sharaf[3]	2/2	n/a[2]	1/3[4]	1/1
Thor Haugnaess[3]	1/2	3/6	2/3[4]	n/a[2][4]

Notes:

[1] During 2012, certain Directors who were not Committee members attended meetings of the Audit, Remuneration and/or Nominations Committees by invitation. These details have not been included in the table.

[2] n/a – not applicable (where a Director is not a member of the Board or the Committee on the relevant date that the meeting was held) as the table reflects only attendance by members.

[3] Mr Haugnaess was appointed to the Board in February 2012 and some meetings had been held prior to his appointment.

[4] Changes were made to the composition of the Board Committees in April 2012.

Although the Board of the Company only met twice during 2012, there were numerous Board meetings of major operating subsidiary companies. All Board meetings, whether at the Company or subsidiary level took place in Dubai, UAE except for the AGM (which was held in London, UK, in April 2012). Further, the Directors regularly communicate outside of the formal process of Board and Committee meetings. The Directors consider that they have allocated sufficient time to the Company to discharge their responsibilities effectively and this is evident from their attendance at, and the frequency of, the Board and Committee meetings.

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

External advice

All Directors have access to independent professional advice at the Group's expense, as and when required. All Directors have access to the advice and services of the Company Secretary, who has responsibility for ensuring that the Board procedures are followed and for governance matters. The appointment of the Company Secretary is one of the matters reserved for the Board. Ms Annisa Loadwick was acting as Company Secretary since 1 October 2012, on the resignation of Alex Ridout who advised the Board since June 2006. Mr Julian Hicks was appointed as Company Secretary with effect from 10 February 2013.

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 nine times in 2012 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 twice per month during 2012 and approved a number of major contract awards including among others for two land drilling rigs, directional drilling and formation evaluation services, drilling fluids contracts and completion equipment.

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 appointed an independent external facilitator to coordinate and manage the process for the performance evaluation of the Board, its Committees and the individual Directors for 2011. The external facilitator had no other connection with the Group other than to facilitate the performance evaluation. 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 was conducted using a methodology of conducting interviews with individual directors and a separate review of collective board processes. An internal performance evaluation of the Board will be undertaken during 2013 to review the performance of the Board, its Committees and the individual Directors for 2012.

Whilst certain recommendations were made, such as the need for improvement in succession planning and the Board's own structure and composition, the external performance evaluation process concluded that the Board was robust, well qualified and had a wealth of operational, technical and regional experience. While the Board regularly reviews its own performance, the Board will only look to strengthen its membership by appointing additional Directors with expertise or experience, which can be of value to the Company.

During 2012, there was a meeting between the Chairman and the other Non-executive Directors without the CEO present and a meeting between the Senior Independent Non-executive 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. In 2012, the Board reviewed and updated 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 Saeed Al Mazrooei (Chairman), Mr Ahmad Al Muhairbi, Mr Nigel McCue and Mr Thor Haugnaess. Mr McCue has served for more than nine years on the Committee whereas Messrs. Al Muhairbi and Al Mazrooei have both served on it since 20 May 2007. In April 2012, Mr Haugnaess was appointed to the Audit Committee. 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.

The Audit Committee met a total of six times during the year (2011: four times) and attendance at the meetings was as per the table above. The principal topics for discussions by the Audit Committee include:

Topics at Audit Committee meetings

- External audit matters including presentations and external auditor independence;
- Financial statements and related matters;
- Internal audit matters.

Ernst & Young have unrestricted access to the Chairman of the Audit Committee. Ernst & Young provided non-audit services, namely tax advice, for the Group in 2012. The audit committee is putting in place a policy for non-audit services to ensure the ongoing safeguard of auditor objectivity and independence. 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.

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 69 to 73.

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

The Nominations Committee met once during 2012 (2011: three). The Committee's principal topic was to arrange 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 2013 , both for the Board and for the Committees. The Committee will continue to review prospective candidate Directors but it may or may not engage the services of an 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.1.1.1/D.1.3 Mr Nigel McCue held share options in the Company, which were granted in 2004 and which vested in 2008. However, in April 2012 he exercised those share options. The Board considers that Mr McCue's independence has not been prejudiced or compromised by the holding of share options in the Company. Mr McCue has served more than ten 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 2013 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 Up until 9 April 2012, only 50% of the membership of the Nominations Committee were comprised of Independent Non-executive Directors, namely Mr Al Muhairbi and Mr McCue. The current Nominations Committee is comprised of Messrs Sharaf, Haugnaess and Al Muhairbi, the latter two being Independent Non-executive Directors. Accordingly, the Nominations Committee has been brought into compliance with the requirement that the majority of the members of the nomination committee should be independent non-executive directors. However, the chairman of the Nominations Committee is Mr Sharaf who is a nominee Director of the majority shareholder.

B.2.3 Non-executive Directors were appointed for indefinite terms according to their letters of appointment. In accordance with the provisions of the Code, all Directors of the Company will be submitted for re-election by the shareholders at the 2013 AGM. The letters of appointment for Non-executive Directors include a three-month notice period.

B.4.2 The Chairman did not formally agree the individual training needs for the Directors. Although no Directors undertook formal training and development during 2012, it is intended that further training and development of Directors will take place in 2013 and will continue over the coming years.

B.6.1 The Board has not completed the performance evaluation process for itself or the Committees or individual Directors as at 11 February 2013. However, the performance evaluation of the Board's 2012 performance will be undertaken in Q1 2013. The Board's performance evaluation for 2011 was completed in 2012.

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 UAE where the CEO is based.

D.2.1 From June 2008 to 9 April 2012, the Remuneration Committee had a membership of two Independent Non-executive Directors and two Directors that were nominee Directors of the majority shareholder. Since April 2012, the members of the Remuneration Committee are Messrs Sharaf, Haugnaess and Al Muhairbi. Messrs Haugnaess and Al Muhairbi are Independent Non-executive Directors and Mr Sharaf is a nominee Director of the majority shareholder. The Company considers that Mr Sharaf contributes 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 Non-executive Director make themselves available for discussions with shareholders and retail investors as and when required.

The Irish Annex

1.1-1.3, 2.1 A new Independent Non-executive Director, Thor Haugnaess was appointed to the Board of the Company as an Independent Non-executive Director on 20 February 2012. 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 UK 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 12 February 2013. The Board will be conducting a self-evaluation process during the first quarter of 2013. See the response to the Code requirements for section B.6.1 above for further details.

Related Party Transactions

The Group has its head office in Dubai, UAE, which it rents from ENOC. Furthermore, the Group has availed itself of a limited number of services from 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. During 2012 the internal audit services provided by ENOC were terminated and the Company appointed a new Head of Internal Audit to head the Group's new Internal Audit department. Apart from the rent of the head office, no other services are provided by ENOC at this time.

Details of the services received are set out in Note 27 of the consolidated financial statements on page 106.

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 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 advisors, 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 2012, the senior management (including the CEO, General Manager of Petroleum Development and Director of Finance) conducted both one-on-one and group meetings with institutional investors in the UK, Ireland, France, Germany, and the USA, and attended four high-profile investor conferences in London and New York. Over the course of the year, the management met over 90 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 14 years and 2 years 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 E-mail 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 General Manager of Petroleum Development, the Director of Finance and the Investor Relations Officer. The CEO ensures that the views of shareholders are communicated to the wider Board on a regular basis throughout the year.

Dragon Oil holds its AGM in London and welcomes shareholder participation. At the 2012 AGM, our Chairman, CEO and Director of Finance all made presentations to our investors with an increased level of 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 and financial statements and given an option to receive the information electronically or in hard copy. The majority of the shareholders receive information from the Company electronically.

Internal Control

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

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

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

- 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"). In 2012 the Group established its own IA Department through the appointment of its Head of Internal Audit and the services of the majority shareholder in relation to internal audit were terminated. The transition has been smooth and uneventful. 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 assignments 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 2012, the IA Department was able to undertake and complete five planned assignments in the areas of drilling, information technology, sales and marketing, contracts and purchasing and compliance corporate governance process review.

As part of the ordinary reporting cycle for the IA Department, it presented to the Audit Committee in December 2012 in respect of the audit reviews that it undertook during 2012 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 thereof.

As part of the 2013 approved audit plan, the IA department will conduct audit reviews on the following areas:

1. Oil Accounting, Production Measurement & Reporting.
2. Maintenance & Repairs.
3. Health and Safety.
4. Project Management Process.
5. New Business Development.

On behalf of the Board

Julian Hicks
Company Secretary of Dragon Oil plc
11 February 2013

The UK's Directors' Remuneration Report Regulations 2002 require the auditors of a UK-incorporated quoted company to report to such company's shareholders on part of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared. 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.

www.dragonoil.com/remuneration

Remuneration Committee

Until 9 April 2012, Mr Saeed Al Mazrooei (Chairman), Mr Ahmad Sharaf, Mr Nigel McCue and Mr Mohammed Al Ghurair comprised the Remuneration Committee, with the Company Secretary acting as secretary to the Remuneration Committee. Since 9 April 2012, Mr Ahmad Al Muhairbi (Chairman), Mr Mohammed Al Ghurair and Mr Thor Haugnaess are the members of the Remuneration Committee. Mr Al Muhairbi and Mr Haugnaess 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 three times during 2012 (2011: once) and as noted above at page 62, 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 Board 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 2012, the Group management has used the services of several independent HR consultants, namely Mercer Human Resources Consulting 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.

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 UAE 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 the 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 2012 represented a challenging year for the Group with regard to production growth and marketing of crude oil; 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 73 below.

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 re-election of directors at each year's AGM.

The remuneration of the Independent Non-executive Directors takes the form solely of fees, the level of which has been approved by the Chairman and the sole Executive Director, in consultation with key management personnel 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.

Throughout 2012 none of the Directors' share options lapsed. The opening market price of the Ordinary Shares in Dragon Oil plc on 02 January 2012 was Stg. 461p, the closing price of the Ordinary Shares on 31 December 2012 was Stg. 555p and the market prices in the Ordinary Shares ranged between Stg. 458p and Stg. 650p during the year.

Audited
Directors' Remuneration

	Fees 2012 US$'000	Salary 2012 US$'000	Bonus 2012 US$'000	Benefits 2012 US$'000	Share options – value of services provided 2012 US$'000	Fees and benefit for prior period 2012 US$'000	Total 2012 US$'000	Total 2011 US$'000
Executive Director								
Abdul Jaleel Al Khalifa	–	440	813	422	259	–	1,934	1,640
Non-executive Directors								
Mohammed Al Ghurair	255	–	–	–	–	11	193	193
Nigel McCue	122	–	–	–	–	10	144	144
Ahmad Sharaf	128	–	–	–	–	5	126	126
Ahmad Al Muhairbi	133	–	–	–	–	10	143	143
Saeed Al Mazrooei	134	–	–	–	–	8	140	140
Thor Kristian Haugnaess	102	–	–	–	–	–	102	–
	874	440	813	422	259	44	2,852	2,386

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 11 February 2013:

	As at 1 January 2012		As at 31 January 2012		As at 11 February 2013	
	Ordinary shares	Share options[(1)]	Ordinary shares	Share options[(1)]	Ordinary shares	Share options[(1)]
Executive Director						
Abdul Jaleel Al Khalifa	–	600,000	**8,241**	**760,000**	8,241	760,000
Directors						
Nigel McCue	125,000	250,000	**346,344**	**–**	346,344	–
	125,000	850,000	**354,585**	**760,000**	354,585	760,000
Company Secretary						
Alex Ridout[(3)]	20,000	150,000	–	–	–	–
Annisa Loadwick[(3)]	5,000[(2)]	50,000[(2)]	**10,980**	**60,000**	10,980	60,000
Julian Hicks[(3)]	–	–	–	–	–	–
	150,000	1,050,000	**365,565**	**820,000**	365,565	820,000

[(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.

[(2)] At the date of appointment.

[(3)] Ms Annisa Loadwick was acting as Company Secretary from 1 October 2012, on the resignation of Alex Ridout who advised the Board since June 2006. Mr Julian Hicks was appointed as Company Secretary with effect from 10 February 2013

	Date of grant	As at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 December 2012	Exercise price (Stg. p)	Average market price at exercise date	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
	09.04.12	–	160,000	–	–	160,000	608.0	–	10.04.15	08.04.22
Nigel McCue	31.12.04	250,000	–	250,000	–	–	69.0	605.0	01.01.08	30.12.14
		850,000	160,000	250,000	–	760,000				
Company Secretary										
Alex Ridout	06.04.09	50,000	–	50,000	–	–	177.0	541.5	07.04.12	05.04.19
	13.04.10	50,000	–	–	50,000	–	478.25	–	14.04.13	12.04.20
	21.04.11	50,000	–	–	50,000	–	556.75	–	22.04.14	20.04.21
	09.04.12	–	50,000	–	50,000	–	608.0	–	10.04.15	08.04.22
Annisa Loadwick	06.04.09	10,000	–	10,000	–	–	177.0	605.25	07.04.12	05.04.19
	13.04.10	20,000	–	–	–	20,000	478.25	–	14.04.13	12.04.20
	21.04.11	20,000	–	–	–	20,000	556.75	–	22.04.14	20.04.21
	09.04.12	–	20,000	–	–	20.000	608.0	–	10.04.15	08.04.22
Julian Hicks	–	–	–	–	–	–	–	–	–	–
		1,050,000	230,000	310,000	150,000	820,000				

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

	Salary 2012 US$'000	Bonus 2012 US$'000	Benefits US$'000	Share options – value of services provided US$'000	Total 2012 US$'000	Total 2011 US$'000
COO						
Hussain Al Ansari	307	490	306	262	1,365	1,100
GM-PD						
Emad Buhulaigah	229	407	270	184	1,090	935
	536	**897**	**576**	**446**	**2,455**	**2,035**

COO & GM-PD's Interests

The interests of the COO & GM-PD in the share capital of the Company, all of which are beneficial, are as set out below. The tables include all interests up to and including 11 February 2013:

	As at 1 January 2012		As at 31 January 2012		As at 11 February 2013	
	Ordinary shares	Share options[(1)]	Ordinary shares	Share options[(1)]	Ordinary shares	Share options[(1)]
COO						
Hussain Al Ansari	–	250,000	–	350,000	–	350,000
GM-PD						
Emad Buhulaigah	–	300,000	–	400,000	–	400,000
		550,000	**–**	**750,000**	**–**	**750,000**

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

	Date of grant	As at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 December 2012	Exercise price (Stg. p)	Average market price at exercise date	Exercisable from	Exercisable Notes up to
COO										
Hussain Al Ansari	21.04.11	250,000		–	–	250,000	556.75	–	06.04.11	20.04.21
	09.04.12	–	100,000	–	–	100,000	608.0	–	10.04.15	08.04.22
GM-PD										
Emad Buhulaigah	13.04.10	200,000	–	–	–	200,000	478.25	–	14.04.11	12.04.20
	21.04.11	100,000	–	–	–	100,000	556.75	–	06.04.11	20.04.21
	09.04.12	–	100,000	–	–	100,000	608.0	–	10.04.15	08.04.22
		550,000	**200,000**	**–**	**–**	**750,000**				

Long-term incentive plans

As noted above, the Board recognises that 2012 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 2012 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' ran from 1 October 2011 until 31 March 2012 and the second from 31 March 2012 to 30 September 2012. The Board was pleased to note that there has been 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

Ahmad Al Muhairbi
Chairman of the Remuneration Committee
11 February 2013

Financial statements

This section provides Independent Auditor’s Report to the Members of Dragon Oil plc, financial statements and notes to the financial statements.


Dragon Oil

We have audited the financial statements of Dragon Oil plc for the year ended 31 December 2012 which comprise the Group and Parent Company Balance Sheets, the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- the Parent Company Balance Sheet gives a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the Parent Company's affairs as at 31 December 2012; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2012 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Matters on which we are required to report by the Companies Acts 1963 to 2012

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the Parent Company.
- The Parent Company Balance Sheet is in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.
- The net assets of the Parent Company, as stated in the Parent Company Balance Sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Parent Company.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

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

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

George Deegan
for and on behalf of Ernst & Young

Dublin
11 February 2013

Group balance sheet
As at 31 December

	Note	2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**1,524,157**	1,353,978
Intangible asset	8	**5,466**	–
		1,529,623	1,353,978
Current assets			
Inventories	11	**12,387**	6,988
Trade and other receivables	12	**156,858**	184,581
Term deposits	13	**1,866,228**	1,718,271
Cash and cash equivalents	13	**277,997**	87,499
		2,313,470	1,997,339
Total assets		**3,843,093**	3,351,317
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	14	**77,474**	80,169
Share premium	15	**233,889**	231,635
Capital redemption reserve	16	**80,644**	77,825
Other reserve	17	**8,022**	5,489
Retained earnings		**2,459,287**	2,193,427
Total equity		**2,859,316**	2,588,545
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	**1,290**	623
Deferred income tax liabilities	23	**141,789**	115,815
		143,079	116,438
Current liabilities			
Trade and other payables	18	**566,070**	402,981
Current income tax liabilities	23	**274,628**	243,353
		840,698	646,334
Total liabilities		**983,777**	762,772
Total equity and liabilities		**3,843,093**	3,351,317

Approved by the Board on 11 February 2013

Ahmad Sharaf
Director

Saeed Al Mazrooei
Director

The notes on pages 84 to 107 are an integral part of these financial statements.

Group income statement
Year ended 31 December

	Note	2012 US$'000	2011 US$'000
Revenue	19	**1,155,143**	1,150,513
Cost of sales	20	**(329,168)**	(266,539)
Gross profit		**825,975**	883,974
Administrative expenses	20	**(35,474)**	(28,010)
Other income		**407**	241
Operating profit		**790,908**	856,205
Finance income	21	**18,279**	15,533
Profit before income tax		**809,187**	871,738
Income tax expense	23	**(209,141)**	(223,322)
Profit attributable to equity holders of the Company		**600,046**	648,416
Earnings per share attributable to equity holders of the Company	24		
Basic		**119.49c**	125.95c
Diluted		**119.26c**	125.61c

Group statement of comprehensive income
Year ended 31 December

	2012 US$'000	2011 US$'000
Profit attributable to equity holders of the Company	**600,046**	648,416
Total comprehensive income for the year	**600,046**	648,416

Approved by the Board on 11 February 2013

Ahmad Sharaf
Director

Saeed Al Mazrooei
Director

The notes on pages 84 to 107 are an integral part of these financial statements.

Group cash flow statement
Year ended 31 December

	Note	2012 US$'000	2011 US$'000
Cash generated from operating activities	25	**1,177,481**	1,105,273
Income tax paid		**(151,892)**	(89,459)
Net cash generated from operating activities		**1,025,589**	1,015,814
Cash flows from investing activities			
Additions to property, plant and equipment	7,18	**(366,749)**	(406,782)
Additions to intangible assets	8	**(5,466)**	–
Interest received on bank deposits	21	**18,279**	15,533
Amounts placed on term deposits (with original maturities greater than three months)	13	**(147,957)**	(523,123)
Net cash used in investing activities		**(501,893)**	(914,372)
Cash flows from financing activities			
Proceeds from issue of share capital	14,15	**2,378**	1,409
Dividends paid	28	**(130,618)**	(118,684)
Shares repurchased	14	**(204,136)**	(38,125)
Employee share purchase plan contribution	14	**(822)**	–
Net cash used in financing activities		**(333,198)**	(155,400)
Net increase/(decrease) in cash and cash equivalents		**190,498**	(53,958)
Cash and cash equivalents at beginning of year		**87,499**	141,457
Cash and cash equivalents at end of year	13	**277,997**	87,499

The notes on pages 84 to 107 are an integral part of these financial statements.

Company balance sheet
As at 31 December

	Note	2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	9a	**14,921**	10,998
Current assets			
Loans to subsidiary undertakings	9b	**1,068,640**	524,831
Other receivables	12	**592**	506
Cash and cash equivalents	13	**250,841**	1,070
		1,320,073	526,407
Total assets		**1,334,994**	537,405
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	14	**77,474**	80,169
Share premium	15	**233,889**	231,635
Capital redemption reserve	16	**80,644**	77,825
Other reserve	17	**8,022**	5,489
Retained earnings		**447,755**	59,528
Total equity		**847,784**	454,646
LIABILITIES			
Current liabilities			
Loan from a subsidiary undertaking	10a	**486,957**	82,361
Other payables	18	**253**	398
Total equity and liabilities		**487,210**	82,759
		1,334,994	537,405

Approved by the Board on 11 February 2013

Ahmad Sharaf
Director

Saeed Al Mazrooei
Director

The notes on pages 84 to 107 are an integral part of these financial statements.

Company cash flow statement
Year ended 31 December

	Note	2012 US$'000	2011 US$'000
Net cash used in operating activities	25	**(2,818)**	(3,594)
Cash flows from investing activities			
Loans advanced to subsidiary undertakings	9b	**(543,809)**	(68,728)
Dividends received from a subsidiary undertaking		**725,000**	145,000
Net cash provided by investing activities		**181,191**	76,272
Cash flows from financing activities			
Loan advanced by a subsidiary undertaking	10a	**404,596**	82,361
Proceeds from issue of share capital	14,15	**2,378**	1,409
Dividends paid	28	**(130,618)**	(118,684)
Shares repurchased	14	**(204,136)**	(38,125)
Employee share purchase plan contribution	14	**(822)**	–
Net cash generated from/(used in) financing activities		**71,398**	(73,039)
Net increase/(decrease) in cash and cash equivalents		**249,771**	(361)
Cash and cash equivalents at beginning of year		**1,070**	1,431
Cash and cash equivalents at end of year	13	**250,841**	1,070

The notes on pages 84 to 107 are an integral part of these financial statements.

Statement of changes in equity

Group

	Note	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 2012		**80,169**	**231,635**	**77,825**	**5,489**	**2,193,427**	**2,588,545**
Total comprehensive income for the year		–	–	–	–	600,046	600,046
Shares issued during the year	14,15	124	2,254	–	–	–	2,378
Employee share option scheme:							
– value of services provided	14	–	–	–	3,923	–	3,923
Transfer on exercise of share options		–	–	–	(1,390)	1,390	–
Dividends	28	–	–	–	–	(130,618)	(130,618)
Shares repurchased and cancelled	14,16	(2,819)	–	2,819	–	(204,136)	(204,136)
Employee share purchase plan contribution	14	–	–	–	–	(822)	(822)
Total transactions with owners		(2,695)	2,254	2,819	2,533	(334,186)	(329,275)
At 31 December 2012		**77,474**	**233,889**	**80,644**	**8,022**	**2,459,287**	**2,859,316**
At 1 January 2011		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

	Note	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 2012		**80,169**	**231,635**	**77,825**	**5,489**	**59,528**	**454,646**
Total comprehensive income for the year		–	–	–	–	722,413	722,413
Shares issued during the year	14,15	124	2,254	–	–	–	2,378
Employee share option scheme:							
– value of services provided	14	–	–	–	3,923	–	3,923
Transfer on exercise of share options		–	–	–	(1,390)	1,390	–
Dividends	28	–	–	–	–	(130,618)	(130,618)
Shares repurchased and cancelled	14,16	(2,819)	–	2,819	–	(204,136)	(204,136)
Employee share purchase plan contribution	14	–	–	–	–	(822)	(822)
Total transactions with owners		(2,695)	2,254	2,819	2,533	(334,186)	(329,275)
At 31 December 2012		**77,474**	**233,889**	**80,644**	**8,022**	**447,755**	**847,784**
At 1 January 2011		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 84 to 107 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 and domiciled in Ireland and the address of its registered office is given on the inside back cover. The Group headquarters is based in Dubai, United Arab Emirates ("UAE").

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

These financial statements have been approved for issue by the Board of Directors on 11 February 2013.

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

2.1 Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and those parts of the Irish Companies Acts, 1963 to 2012 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 and interpretations adopted by the Group
The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment does not 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 measured using the revaluation model.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

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 amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Group.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Group.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify 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 amendment has no impact on the Group.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

IFRS 10 Consolidated Financial Statements, IAS 27 Separate 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 addresses 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. IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investments in Associates. 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 the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group's financial position and performance.

Annual Improvements May 2012

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

The Group expects no impact on its financial position, performance, disclosures or stated accounting policies from the adoption of these amendments.

2 Summary of significant accounting policies (continued)

2.2 Basis of consolidation

The Group financial statements incorporate the financial statements of entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee 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 Company. 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 segment, 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$") rounded to the nearest thousand, which is the Company's functional and presentation currency. Functional currency is the currency of the primary economic environment in which the Company operates. The functional currency of all subsidiaries is US$.

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. 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. 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.

(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 and are amortised as per the Group's depletion policy.

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

2 Summary of significant accounting policies (continued)
2.7 Depletion and impairment (continued)

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 as additional depletion and separately disclosed. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement.

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

2.8 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 other financial liabilities and determines the classification at initial recognition. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled or expires.

2.8.1 Financial assets

(a) 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.

(b) 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.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and comprises direct purchase costs and cost of production. Full provision is made for obsolete supplies. Net realisable value of crude oil is the estimated selling price in the ordinary course of business less applicable variable selling expenses. Net realisable value for inventory, other than crude oil, is determined by reference to the prices existing at the balance sheet date.

2.10 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. In the current year, the movement within an accounting period has been adjusted through cost of sales such that the gross profit is recognised on an entitlement basis. In the prior year, the movement of underlifts and overlifts was adjusted in revenue or cost of sales respectively. Comparative information has not been restated on the grounds of materiality, where the underlift movement in the amount of US$4.4 million was adjusted through the revenue.

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

2 Summary of significant accounting policies (continued)

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 for the year in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities or the expected value (weighted average probability) approach.

(b) Deferred income tax

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

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

Deferred income tax 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 or the employment contracts in the relevant countries of operations.

Under the laws of Turkmenistan, the Group contributes under the State Plan towards social insurance in respect of local employees, which is recorded in the income statement.

Under the laws of the UAE, the Group contributes a proportion of the salary of UAE nationals towards the pension fund to the General Pension Authority, which is recorded in the income statement. End of service benefits are payable in accordance with the legislation to employees based in the UAE. The UAE labour laws provide for a lumpsum payout at termination.

2.14 Share-based payment plans

(a) Employee share option plan ("ESOP")

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, usually upon delivery, to the buyer and the amount of revenue can be reliably measured. Revenue excludes abandonment and decommissioning barrels under the terms of the PSA.

(b) Finance income

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

2.17 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. Agreements under which payments are made to lessors in return for the right to use an asset for a period are accounted for as leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease or if directly attributable, capitalised as a part of development and production assets.

2.18 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 2011 or 2012 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 overlifts would have been higher/lower by US$1.4 million (2011: crude oil underlifts would have been higher/lower by US$0.4 million).

(ii) Foreign exchange risk

The Group does not have significant exposure to foreign exchange risk and has adequate policies and controls in place to ensure that exposures to currencies other than the Company's functional currency are adequately managed. Generally the exposure has been limited given that receipts and payments have mostly been in US Dollars.

(iii) Interest rate risk

The Group has 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 2012, if interest rates on the deposits had been 0.5% higher/lower, the interest income would have been higher/lower by US$7.5 million (2011: US$6 million).

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 UAE. The deposits are held with reputable independently rated banks with a Moody's minimum rating of 'Baa1'. The credit quality of the amounts held on deposits is set out in Note 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 the counterparty.

The Group has one customer (2011: 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 (2011: US$32 million) 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 'A2' 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 short and long term cash position on the basis of expected cash flows taking into account volatility in oil prices, delays in development projects, changes in production profile and increases in costs. The Group seeks to ensure that it has an adequate 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 2012				
Trade and other payables	**567,360**	**567,360**	**566,070**	**1,290**
31 December 2011				
Trade and other payables	403,604	403,604	402,981	623

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, return capital, issue new shares or acquire new debt facilities to maintain or adjust capital structure, as appropriate.

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2012.

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

3.3 Fair value estimation

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: 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); and

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 31 December 2012, the overlift payable was measured at fair value based on quoted market price of crude oil (Level 1). The Group did not have any other financial assets or liabilities that are measured at fair value as at 31 December 2012.

4 Critical accounting judgements and estimates

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

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

(a) 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$75 per barrel to US$80 per barrel from 1 January 2012 and from US$80 per barrel to US$85 per barrel from 1 August 2012. 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 and the netback price of gas had been US$2 per Mscf higher at US$5.50 from 1 January 2012, the reserves attributable to the Group would decrease, with a consequent increase in the depletion charge of US$11.2 million for the year.

If the estimate of the long-term oil price had been US$20 per barrel lower and the netback price of gas had been US$2 per Mscf lower at US$1.50 from 1 January 2012, the reserves attributable to the Group would increase, with a consequent decrease in the depletion charge of US$22.2 million for the year.

If the gas sales were delayed to 2017, the depletion charge would increase by US$5.7 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 assumes that a gas sales agreement will be signed and that the PSA, which is valid up to 2025, will be extended on similar terms up to 2035 under an exclusive right to negotiate for an extension period of not less than ten years, provided for in the PSA.

(b) E&E assets (Note 2.6)
The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits will arise, from either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

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$722.4 million (2011: profit of US$141.6 million).

6 Segment information

The Group is managed as a single business unit and its development and production assets are located in Turkmenistan in the Caspian region. The 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 represent the Group's interest in certain exploration blocks in Tunisia.

Revenue includes an amount of US$1,155 million (2011: US$1,132.7 million) arising from the sale of crude oil to one customer through Azerbaijan (2011: one customer). In 2011 the Group sold US$13.1 million of crude oil to an independent third party that has an Iranian swap agreement and recognised US$4.4 million from the underlift of entitlement to crude oil produced. In 2012 US$0.1 million (2011: US$0.3 million) was recognised from other sales.

7 Property, plant and equipment

	Development and production assets US$'000	Other US$'000	Total US$'000
Cost			
At 1 January 2011	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
Additions for the year	381,438	375	381,813
At 31 December 2012	**2,723,524**	**2,463**	**2,725,987**
Depletion and depreciation			
At 1 January 2011	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
Charge for the year	211,531	103	211,634
At 31 December 2012	**1,199,796**	**2,034**	**1,201,830**
Net book amount			
At 31 December 2012	**1,523,728**	**429**	**1,524,157**
At 31 December 2011	1,353,821	157	1,353,978

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 as well as the signing of the gas sales agreement.

Inventory of drilling supplies is included under 'Property, plant and equipment'. This inventory is not depleted until it is put to use as development and production assets.

8 Intangible assets

Exploration and evaluation assets

	US$'000
At 1 January 2012	–
Additions for the year	5,466
At 31 December 2012	**5,466**
At 31 December 2011	–

The intangible assets include exploration and evaluation assets representing the Group's interest in certain exploration blocks in Tunisia.

9 Investments in and loans to subsidiary undertakings

Company

(a) Investments in subsidiary undertakings

	US$'000
Cost	
At 1 January 2011	31,325
Fair value of share options granted to employees of a subsidiary undertaking	2,583
At 31 December 2011	33,908
Fair value of share options granted to employees of a subsidiary undertaking	3,923
At 31 December 2012	**37,831**
Provision for impairment	
At 1 January 2011 and 31 December 2011 and 2012	22,910
Net book amount	
At 31 December 2012	**14,921**
At 31 December 2011	10,998

(b) Loans to subsidiary undertakings

	US$'000
Cost	
At 1 January 2011	461,673
Advanced during the year, net	68,728
At 31 December 2011	530,401
Advanced during the year, net	543,829
At 31 December 2012	**1,074,230**
Provision for impairment	
At 1 January 2011 and 31 December 2011 and 2012	5,590
Net book amount	
At 31 December 2012	**1,068,640**
At 31 December 2011	524,831

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:

	2012 US$'000	2011 US$'000 (restated)
Assets as per balance sheet		
Loans and receivables		
Trade and other receivables excluding prepayments and advances to suppliers	113,585	139,460
Term deposits	1,866,228	1,718,271
Cash and cash equivalents	277,997	87,499
	2,257,810	1,945,230
Fair value through profit or loss		
Crude oil underlift receivable	–	4,445
Liabilities as per balance sheet		
Liabilities at amortised cost		
Trade and other payables	553,443	403,604
Fair value through profit or loss		
Crude oil overlift payable	13,917	–
Company		
Assets as per balance sheet		
Loans and receivables		
Loans to subsidiary undertakings	1,068,640	524,831
Other receivables	592	506
Cash and cash equivalents	250,841	1,070
	1,320,073	526,407
Liabilities as per balance sheet		
Liabilities at amortised cost		
Loan from a subsidiary undertaking	486,957	82,361
Other payables	253	398
	487,210	82,759

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

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

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 Moody's credit ratings, as set out below:

	2012 US$'000	2011 US$'000
Aa2	–	40,350
Aa3	196,281	206,406
A1	618,172	516,176
A2	583,353	–
A3	–	979,776
Baa1	742,230	61,535
Non-rated	4,170	1,509
Cash at bank and term deposits	2,144,206	1,805,752
Cash in hand	19	18
Cash and cash equivalents and term deposits	2,144,225	1,805,770

The movement of the balances between the credit ratings is a result of the ratings of the banks by Moody's at the balance sheet date.

Cash and cash equivalents of the Company are held with a bank with Moody's credit rating of A1 and A2 (2011: Aa3 and A1).

11 Inventories

	2012 US$'000	2011 US$'000
Crude oil	975	788
Other supplies	12,639	7,335
	13,614	8,123
Provision for obsolete inventories	(1,227)	(1,135)
	12,387	6,988

The cost of crude oil recognised as an expense and included in cost of sales amounted to US$309.8 million (2011: US$265 million).

12 Trade and other receivables

	Group		Company	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Trade receivable	**112,344**	138,416	**–**	–
Crude oil underlift receivable	**–**	4,445	**–**	–
Other receivables	**1,157**	983	**531**	456
Receivable from a related party	**84**	61	**61**	50
Prepayments and advances to suppliers	**43,273**	40,676	**–**	–
	156,858	184,581	**592**	506

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	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Fully performing	**112,344**	138,416	**–**	–

At 31 December 2012, the Group faced a concentration of credit risk with one (2011: one) customer accounting for 100% (2011: 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 2012, the Group had letters of credit amounting to US$112.3 million (2011: US$138.4 million) as collateral against the trade receivable.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value less collateral security of receivables mentioned above.

13 Cash and bank balances

	Group		Company	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Cash at bank and in hand	**277,997**	42,424	**250,841**	1,070
Deposits with an original maturity of three months or less	**–**	45,075	**–**	–
Cash and cash equivalents	**277,997**	87,499	**250,841**	1,070
Term deposits with an original maturity of over 3 months	**1,866,228**	1,718,271	**–**	–
	2,144,225	1,805,770	**250,841**	1,070

Group

Cash and bank balances include an amount of US$407.7 million (2011: US$279 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 0.18% and 2.45% (2011: 0.14% and 1.68%) per annum.

Term deposits with original maturities of over three months earned interest during the year at rates between 0.22% and 2.75% (2011: 0.22% and 3.25%) per annum.

Deposits and other balances are held with fifteen banks (2011: twelve). 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 (2011: two).

14 Share capital

	Number of shares ('000)	Ordinary shares US$'000
At 1 January 2011	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
Issue of shares:		
– Share option scheme (i)	955	124
Shares repurchased and cancelled (Note 16)	(22,611)	(2,819)
At 31 December 2012	**489,462**	**77,474**

The total authorised number of ordinary shares is 700 million shares (2011: 700 million shares) with a par value of €0.10 per share (2011: €0.10 per share). All issued shares are fully paid. During 2012, the Company repurchased and cancelled 22.6 million shares (2011: 5 million shares) for an aggregate consideration of US$204.1 million (2011: US$38.1 million) including transaction costs of US$4.1 million (2011: US$0.5 million).

(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	Vested
	6-Apr-09	1,210	Vested
Reissue 1	6-Apr-09	153	Vested
Reissue 2	6-Apr-09	180	Vested
Grants in 2009		2,043	
	13-Apr-10	840	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	
	09-Apr-12	1,250	10-Apr-15
	09-Apr-12	740	1/3 annually
Grants in 2012		1,990	

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 nil per option (2011: £0.61 per option).

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

	2012		2011	
	Weighted average exercise price £	**Options ('000)**	**Weighted average exercise price £**	**Options ('000)**
Outstanding at 1 January	**3.8585**	**4,770**	2.8220	3,745
Granted	**6.0800**	**1,990**	5.5042	1,730
Forfeited	**5.4755**	**(413)**	3.8076	(215)
Exercised	**1.5689**	**(955)**	1.7687	(490)
Outstanding at 31 December	**4.9600**	**5,392**	3.8585	4,770
Exercisable at 31 December	**3.1973**	**1,487**	2.0085	1,322

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

	2012	2011	
	Grant date: 09 Apr 12	**Grant date: 06 Sep 11**	**Grant date: 21 Apr 11**
Share price at grant date	**£6.08**	£4.65	£5.66
Exercise price	**£6.08**	£4.655	£5.5675
Expected volatility	**50%**	53%	44% to 55%
Expected risk free rate per annum	**0.41% to 0.89%**	1.27%	1.36% to 2.26%
Interval in years for measurement of volatility	**2.5, 3.5 and 4.5**	4.5	2.5, 3.5 and 4.5
Dividend yield per annum	**1.8%**	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 £1.33 per option (2011: £1.35).

The weighted average share price at the dates of exercise for the options exercised during the year was £6.0746 (2011: £5.4432).

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

		Options	
Expiry date	**Exercise price £**	**2012 '000**	**2011 '000**
30 December 2014	0.6900	**–**	285
13 December 2016	1.7084	**80**	320
05 April 2019	1.7700	**767**	1,153
11 April 2020	4.7825	**1,145**	1,322
20 April 2021	5.5675	**1,420**	1,570
05 September 2021	4.6550	**120**	120
08 April 2022	6.0800	**1,860**	–
		5,392	4,770

During the year, a total fair value charge for the ESOP and ESPP of US$3.9 million (2011: US$2.6 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 nil (2011: US$0.01 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 contribution made by the Group representing the 15% discount is US$0.8 million (2011: nil).

The Group recognised a total charge of US$0.5 million (2011: US$0.1 million) for the ESPP.

15 Share premium

	2012 US$'000	2011 US$'000
At 1 January	**231,635**	230,296
Premium on shares issued during the year	**2,254**	1,339
At 31 December	**233,889**	231,635

16 Capital redemption reserve

The capital redemption reserve arises from a reorganisation of the Company's share capital in 2002. During 2012, 22.6 million shares (2011: 5 million shares) at nominal value of US$2.8 million (2011: US$0.7 million) were repurchased and cancelled. The nominal value 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 schemes less any exercises or lapses of such awards.

18 Trade and other payables

	Group		Company	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Trade payables	**48,979**	47,640	**–**	–
Accruals	**65,480**	46,448	**245**	309
Crude oil overlift payable	**13,917**	–	**–**	–
Abandonment and decommissioning liability	**438,465**	308,806	**–**	–
Other creditors	**519**	710	**8**	89
	567,360	403,604	**253**	398
Less: Non-current portion	**1,290**	623	**–**	–
	566,070	402,981	**253**	398

Trade payables and accruals include amounts of US$40.4 million (2011: US$45.1 million) and US$44.8 million (2011: US$25 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

	2012 US$'000	2011 US$'000
Sales of crude oil	**1,155,143**	1,146,068
Crude oil underlifts (Note 2.10)	**–**	4,445
	1,155,143	1,150,513

20 Cost of sales and administrative expenses

	2012 US$'000	2011 US$'000
Cost of sales	**329,168**	266,539
Administrative expenses	**35,474**	28,010
	364,642	294,549
Analysed as follows:		
Depletion and depreciation (Note 7)	**211,634**	205,419
Field operating costs	**57,727**	44,415
Field staff costs	**41,375**	28,742
Other staff costs	**20,443**	14,562
Crude oil marketing costs	**305**	665
Net foreign exchange (gain)/losses	**(1,898)**	342
Crude oil underlifts (Note 2.10)	**4,445**	–
Crude oil overlifts	**13,917**	(12,680)
Other administrative costs	**16,694**	13,084
	364,642	294,549

21 Finance income

	2012 US$'000	2011 US$'000
Interest on bank deposits	**18,279**	15,533

22 Profit before income tax

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

	2012 US$'000	2011 US$'000
Staff costs (Note 22(b))	**61,818**	43,304
Depletion and depreciation (Note 7)	**211,634**	205,419
Operating lease expenses	**1,262**	1,337
Auditors' remuneration – Group		
– Statutory audit of Group accounts	**182**	197
– Other assurance services	**160**	186
– Tax advisory services	**47**	–
	389	383
Auditors' remuneration – Company		
– Statutory audit of parent individual accounts	**10**	10
– Tax advisory services	**47**	–
	57	10

(b) Staff costs

	2012 US$'000	2011 US$'000
Wages and salaries	**66,702**	50,995
Social security costs	**4,953**	3,899
End of service benefits	**1,310**	634
Employee share options – value of services provided (Note 14)	**3,923**	2,583
	76,888	58,111
Less : Capitalised as part of development and production assets	**(15,070)**	(14,807)
	61,818	43,304

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

22 Profit before income tax (continued)

(b) Staff costs (continued)

	2012 Number	2011 Number
Average monthly number of persons employed by the Group during the year:		
Petroleum operations	**1,121**	1,024
Finance, administration and others	**247**	199
	1,368	1,223

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

	2012 US$'000	2011 US$'000
Fees for services as directors	**918**	746
Other emoluments	**1,934**	1,640
	2,852	2,386

Details of the directors' remuneration are disclosed in the directors' remuneration report on pages 69 to 73.

23 Current and deferred income tax

	2012 US$'000	2011 US$'000
Analysis of income tax expense:		
Current tax		
– Amounts relating to current year	**183,167**	190,738
Net deferred tax	**25,974**	32,584
	209,141	223,322

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.

	2012 US$'000	2011 US$'000
Profit before income tax	**809,187**	871,738
Tax calculated at domestic tax rates applicable to profits in the primary jurisdiction	**202,297**	217,935
Tax effect of expenses not deductible	**8,298**	6,116
Effect of different tax rates in countries in which the Group operates	**(4,639)**	(4,047)
Others	**3,185**	3,318
	209,141	223,322
Analysis of the net deferred tax liability:		
Deferred tax liability to be settled after more than 12 months	**145,268**	114,704
Deferred tax liability to be settled within 12 months	**–**	1,111
Deferred tax asset to be recovered within 12 months	**(3,479)**	–
	141,789	115,815

The effective tax rate was 25.85% (2011: 25.62%).

At the year end, current income tax of US$274.6 million (2011: US$243.4 million) was payable.

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

Deferred tax liabilities	Production and development asset depletion US$'000	Crude oil underlifts US$'000	Total US$'000
At 1 January 2011	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
Charged/(credited) to the income statement	30,564	(1,111)	29,453
At 31 December 2012	**145,268**	**–**	**145,268**

Deferred tax assets	Crude oil overlifts US$'000	Others US$'000	Total US$'000
At 1 January 2011	3,171	–	3,171
Charged to the income statement	(3,171)	–	(3,171)
At 31 December 2011	–	–	–
Credited to the income statement	3,479	–	3,479
At 31 December 2012	**3,479**	**–**	**3,479**

The Group has unutilised tax losses carried forward at 31 December 2012 from two entities amounting to US$61.5 million (2011: US$58.5 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 2012. 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

	2012 US$'000	2011 US$'000
Profit attributable to equity holders of the Company	**600,046**	648,416

	Number '000	Number '000
Weighted average number of shares:		
Basic	**502,181**	514,815
Assumed conversion of potential dilutive share options	**1,008**	1,388
Diluted	**503,189**	516,203
Earnings per share attributable to equity holders of the Company:		
Basic	**119.49c**	125.95c
Diluted	**119.26c**	125.61c

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

	Notes	2012 US$'000	2011 US$'000
Group			
Profit before income tax		**809,187**	871,738
Adjustments for:			
– Depletion and depreciation	7	**211,634**	205,419
– Crude oil underlifts	12,20	**4,445**	(4,445)
– Crude oil overlifts	18,20	**13,917**	(12,680)
– Employee share options – value of services provided	14,22(b)	**3,923**	2,583
– Interest on bank deposits	21	**(18,279)**	(15,533)
Operating cash flow before changes in working capital		**1,024,827**	1,047,082
Changes in working capital:			
– Inventories	11	**(5,399)**	7,977
– Trade and other receivables	12	**23,278**	(81,863)
– Trade and other payables	18	**134,775**	132,077
Cash generated from operating activities		**1,177,481**	1,105,273
Company			
Profit before income tax		**722,413**	141,576
Adjustments for:			
– Dividend income from a subsidiary undertaking		**(725,000)**	(145,000)
Operating cash flow before changes in working capital		**(2,587)**	(3,424)
Changes in working capital:			
– Other receivables	12	**(86)**	(139)
– Other payables	18	**(145)**	(31)
Cash used in operating activities		**(2,818)**	(3,594)

26 Commitments and contingent items

(a) Capital commitments

The capital commitments at the year end were as follows:

	Group		Company	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Contracted for but not yet incurred	**674,445**	655,315	**–**	–

(b) Other financial commitments

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

	2012 US$'000	2011 US$'000
Due within one year	**172**	166
Due between two to five years	**142**	303
	314	469

(c) Letters of credit

The following commitments were outstanding as at 31 December 2012:

Letters of credit of US$16.5 million were in issue at 31 December 2012 (2011: US$20.4 million) towards the supply of equipment and services.

At 31 December 2012, the Company had a continuing guarantee for US$30 million (2011: US$30 million) for undrawn trade finance facilities of subsidiary undertakings.

(d) Taxation

At 31 December 2012, 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.

(i) The following transactions are with ENOC and its subsidiaries:

	2012 US$'000	2011 US$'000
Trading transactions:		
Sale of services	**518**	282
Purchase of services	**2,187**	1,443
Year end balances		
Receivables	**84**	61
Payables	**8**	379

(ii) The following transactions are with financial institutions under common control and associates:

	2012 US$'000	2011 US$'000
Other transactions:		
Finance income	**6,068**	8,119
Year end balances		
Term deposits	**330,730**	651,102
Abandonment and decommissioning funds	**407,718**	278,957
Cash and cash equivalents	**3,782**	49,717

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

	2012 US$'000	2011 US$'000
Non-executive directors fees	**918**	746
Salaries and short-term benefits	**5,236**	4,791
Short-term benefits	**6,154**	5,537
End of service benefits	**117**	138
Share-based payments	**1,194**	1,096
	7,465	6,771

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

28 Dividends paid

	2012 US$'000	2011 US$'000
Declared and paid during the year:		
Dividends on ordinary shares:		
Final dividend for 2011: US cents 11 per share (2010: Final dividend of US cents 14 per share)	**56,231**	72,242
Interim dividend for 2012: US cents 15 per share (2011: Interim dividend of US cents 9 per share)	**74,387**	46,442
	130,618	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 1QT 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 events

(i) At a meeting held on 10 February 2013, the board of directors of the Company have proposed a final dividend of USc15 per share (2011: USc11 per share) be paid to the shareholders in respect of the full year 2012. The total dividend to be paid is US$73.4 million (2011: US$56.2 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.

(ii) Subsequent to the year end, the Group, within a consortium, signed an exploration, development and production service contract for Block 9 in Iraq. Under the approved contract, the Group has commitments of US$35 million for its share of the signature bonus and the minimum work and expenditure obligation.

(iii) Subsequent to the year end, the Group signed an agreement with the existing customer for the sale of all its export volumes until 31 December 2014.

Supplementary information – Movement in oil, condensate and gas reserves (unaudited)

PROVED AND PROBABLE COMMERCIAL RESERVES (unaudited)

Commercial reserves

	Turkmenistan							
	Working interest				Entitlement			
	2012			2011	2012			2011
	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	**658**	**1,496**	**907**	899	**314**	**593**	**413**	415
Revisions	**44**	**(35)**	**38**	30	**6**	**(34)**	**–**	10
Production	**(25)**	**–**	**(25)**	(22)	**(12)**	**–**	**(12)**	(12)
As at 31 December	**677**	**1,461**	**920**	907	**308**	**559**	**401**	413

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, signing of the gas sales agreement and other capital and operating costs.

3.Based on the results of the recent assessment by an independent energy consultant, the Group has upgraded its reserves to a net 677 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.Revision in the oil and condensate reserves is attributed to the drilling results and production performance of wells in the Dzheitune (Lam) area. Revision in entitlement barrels of oil and condensate is attributable to the change in cost estimates and long-term price assumptions in accordance with the fiscal terms of the PSA. The revision in the oil and condensate reserves during the year includes a volume of 21 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

	2012 US$'000	2011 US$'000	2010 US$'000	2009 US$'000	2008 US$'000
Group income statement					
Revenue	**1,155,143**	1,150,513	780,409	623,480	706,118
Cost of sales	**(329,168)**	(266,539)	(264,683)	(282,277)	(193,220)
Gross profit	**825,975**	883,974	515,726	341,203	512,898
Administrative expenses, net of other income	**(35,067)**	(27,769)	(28,003)	(26,758)	(18,138)
Other losses	**–**	–	–	–	(20,748)
Operating profit	**790,908**	856,205	487,723	314,445	474,012
Net finance income	**18,279**	15,533	26,952	30,553	25,050
Profit before income tax	**809,187**	871,738	514,675	344,998	499,062
Income tax expense	**(209,141)**	(223,322)	(128,592)	(85,971)	(130,020)
Profit after tax	**600,046**	648,416	386,083	259,027	369,042
Earning per share (us cents)					
Basic	**119.49**	125.95	74.94	50.30	71.81
Diluted	**119.26**	125.61	74.69	50.20	71.58
Group balance sheet					
Non-current assets	**1,529,623**	1,353,978	1,176,361	909,364	777,499
Net current assets	**1,472,772**	1,351,005	999,816	882,922	748,526
Non-current liabilities	**143,079**	116,438	(83,231)	(89,063)	(83,677)
Equity attributable to the Company's equity shareholders	**2,859,316**	2,588,545	2,092,946	1,703,223	1,442,348

Note:
Prior year information has not been amended to take account of the current year change in accounting policy with regards to underlifts and overlifts.

Dividends

The Board of Directors of Dragon Oil recommends the payment of a final dividend of 15 US cents per share. Together with the interim dividend of 15 US cents, the total dividend for the year ended 31 December 2012 is 30 US cents. The final dividend of 15 US cents is subject to shareholder approval at the Annual General Meeting to be held in London, UK on 30 April 2013. If approved, the final dividend of 15 US cents is expected to be paid on 3 May 2013 to shareholders on the register as of 5 April 2013.

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 5 April 2013. By default shareholders (other than shareholders holding their shares within CREST) with registered addresses in the UK will be paid their dividends in pounds sterling. Those with registered addresses in European countries, which have adopted the euro, will be paid in euro. Shareholders with registered addresses in all other countries will be paid in US dollars. Shareholders may, however, elect to be paid their dividends in a currency other than their default currency, and will have a choice of US dollars, euro or pounds sterling provided such election is received by our registrars by the record date for the dividend. As the above arrangements can be inflexible for institutional shareholders, where shares are held in CREST, dividends are automatically paid in US dollars unless a currency election has been made. CREST members should use the facility in CREST to make currency elections. Currency elections must be made in respect of entire holdings and partial elections are not permitted.

Dividends can be paid directly into a UK bank account to shareholders who elect for their dividend to be paid in pounds sterling 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, 2 Grand Canal Square, Dublin 2, Ireland, by the dividend record date. DWT is deducted at the standard rate of Income Tax (currently 20%). Non-resident shareholders and certain Irish companies, trusts, pension schemes, investment undertakings and charities may be entitled to claim exemption from DWT. Copies of forms applicable to all exemption types may be obtained online from Irish Revenue (www.revenue.ie/en/tax/dwt/forms/index.html).

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

Glossary/Definitions/Abbreviations

2C
Proved and probable contingent gas resources

AGM
Annual General Meeting

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

boe
barrels of oil equivalent

bn
billion

bopd
barrels of oil per day

CEO
Chief Executive Officer

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

FSU
Former Soviet Union

GBP
Pound Sterling

GBp
Pence

GM-PD
General Manager of Petroleum Development

GTP
Gas Treatment Plant

HR
Human Resources

HSE
Health, Safety and Environment

IAS
International Accounting Standards

IA Department
Internal Audit Department

IFRS
International Financial Reporting Standards

km
kilometre

KPI
Key Performance Indicators

LSE
London Stock Exchange

LTIF
Lost time incident frequency

Listing Rules
The listing rules of the Irish Stock Exchange and the UK Listing Authority

MENA
Middle East and North Africa

mmscfd or mmscf/day
million standard cubic feet per day

mn
million

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

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

TCF
Trillion Cubic Feet

UAE
United Arab Emirates

UK
The United Kingdom of Great Britain and Northern Ireland

US cents
United States Cents

US$
United States Dollars

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

Advisors

Financial Communications Consultant
Citigate Dewe & Rogerson
3 London Wall Buildings
London EC2M 5SY
UK

Joint Corporate Broker
Davy
Davy House
49 Dawson St
Dublin 2
Ireland

Joint Corporate Broker
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