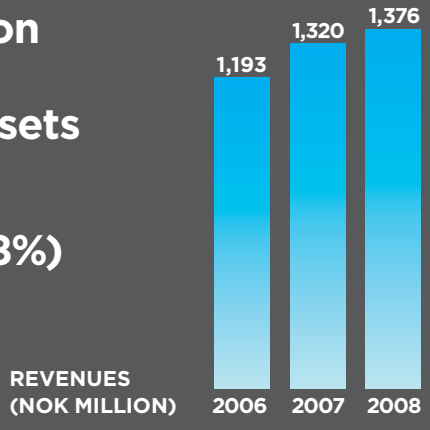
Making positive change

DNO International ASA
Annual Report and Accounts
For the year ended 31st December 2008

Focused on low cost, high potential areas.

- Revenue up 4% to NOK 1,376 million (2007: NOK 1,320 million)
- Netback (before impairment) of NOK 453 million
- Net loss of NOK 904 million mainly due to non-cash impairment of financial assets and oil and gas assets
- Equity ratio 41% (2007: 48%)



Netback before impairment (NOK million)

453

Completed the Tawke field ready for full scale production.

- Phase 1 of the Tawke development completed, remaining work to prepare for full scale production commenced
- 2008 average production of 15,708 bopd in line with the Company's expectations and guidance to the market
- Permanent development of the Bayoot field was initiated with expected completion at the end of 2009
- High exploration activity resulted in four discoveries, one in Kurdistan and three in Yemen

FIND OUT MORE ABOUT THE TAWKE FIELD ON PAGE 14

Total reserves and resources (mboe)*

178.4

* working interest reserves and resources (mboe) corresponds to class 1-7 definitions (Norwegian Petroleum Directorate – NPD)

DNO's main objective is sustainable growth and value creation through selective exploration activities, effective transformation of resources to reserves at low cost, and high margin production.

WORKING INTEREST PRODUCTION (BOPD)	REVENUES (NOK MILLION)
15,708	1,376.2
P50 RESERVES CLASS 1-3 (MBOE)	**TOTAL EXPLORATION EXPENSES (NOK MILLION)**
162.6	356.8
LIFTING COST (USD/BBL)	**NETBACK BEFORE IMPAIRMENT (NOK MILLION)**
9.5	452.8

Our current license portfolio is located in three regions: Middle East, Africa and Northern Europe.

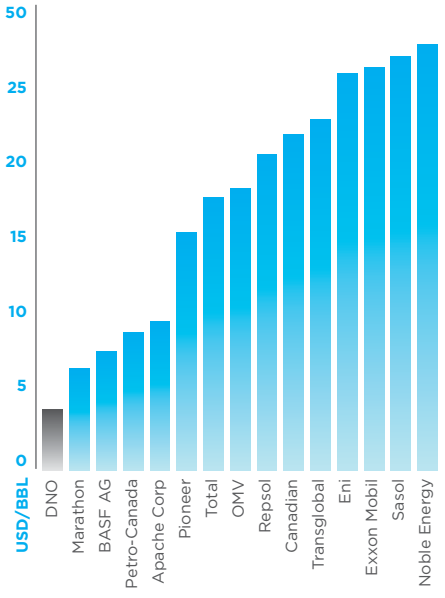
We have a proven track record as an efficient developer and low-cost operator of oil and gas assets. We operate exploration licenses and producing assets in Yemen, the Kurdistan region of Iraq, Mozambique, Equatorial Guinea and the UK. DNO also currently holds a 25% share in Det norske oljeselskap (DETNOR).

MANAGING DIRECTOR'S REVIEW: HELGE EIDE

"In 2008 we again reached important milestones and we are now steering towards a step change in production from a strong, developed reserve base."

HELGE EIDE MANAGING DIRECTOR

3 YEAR F&D COST (2005-2007)*



In 2008, DNO maintained a stable production level and our revenues for the year were slightly up, despite falling oil prices in the fourth quarter. As a result of unprecedented events on world markets and turbulence in both capital and commodity/natural resources markets towards the end of the year we were all faced with immediate challenges that were not seen just a short while ago. As a result of our strategy during the past years, DNO was prepared for this downturn in the market and therefore we could quickly adjust to this new situation.

We have now entered our third growth cycle, where we will build on our substantial reserve base with strong production potential from low cost and high margin areas. This combined with the Company's long-term debt structure put us in a good position to respond to the new and challenging market environment.

A key achievement was the completion of the Tawke Phase 1 development in Kurdistan and initiation of the work to tie-in the Tawke oil production to the Northern pipeline system in Iraq. This work has now been completed in close cooperation with the Kurdistan Regional Government (KRG) and North Oil Company (NOC). By this, another important milestone has been reached and the Tawke field is now ready to deliver full scale production, less than three years after the discovery well was completed.

We are now shifting our focus to production and near-term developments.

Yemen production was maintained above plan in 2008 thanks to several successful infill wells, and the development of the Bayoot area which is due for completion this year will add new production to DNO from Yemen in 2009.

Our high margin production continued to finance the exploration activities during the year, and four new discoveries were made; three in Yemen and one in Kurdistan. Additional work will be undertaken in 2009 to evaluate the commercial potential of these discoveries.

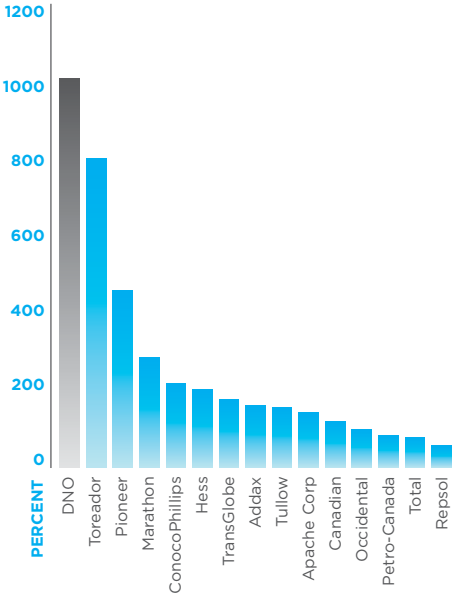
The key objective for combining our Norwegian operations with Pertra ASA into Det norske oljeselskap ASA (DETNOR) during the autumn 2007, was to create the second largest Norwegian Operator on the Norwegian Continental Shelf (NCS). DNO has as a major shareholder actively followed up the industrial development of DETNOR, and encouraged the election of a new Board. The new Board, which better reflects the current ownership structure, is now in place. DNO reduced its shareholding to 25% in early 2009, in line with the integration agreement from 2007, and we will continue to review our strategic options with respect to this investment in 2009.

Looking forward, DNO will face a step change in production once the Tawke field is producing at full capacity. Our key strategies remain intact but we are now shifting our focus to production and near term developments, with exploration activity to be undertaken on a more selective basis. This will result in an investment level for this year that will be substantially lower than in 2008.

With an expected substantial increase in our production from a strong reserve base, low financial commitments and a long-term debt structure, DNO is well positioned to respond to the challenges and opportunities of today's market.

Helge Eide
Managing Director

3 YEAR RESERVE REPLACEMENT (2005-2007)*



* Source: JS Herold Inc Note MEA 2005-2007.

Strategy

Key strategies:

- Exploration driven strategy
  In low cost, high potential areas
- Entrepreneurial company
  Quick decisions/risk taker
- Operating company
  Controlling the asset base
- Focus on low cost/high margin production
  Onshore fields/desired basins
- Pursue strategic options
  Proactive part in consolidation

Our mission: DNO's key focus is transforming resources to reserves at low cost. Going forward the Company will grow production from an increasing reserve base.

Outlook:

- Going forward the Company will shift its focus towards increased production and near-term developments. DNO is positioned for a step change in production volumes once the Tawke field is brought on stream at full capacity.
- This implies that the overall exploration level will be lower in the short to medium term. DNO has consequently reduced its rig capacity; however, we will maintain a selective exploration programme targeting further growth in reserves and resources.

Growth Cycle

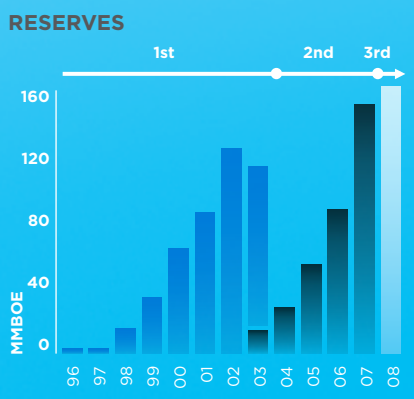
DNO is combining the organizational talent and achieving strong organic growth through exploration. The Company has developed into a fast track, full-scale E&P company with a strong track record offshore and onshore.

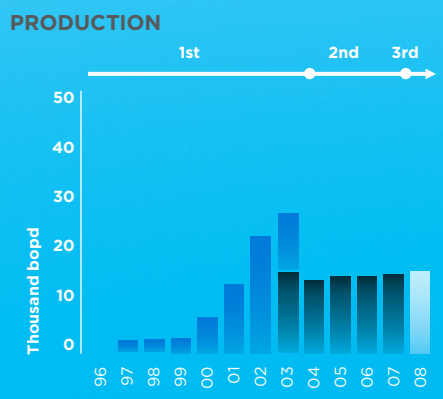
First cycle

DNO capitalized on its strong position in the UK and Norwegian sectors of the North Sea, where its strategy had been to focus on the development of small oil fields and increasing the recovery rates from mature fields. In 2004, DNO completed the sale of its UK company and some of its Norwegian assets to Lundin Petroleum for NOK 1.7 billion, returning significant dividend payments to shareholders in 2004-2005.

FIRST CYCLE

1996	1997	1998	2000	2001	2002
New BOD and management team implemented strategy of focusing on development of small fields and tail-end production.	Became field operator on UK sector of the North Sea.	Acquired working interest for the first time in onshore oilfields in Yemen.	First oil from the Tasour field in Yemen. Re-entered the Norwegian Continental Shelf (NCS).	Successful Broom appraisal in UK. Sharyoof field in Yemen on stream.	Became operator on Thistle field in the UK. Received approval to act as operator on NCS.





GROWTH IN CYCLES

- First cycle from 1996 until divestment of UK and NCS assets in 2003
- Realized and returned values to shareholders
- Second cycle from 2003 with exploration focused strategy
- Restructured NCS in 2007 initiating the third cycle.

Second cycle

The focus shifted in 2003 to an exploration led strategy, which delivered significant reserves at low cost in Yemen and Kurdistan. Cash flow from high margin production in Yemen funded a significant part of the investments. DNO restructured its activities on the NCS, which generated a net gain of NOK 871 million to DNO.

Third cycle

The third cycle is building on our strong position in low cost, high potential areas and increased production capacity from a large developed reserve base. Increased production combined with a favorable debt structure will form the basis for future growth, both organically and through active participation in consolidation opportunities.

SECOND CYCLE | **THIRD CYCLE**

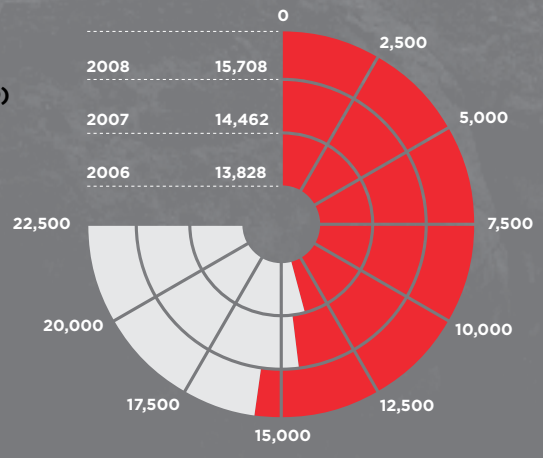
2003	2004	2005	2006	2007	2008
Divested all UK assets and some Norwegian sector assets.	One of the first international oil companies to secure a production sharing agreement in the Kurdistan region of Iraq.	Significant increase in production in Yemen as the Nabrajah field came on stream. Commenced operations in Kurdistan.	First oil discovered in the Tawke field in Kurdistan. The Godah field on stream in Yemen.	Started test-production on the Tawke field. First oil from the Bayoot field in Yemen. Restructured the activities on NCS.	A shift in focus from exploration towards increased production and near-term development.

Geography

DNO has operated in Yemen for over 10 years, and was one of the first international oil companies to start exploration activities in the Kurdistan region of Iraq in 2005.

DNO is present in seven countries on three continents. DNO has a total workforce of 500 people with 15 different nationalities.

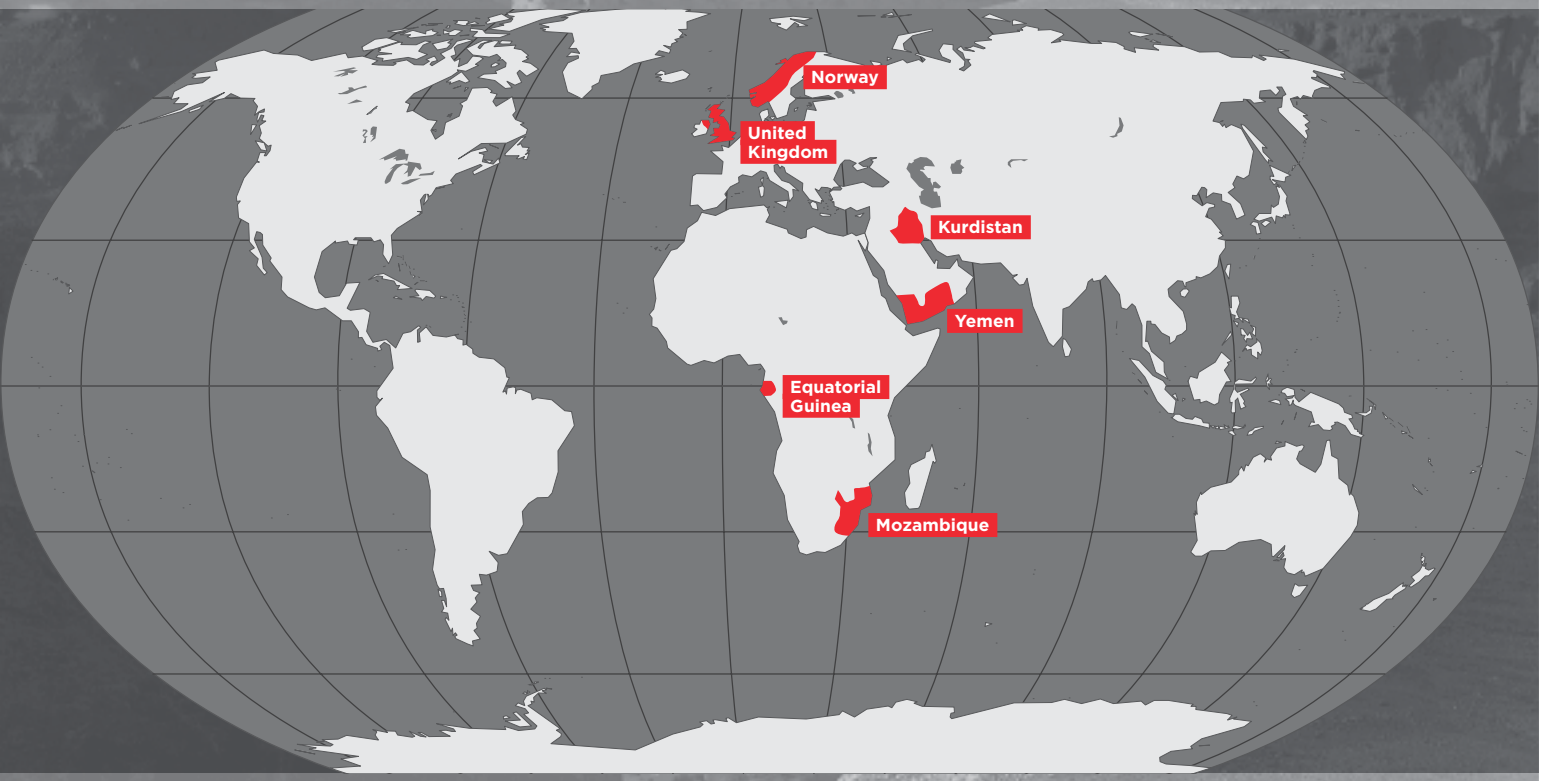
TOTAL OIL PRODUCTION (WORKING INTEREST BOPD)



TOTAL NUMBER OF LICENSES HELD:

15

Since 1996, DNO has established a strong position as a solid operator and partner in international petroleum provinces.



DNO GLOBAL OVERVIEW (PER MARCH 2009)

YEMEN:

- PSA interest in 8 blocks
- 2008 – Production: 9,330 bopd
- Large scale operation and strong position

KURDISTAN:

- 3 PSCs
- Tawke fast track development
- 2008 – Production: 6,378 Bopd
- Large scale operation and strong position

EQUATORIAL GUINEA:

- 5% interest in Block P
- Development plan under consideration

MOZAMBIQUE:

- 80% interest in Inhaminga block
- One exploration well drilled in 2008

UNITED KINGDOM:

- 50% in an exploration license

NORWAY:

- 25% equity interest in Det norske oljeselskap ASA (DETNOR)

DNO'S INTERNATIONAL OFFICES:

- Oslo, Norway (Head Office)
- London, UK
- Dubai, UAE
- Erbil, the Kurdistan region of Iraq
- Sana'a, Yemen
- Maputo, Mozambique

DNO's corporate management group have substantial experience in international upstream and service sectors.

This group manages and monitors the organization through regional business units, each with responsibility for its operational and financial performance. The management group encourages an entrepreneurial culture within the business: essential in a dynamic, fast changing industry. A flat organization structure and 'hands on' management style enables the business to make decisions fast and respond to opportunities quickly.

HAAKON SANDBORG:
CHIEF FINANCIAL OFFICER
Haakon (born 1958) joined DNO as Chief Financial Officer in 2001, bringing 20 years' experience of financial management in both the oil and banking sectors. Previously, he worked for Aker Maritime and has held senior positions in Den norske Bank.

TORE LILLOE-OLSEN:
CORPORATE HEAD OF EXPLORATION
Tore (born 1956) joined DNO in 2007 from Norsk Hydro ASA after a 25-year career in the oil and gas industry. He was formerly Exploration Manager for NCS, having held senior positions in exploration and business development for Norsk Hydro. His early career was spent with Elf Aquitaine Norge AS. Tore is also a member of the Board of Directors of Det norske oljeselskap.

From left to right:

Haakon Sandborg:
Chief Financial Officer

Tore Lilloe-Olsen:
Corporate Head of Exploration

Ivar Brandvold:
Chief Operating Officer

Helge Eide:
Managing Director

IVAR BRANDVOLD: CHIEF OPERATING OFFICER

Ivar (born 1956) joined DNO in 2007 after 24 years with Norsk Hydro ASA, including several group management roles, before taking responsibility for global drilling operations. Prior to this he worked in Kongsberg Engineering AS. Ivar is also a member of the Board of Directors of Det norske oljeselskap.

HELGE EIDE: MANAGING DIRECTOR

Helge (born 1954) was appointed Managing Director (President) in 2000. He joined DNO in 1996 and has held various senior management positions as well as serving as a Board Director. With over 30 years' experience in the oil and offshore industry, he has held a number of management positions in various companies including Smedvig Group, Norsk Hydro ASA, Read Petroleum Energy and Elf.

OPERATING REVIEW

Cash flow, represented by netback before exploration costs, remains robust, covering 50% of our total investments in 2008.

Tawke development:

- P50 reserves 230 mboe
- F&D costs USD 335 million
- Time to first oil 12 months
- Process capacity 50 000 bopd.

OPERATIONAL PERFORMANCE

DNO achieved an average production (working interest) of 15,708 bopd in 2008, well ahead of 14,462 bopd in 2007. The production results were supported by the test production from the Tawke field in Kurdistan and an active infill drilling and work-over program in Yemen.

DNO remains one of the leading operators in Yemen with interests in eight blocks – three production and five exploration blocks – and a track record of successful infill drilling that has sustained low cost, high margin production. Whilst Yemen still accounts for 60% of production to the Company, Kurdistan is poised to become a substantial contributor with the Tawke field ready and capable of moving to full scale production in 2009.

The total remaining P50 oil reserves to DNO are estimated to 162.6 million barrels of oil equivalents (mboe) by year end, which is an increase of 10.8 mboe from 2007. Successful delineation drilling and work-over operations in Yemen resulted in all produced reserves in 2008 being replaced.

The Company continued its high exploration activity into 2008, with a total of 14 exploration wells drilled in Yemen, Kurdistan and Mozambique through the year. Four new discoveries were made, one in the Erbil contract area in Kurdistan and three in the new Block 47 in Yemen. Further geological and geophysical mapping is required to assess the total volume potential of these discoveries.

To prepare for lower drilling activity in 2009, DNO released drilling rigs both in Kurdistan and Yemen.

FINANCIAL PERFORMANCE

Revenues were stable for the year at NOK 1,376 million reflecting steady production in Yemen and higher achieved oil prices.

Active exploration continued adding to reserve potential and field knowledge. NOK 357 million was expensed during the year, well ahead of last year's NOK 264 million and the main exploration costs in 2008 covered dry wells in Mozambique and Yemen.

Lifting costs rose in the second half of the year, reflecting the lower production in Kurdistan and increased operating costs in Block 43 in Yemen, but still averaged USD 9.50 per barrel for the year, slightly ahead of 2007's USD 7.65 per barrel.

Operating profit before tax of NOK 8.8 million reflected the high costs of exploration during the year. In line with IFRS requirements, DNO assessed its assets at the year end resulting in non-cash impairments totalling NOK 927 million. These included a net impairment of NOK 621 million of the investment in DETNOR, NOK 194 million impairment on Block 43 in Yemen, NOK 58 million relating to investments in other listed companies and the non-cash write-down of deferred tax assets of NOK 77 million. These non-cash impairments contributed to a net loss after tax of NOK 904 million.

Cash flow, represented by netback before exploration costs, remains robust, covering 50% of our total investments in 2008. Netback for the year was NOK 453 million reflecting higher exploration costs and higher taxes paid.

High levels of capital investment continued, with NOK 1,254 million spent funding substantial projects in both Yemen, to develop the permanent processing facilities at the Bayoot field, and Kurdistan to complete the topping plant, pipeline tie-in and metering station.

Although net debt to capitalization increased to 48% during the year, up from 29% in 2007, DNO has a secure long-term debt structure, with 80% of its bond debt running to 2012. Combined with minor near-term maturities and an increase in cash in early January 2009, following the divestment of a portion of its shareholding in DETNOR, the Company retains financial flexibility. In addition, the foreign exchange exposure was significantly reduced as NOK 920 million of bond loans were converted from NOK to USD in the fourth quarter of 2008, with the result that 75% of bond loans are now in USD.

In the near term, an increase in production from the Tawke field is expected in 2009, which will significantly strengthen the cash flow and financial position of the Company. There is an uncertainty associated with the start-up date of full scale production from Tawke, hence DNO is closely following up funding alternatives.

EXPLORATION

Kurdistan region of Iraq

DNO holds three contract areas in Kurdistan, all with an exploration potential. Three exploration wells were drilled in 2008 – one within each contract area – all targeting deep plays. One discovery was made, namely the Benenan structure in the Erbil PSC contract area. Oil was confirmed in two layers in the Jurassic interval which were tested at 9,000 bopd and 1,500 – 2,000 bopd respectively. This discovery was followed by acquiring 3D seismic survey over the structure, and drilling of delineation well. The delineation well was temporarily abandoned to allow for later re-entry and testing. Geological and reservoir modelling is being undertaken to firm up the resource potential and define the forward plans for fast track development of this discovery.

The remaining exploration potential of the three contract areas is being assessed based on acquired 2D and 3D seismic data and well results to date. This will form the basis for defining the exploration drilling program going forward, with primary focus on the Dohuk contract area and the western part of Tawke contract area.

Images:

Top: Core logging in Abu Dhabi by DNO geologists.

Bottom: A team from finance and administration on a geological field trip to the Montserrat area, Spain.

In September, the Tawke PSC contract area was extended to include an area to the west of the Tawke field, including the Peshabir prospect, increasing DNO's working interest in this prospect by 15% to 55%.

The DNO team examine work at the Central Processing Facility:

From left to right:

Luc le Berre:
Tawke Field Superintendent

Eric Aillaud:
Production Manager

Jon P Sargeant:
Operations Director

Magne Normann:
Managing Director, DNO Iraq AS

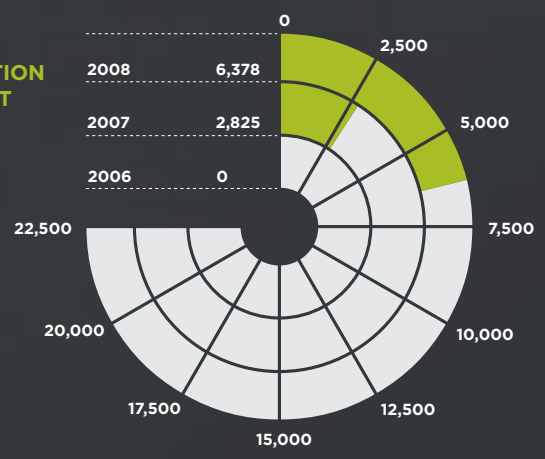
"We are now ready for full scale production, development of the Tawke field is complete and fully prepared to deliver low cost production from a strong reserve base."

MAGNE NORMANN: MANAGING DIRECTOR, DNO IRAQ AS

ON THE TAWKE FIELD TO DATE:

14 WELLS DRILLED

KURDISTAN TEST PRODUCTION (BOPD) WORKING INTEREST



"During 2008, we have continued to connect wells to the central processing facility, and initiated the work to connect Tawke to the Iraqi pipeline system."

JON P SARGEANT: OPERATIONS DIRECTOR

OPERATING REVIEW CONTINUED

DNO delivered production in line with expectations, increased the reserve base to the Company and made four new discoveries through the year. An important milestone to the Company was reached by completing the Tawke phase 1 development.

Images:

Top and bottom: Tawke Central Processing Facilities (CPF) in Kurdistan.

Yemen

During the year, 10 exploration wells were drilled in Yemen. Although as a whole, exploration results didn't meet expectations, three discoveries were made in the new Block 47, confirming a prospective potential into this area. The Sharnah #1 well tested 600 – 700 bopd, and the well was suspended for later testing/production. The Yaalen wells #1 and 2 also encountered movable oil, but the test results remain inconclusive. A 3D seismic survey was acquired over the area, which will form the basis for evaluating the structural setting and potential of the discoveries.

In total three seismic surveys were acquired in Yemen in 2008; on blocks 52, 72 and 47. The prospective potential of the Yemen blocks is being assessed as a basis for definition of the well program going forward, with priority on strategic prospects and commitments.

UK

On license P1067 – Block 211/22b – DNO completed an interpretation of the license potential based on existing well data. This led to defining well 211/22-2 as a discovery – named Mulle – with an expected recoverable gross reserves potential of 17 mboe within the license area. Following the UK Continental Shelf 25th Licensing round, DNO was awarded a license for the block adjacent to Mulle – Block 211/27. The license group will focus on maturing the discovery further, including a possible appraisal well.

Mozambique

DNO conducted three parallel operations on the Inhaminga block in Mozambique in 2008, namely drilling of Sangussi #1 exploration well, airborne electromagnetic (AEM) survey, and field work on the ground. The Sangussi#1 well targeted a gas prospect in the southern part of the block, which proved not to contain commercial quantities of hydrocarbons. Following a re-assessment of the prospective potential of the block, DNO decided to enter into the fourth exploration period.

Equatorial Guinea

A development plan has been submitted for the Green Sands structure in Equatorial Guinea, where DNO has a 5% interest. Discussions concerning the development plan are still ongoing with the authorities.

Syria

In Syria, DNO decided not to move into the extension period on its sole exploration block where it holds a 19.9% interest, following a re-evaluation of the block potential.

FIELD DEVELOPMENT

Test production from the Tawke field has continued through 2008, with the produced crude sold in the domestic market. The test production has been an important factor in preparing the field for full scale production, both in terms of collection of reservoir information as well as allowing for commissioning of the Central Processing Facilities (CPF). The phase 1 of the Tawke development was thus completed in 2008 including pre-commissioning of the 42 km 12" pipeline connecting the CPF to the location of the tie-in point to the northern pipeline system operated by the North Oil Company (NOC).

In the fourth quarter the required activities to connect the Tawke pipeline to the northern pipeline system was initiated as authorized by KRG. This work was completed by the end of first quarter 2009; hence the Tawke field and facilities are prepared and ready for full scale production.

Following the positive results of appraisal wells # 4, 5 and 6 on the Bayoot field in Yemen, the license group decided to develop permanent remote processing facilities at the field. This project includes oil being shipped to the Sharyoof field for export, whereas the gas will be used at both the Sharyoof and Bayoot fields for power generation at the well heads. The project is scheduled to be completed ultimo 2009, whereas produced oil in the mean time will continue to be tanker trucked from Bayoot to Sharyoof facilities for export.

DIRECTION FOR 2009

The key priority for 2009 is to maximize recovery from producing assets. A reduced rig capacity has been put in place to support a selective exploration programme in 2009 aimed at further growth in reserves and resources.

Looking forward, DNO has a number of growth options, including developing existing assets and extending into adjacent areas as well as pursuing frontier areas such as Eastern Africa. With an established track record for developing strong relationships with local governments and working partners, DNO is well placed to continue exploiting the remaining potential in Yemen, opening up Kurdistan and developing growth opportunities in Africa.

Images:

Top: Nabrajah production facilities in Yemen.

Bottom: Nabrajah Qishn CPF in Yemen.

YEMEN

Successful infill drilling in 2008 supported stable production and replacement of produced reserves. Commenced development of Bayoot field with remote processing facilities.

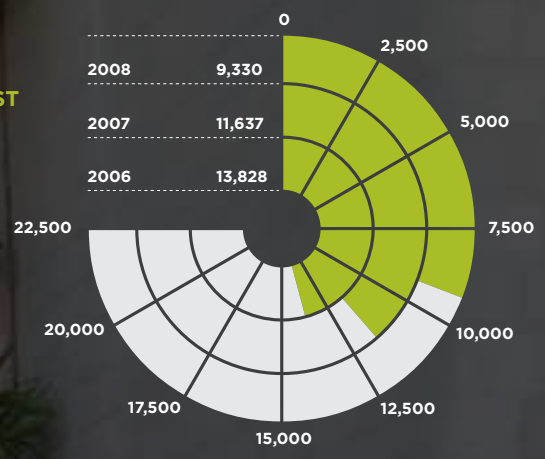
"Yemen still accounts for 60% of production to the Company and DNO remains one of the leading operators, based on close cooperation with the Yemeni authorities."

SVEN ERIK LIE: MANAGING DIRECTOR, DNO YEMEN AS

TOTAL WELLS DRILLED IN YEMEN TO DATE:

139 WELLS

YEMEN OIL PRODUCTION (BOPD) WORKING INTEREST



"The mix of skills and nationalities in the workforce in Yemen reflects DNO's international culture, supported by a strong locally recruited workforce."

NAGEEB MOHD AL-MAMARI: G&G TEAM LEADER

The DNO team takes a break outside the offices of Sana'a in Yemen:

From left to right:

Kenneth Myhrvold:
Petroleum Technology Manager

Richard Black:
Drilling and Completions Superintendent

Gunnar Nybraten:
Advisor Reservoir Engineer

Luppo Kuilman:
Geophysical Advisor

Nageeb Mohd Al-Mamari:
G & G Team Leader

"DNO pursues business activities with integrity and focuses on ensuring and supporting sustainable development in the communities in which the Company operates.

Corporate Responsibility in DNO

For DNO, CR represents the way we run our business. This means that:

- Our CR principles apply to all employees
- Managers are responsible for implementing these principles within our Company, and to foster a culture of awareness and compliance
- Suppliers and partners are expected to adhere to our principles.

Our Corporate Responsibility (CR) strategy is driven by our relationship with our stakeholders, and our approach is to start close to home and close to where we operate – addressing employees and working our way outwards to our partners and communities. DNO's objective is to develop systems, staff and competences that support the Company's ability to deliver high ethical standards, integrity and fairness in its business conduct. Within DNO's international activities, close cooperation with local authorities and communities is an integral part of the way the Company operates. This is seen as an important factor to support sustainable growth as well as a prerequisite for maintaining the Company's reputation as a trusted operator.

OUR APPROACH

DNO's approach to CR is a full-time commitment with the same goals, strategies and accountability that drive any other part of our business.

The safety of our employees and contractors remains a top priority and we continue to raise standards across our operations. Alongside other major companies in the oil and gas industry, we recognize the need to identify and deploy more options to cut emissions.

During 2008, we directed our CR efforts across our regions to further integrate the DNO approach into all our business units. An operational checklist for our managers was established that ensured our CR strategy was closely in line with our business targets.

In 2009, we will continue to develop our information systems, which we see as essential to improving our performance.

OUR PRINCIPLES

We firmly believe that responsible leadership at all levels lays the foundation for a sound CR approach – this enables us to align stakeholder interests with the business strategy of the Company based on the following principles;

- Clear communication of DNO standards to subcontractors and auditing of compliance with these
- Establishment of a comprehensive Quality, Security, Health, Safety and Environment (QS-HSE) system covering all employees
- Ensuring compliance with International Labour Organization (ILO) standards in all parts of the supply chain
- Implementation of a well-established code of conduct applying to all DNO personnel
- Minimizing the environmental effect of DNO operations and full site restoration.

We recognize that our geographical scope presents us with an additional challenge; the use of corporate guidelines shall both ensure a required CR threshold and allowing for regional adaptation.

Our Corporate Responsibility policy is defined as commercial value creation with strong regard to basic ethical values, respect for local communities and preservation of the environment."

HELGE EIDE MANAGING DIRECTOR

2008 HIGHLIGHTS

Yemen

A sustainable management of our projects requires a variety of knowledge. DNO's policy is to use local staff, but we recognize that it is not always possible when it comes to specialized skills. To assist the communities in which we operate, we limit the use of expatriates for between one to three years and employ additional staff to allow for the transfer of skills to take place. In Yemen this approach has enabled us to build a workforce that is 83% Yemeni. We continue to train and mentor local staff to ensure an ongoing supply of skilled workers for our operational sites.

Kurdistan region of Iraq

Since DNO's operations in Kurdistan began, the Kurdish authorities have been an active partner with high focus on a sustainable development of the Kurdish region.

For DNO, this has led to a range of initiatives, from the renovation of school buildings, provision of stationery, boards and school desks, to maintenance of village schools and roads, securing water supplies, medical equipment for local hospitals and computers for the universities in Kurdistan.

DNO is sponsoring several educational and training programmes related to the oil and gas industry – both inside and outside Iraq. 113 members from the Ministry of natural Resources in KRG have undertaken training in Jordan, Spain, China and Norway, whilst 16 from the same Ministry have participated in on-site training at drilling and seismic sites in Kurdistan.

Our training policy, which aims to replace expatriates with local staff, has led to an employment of 98% Iraqi staff in Kurdistan.

Mozambique

The increased level of exploration activity on the Inhaminga block in Mozambique during 2008, raised our profile in the area and we increased our CR activity accordingly.

A project risk assessment was undertaken and the subsequent health and safety survey on the ground resulted in some sound recommendations to mitigate any social risks inside the Inhaminga concession.

DNO also participated in and sponsored a corporate responsibility summit in Maputo, which brought together local authorities, government and international organizations to discuss the best ways to achieve sustainable development. More direct contributions to the local community in Nhambize and Inhaminga included 140 school desks and consumables for the local school.

Images:

Top: CPF in Yemen.

Bottom: Construction work at the tie-in facilities in Kurdistan.

OUR PROCESS

People make it happen

ALI CHALABI
GEOLOGIST

ASLAK SVERDRUP
DEPUTY COUNTRY MANAGER

CHARLEY DUNN
DRILLING MANAGER

THAER NAOM
FIELD SUPERINTENDENT

A Geological Fieldwork

In onshore exploration, for instance in Kurdistan, satellite images are useful during initial super-regional screening of the surface geology. This remote data enables geologist Ali Chalabi to identify sedimentary basins, large structures, outcropping of the various rocks in the field, vegetation patterns and how to best access the terrain from roads. Carrying out geological fieldwork on the ground exposes you to a variety of different physical conditions, wildlife and culture, all of which calls for an adaptive attitude and conduct.

B Acquisition of Data

The onshore Inhaminga block in Mozambique is a challenging physical environment which necessitates the requirement for further complementary data to be sourced, alongside the conventional seismic information gathered. Aslak Sverdrup has completed the necessary preparations and facilitated the application by DNO of the AEM (Airborne Electro Magnetic) acquisition technique for data collection. This is an innovative and brand new technique in onshore exploration which is cost effective, fast and it reduces the environmental footprint in the survey area to a minimum.

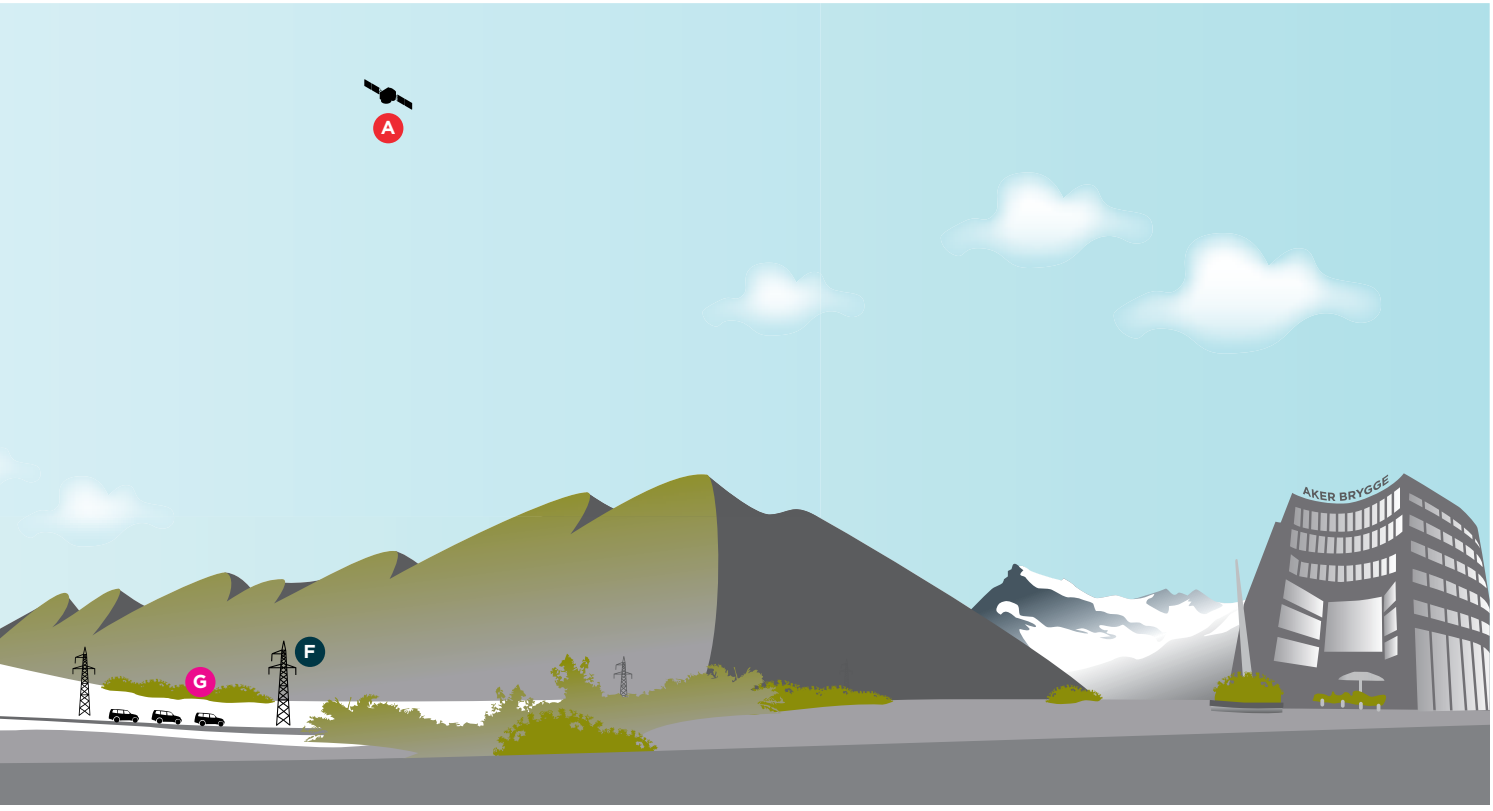
C Drilling and Testing of Wells

The bottom line in exploring for oil is to drill a well and see if oil flows. In new areas drilled there is an element of surprise beneath every new layer of rock and it takes a cool head to make the right decision at the right time – there are cost and time implications if the wrong decisions are made. Kurdistan is one of these new exciting areas and so experienced drilling managers, like Charley Dunn, are a prerequisite to successful drilling operations.

D Building of a Topping Plant

DNO has built a small oil refinery to produce diesel and fuel oil in Kurdistan. To enter a new region, and build and operate a plant like this can be a difficult undertaking. Thaer Naom, the Field Superintendant at Tawke, has made a significant contribution with both his local experience and managerial skills. His ability to take on the challenges involved in this role and to solve problems and to improve safety are all of real value to DNO.

THE VALUE CHAIN	PHASE 1	PHASE 2
	Business development F G H	Exploration A B C F G H



MAGNE NORMANN
MANAGING DIRECTOR,
DNO IRAQ AS

E Tie-in of the Tawke Field

Magne Normann has been the driving force behind the commissioning of the Tawke field tie-in to the federal transport pipelines. This project has been a major achievement for DNO in 2008, as it has involved close cooperation with KRG, the Kurdistan Regional Government. The 12" pipeline from the Tawke field is connected to the 40" and 46" export lines at Fishkhabor. The estimated capacity for the Tawke pipeline is 50,000 bopd.

ERLEND TRONSMOEN
IT MANAGER

F Improved Cooperation

In October 2008 DNO launched an internal communications network, supervised by Erlend Tronsmoen. Including a telephone system, internet and video conferencing, the new system provides a link between the various office locations and has been a success. The Norwegian branches can closely monitor the operational activity, and the operational branches are able to have frequent contact with the subsurface teams, finance and the corporate management. The network gives us the ability to strengthen our relationships across borders, and leads us into a new era with video conferencing now a part of our daily routine.

OSAMAH SAUDI
QHSE MANAGER, YEMEN

G Promotion of Safety

Vehicle operations are a major safety risk for DNO. Osamah Saudi, the QS-HSE Manager in Yemen, is very experienced with operations in the Middle East and introduced an incentive scheme to improve driving safety. The scheme is such that all drivers have had to go through a three-month period without incident. If one driver fails, all drivers then fail to achieve the target. Through systems of this type, we have improved our incident statistics significantly and expect further improvements to be made as we continuously improve procedures and routines for our vehicle operations.

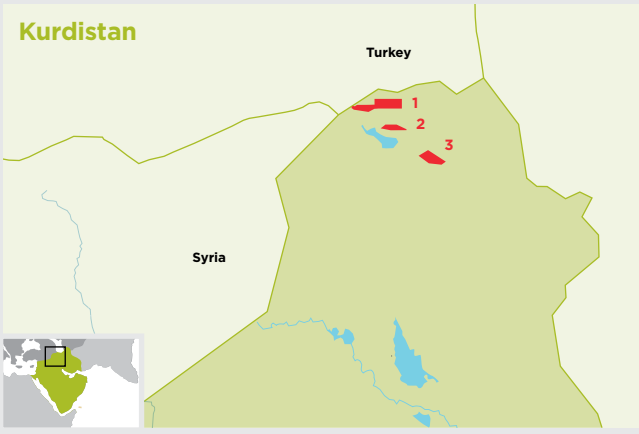
ERIC AILLAUD
PRODUCTION MANAGER

H Multicultural teambuilding

The Tawke production organization in Kurdistan has one very unusual attribute. Within one year of production operations starting the local Kurdish/Iraqi content in our work force is at 90%. National staff hold 50% of all senior positions, and a training programme has already resulted in one batch of trainees being promoted to plant operators. Eric Aillaud has been instrumental in building this organization. This is an extraordinary achievement in such a short time and demonstrates the willingness of the Company to integrate into a new country.

PHASE 3	PHASE 4	PHASE 5
Field development	Production	Transport and Sale
C D E F G H	F G H	F G H

Licenses



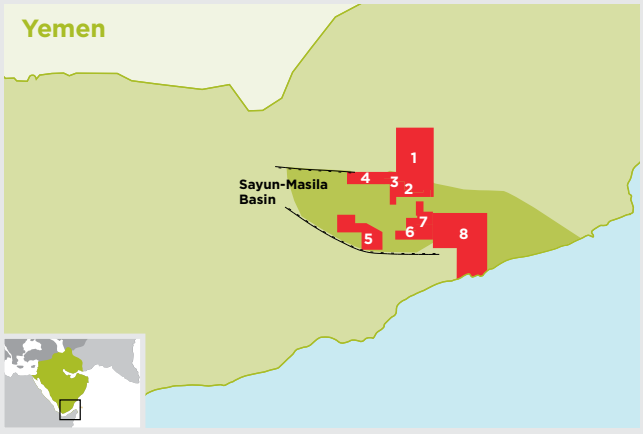
In June of 2004, DNO entered into production sharing contracts with the Kurdistan Regional Government (KRG) in Northern Iraq. As one of the first international oil companies to enter this highly prospective region, DNO holds a key position in developing the local oil industry. DNO is the operator for the areas covered by the contracts.

The Tawke field was discovered by drilling of the exploration well, Tawke #1, which was completed in June 2006. This represented an important breakthrough in Northern Iraq as an oil discovery was confirmed by our very first exploration well within the area. Based on the positive result from this well and further successful delineation drilling, DNO has completed a fast-track field development. Test production from the Tawke field commenced in June 2007, marking another important milestone to DNO and our partner KRG.

1 Tawke PSC. Status: Prod/Exp
- Phase 1 completed
- Tie-in to NOC pipeline system initiated
- Total of 14 wells drilled
- Topping plant installed at CPF

2 Dohuk PSC. Status: Exp
- Seismic processing and interpretation
- Parts of PSC pre-relinquished in connection with amendments of PSCs in September 2008

3 Erbil PSC. Status: Exp
- One discovery well (Benenan) in 2008
- Appraisal well temporarily abandoned for later testing
- 3D seismic acquired



DNO entered Yemen in 1998 and was approved as Operator later that year. The Company quickly expanded the operations in the country through successful exploration and fast-track development. Since then DNO has further expanded its operations in Yemen, and is currently holding interests in eight assets all located in the prolific Sayun-Masila Basin.

Oil has become an important part of Yemen's economic basis and DNO is working closely with the authorities to further develop the oil resources in the country. The Company will continue looking for new opportunities to further its presence in Yemen.

1 Block 32. Status: Prod/Exp
- Tasour #25 development well spudded in December and completed as a producer in January 2009
- Godah #10 development well completed as producer in September
- Tasour #17S plugged and abandoned as dry well

2 Block 52. Status: Exp
- Ongoing exploration activities

3 Block 43. Status: Prod/Exp
- 4 dry wells in 2008
- 3 development wells completed as producers in 2008

4 Block 53. Status: Prod/Exp
- Development of permanent process and export facilities at the Bayoot area
- Several development and appraisal wells put into production in 2008
- Raoq #1 exploration well spudded in October 2008, oil confirmed in basement in January 2009

5 Block 44. Status: Exp
- Ghatel #1 well dry
- Ongoing exploration activities

6 Block 72. Status: Exp
- Seismic acquisition completed
- Seer #1 exploration well dry
- Ongoing exploration activities

7 Block 47. Status: Exp
- Three discoveries in 2008
- Ongoing 3D seismic acquisition

8 Block 84. Status: Exp
- Awaiting PSA ratification from government

DNO farmed in to the Inhaminga block in Mozambique in June of 2003. The original exploration acreage was approximately 21,300 km², now reduced to 10,700 km² after two relinquishments. The Inhaminga block represents a frontier exploration block with the potential for significant oil and gas structures. DNO has entered into the fourth exploration period, and geological work and prospect evaluation are ongoing to assess additional prospects within this block.

DNO has undertaken field work and an Airborne Electro-Magnetic (AEM) survey in 2008. The Sangussi #1 well was spudded in July and encountered gas shows. Further exploration and interpretation will be undertaken to investigate additional prospect potential within the Inhaminga block.

1 **Inhaminga. Status: Exp**
- Exploration well Sangussi #1 dry
- AEM survey undertaken in 2008
- Two potential prospective areas identified

DNO's license on the UK Continental Shelf represents more than 50 km² of offshore exploration acreage. The license is located in a mature area of the Northern North Sea.

DNO has one license, P1067 – Block 211/22b, and was recently awarded Block 211/27d located adjacent to P1067 in the last licensing round. The license group is focused on maturing the Mulle discovery in P1067 further, including a possible appraisal well programme.

1 **P1067. Status: Exp**
- Ongoing exploration activities

DNO holds a 5% interest in Block P offshore in Equatorial Guinea. A discovery in the Green Sand structure was made a few years ago, and a development plan was submitted in 2007.

GEPetrol was elected as the new operator in July, following the purchase of the license interest from the previous operator OEGC. Clarifications concerning the development plan and concept solution are still ongoing with the authorities.

1 **Block P. Status: Exp**
- Awaiting authority approval for development plan

WORK OF THE BOARD

The Board ensures that the long-term interests of shareholders and other stakeholders are being served.

This work includes financial and operational reviews, approval of financial statements and formal review of DNO's reserves and resources.

The Board is responsible for supervision of the Company's internal control systems and risk management. The Company has an Audit Committee, a working committee for the Board, consisting of two Non-Executive Directors, both with broad financial expertise and experience. The Audit Committee had several meetings in 2008, both with the finance department and with the external auditor, and reviewed the internal control arrangements and risk evaluation systems of DNO.

BERGE GERDT LARSEN: CHAIRMAN OF THE BOARD OF DIRECTORS

Berge G. Larsen (not pictured) has served as the Executive Chairman of DNO's Board of Directors since 2002 and as CEO from 1996-2002. Mr Larsen has more than 30 years' experience in the oil and offshore industry. He is due for re-election in 2009.

From left to right:

Gunnar Hirsti:
Non-Executive Director

Elin Karfjell:
Non-Executive Director

Trygve Bruvik:
Vice Chairman, Non-Executive Director

Marit Instanes:
Non-Executive Director

GUNNAR HIRSTI: NON-EXECUTIVE DIRECTOR

Gunnar Hirsti was elected to the Board of Directors at the Extraordinary Shareholders Meeting on 8 November, 2007. Mr Hirsti has 30 years of experience in the oil industry, and currently holds various managerial and board positions. He is due for re-election in 2009.

ELIN KARFJELL: NON-EXECUTIVE DIRECTOR

Elin Karfjell was elected to the Board of Directors at the Extraordinary Shareholders Meeting on 8 November, 2007. Ms Karfjell has broad experience in finance and is a member of the Audit Committee. She is due for re-election in 2009.

TRYGVE BRUVIK: VICE CHAIRMAN, NON-EXECUTIVE DIRECTOR

Trygve Bruvik has been a Board member of DNO since 2003. He serves as the Chairman of the Remuneration Committee of the Board of Directors, and is Vice Chairman of the Board. Mr Bruvik has more than six years of experience in the oil industry and 20 years of experience in finance. Trygve is due for re-election in 2009.

MARIT INSTANES: NON-EXECUTIVE DIRECTOR

Marit Instanes was elected to the Board of Directors at the Extraordinary Shareholders Meeting on 8 November 2007. In addition, Ms Instanes is a member of the Audit Committee. She has many years of experience in management. She is due for re-election in 2009.

BOARD OF DIRECTORS REPORT

INTRODUCTION

DNO is an independent international upstream oil and gas company. DNO's main objective is sustainable growth and value creation through selective exploration activities, effective transformation of resources to reserves at low cost, and high margin production. The current license portfolio is located in three regions: Middle East, Africa and Northern Europe.

The Company operates exploration licenses and producing assets in Yemen, the Kurdistan region of Iraq, the UK North Sea, Equatorial Guinea and Mozambique. DNO's interests on the Norwegian Continental Shelf (NCS) was divested in 2007 and is operated through an ownership share of 36,9% (as per 31 December 2008) in Det norske oljeselskap ASA (DETNOR).

RESPONDING TO CURRENT MARKET ENVIRONMENT

DNO has over the last years followed an exploration led strategy that has delivered strong growth in reserves at low cost, as well as high margin production funding a major part of the investments. The Company's activities have been focused on low cost, high potential areas, avoiding long-term future capital commitments, as well as securing a favorable debt structure. During 2008 DNO has completed the Tawke development and the Company is now preparing for increased production at low cost from a substantial reserve base. In total this has placed DNO in a position to meet the challenges and opportunities in today's market.

OPERATIONAL REVIEW 2008

Production

Average production levels for 2008 were 15,708 bopd, up 9% on the previous year (2007: 14,462 bopd), despite a temporary halt in test production on the Tawke field in the third quarter. In total, working interest production was up to 5,749 mboe compared with 5,279 mboe in 2007.

In Yemen, an active infill drilling strategy and work-overs supported production levels at 9,330 bopd, above guided levels, but reflecting the gradual decline in some mature fields.

The Tawke field in Kurdistan has been undergoing long-term test production through 2008, with produced volumes sold in the domestic market. Reservoir information is being acquired during the test production phase providing essential information in order to optimize the production strategy and reservoir management of the field.

Oil reserves

The total remaining P50 reserves for DNO as of 31 December 2008 are estimated at 162.6 million barrels of oil equivalents. This is an increase of 10.8 million barrels compared to the year before (151.8 million barrels). Including P50 associated reserves of 11.1 million barrels the total figure at 31 December 2008 is 173.7 million barrels of oil equivalents, which is an increase of 19 million barrels compared to the year before (154.7 million barrels). The volumes correspond to commercial reserves, class 1-3.

As a result of successful infill and delineation drilling in Yemen all produced reserves from this region in 2008 were replaced.

PSC amendments Kurdistan region of Iraq
DNO's production sharing contracts (PSCs) with the Kurdistan Regional Government (KRG) were revised in March 2008 and further amended in September 2008. Following these changes, DNO holds three PSCs comprising a good balance between exploration opportunities, field development and production from the asset portfolio.

Field development Kurdistan region of Iraq
During 2008, DNO has completed phase 1 of the development of the Tawke field, which comprises processing facilities for 50,000 bopd, 14 completed wells, 42 km pipeline to Fishkhabor, and metering/tie-in facilities. In the fourth quarter the required activities to connect the Tawke pipeline to the northern pipeline system operated by the North Oil Company (NOC), were initiated as authorized by KRG. As operator of the pipeline system in Northern Iraq, NOC has been responsible for the construction work, in close cooperation with DNO and KRG.

Field development Yemen
In order to replace the tanker trucking facilities, development of permanent remote process and export facilities at the Bayoot field in Block 53 commenced in 2008, with planned completion ultimo 2009. The project includes oil being piped to the Sharyoof field for export, whereas gas will be used at both the Sharyoof and Bayoot area for power generation at the well heads.

Exploration
DNO maintained a high exploration activity throughout 2008 with 14 exploration wells drilled and completed in Yemen, Kurdistan and Mozambique. Four new oil discoveries were made; however, the overall exploration results did not meet the company's expectations.

The Hawler #1 well in the Erbil PSC area in Kurdistan, spudded in late 2007, made the Benenan discovery. The well encountered oil in two layers in the Jurassic. The lower formation tested 9,000 bopd of very good quality and the upper reservoir tested 1,500-2,000 bopd of heavier oil. The second well on the structure was drilled to planned depth, and was subsequently temporarily abandoned to allow for later re-entry and testing. 3D seismic was acquired in the second half of 2008. Geophysical, geological and reservoir modelling as well as testing of well #2, will be required to assess the volume potential of the discovery.

In Yemen, three oil discoveries were made in 2008. Sharnah#1 in Block 47 encountered oil in the Quishn sandstone and was completed as a future oil producer. In the same block, the two oil discoveries in Yaleen #1 and Yaleen #2 were tested, but test results are to date not conclusive.

The Company released drilling rigs both in Kurdistan and Yemen in preparation for lower drilling activity in 2009.

Exploration expenses totalled NOK 357 million, substantially above the previous year (2007: NOK 264 million). These included dry well costs of NOK 158 million and seismic and other expensed exploration costs of NOK 168 million.

DNO is highly ranked in the Middle East and Africa region, with the lowest finding and development (F&D) costs in the period 2005-2007.* F&D costs are significantly below the nearest competitors underpinned by F&D costs for the Tawke field of 1.4 USD/boe.

* Source: JS Herold Inc MEA 2005-2007.

BOARD OF DIRECTORS REPORT CONTINUED

FINANCIAL PERFORMANCE

Total operating revenues for the year were up 4 per cent to NOK 1,376 million, primarily as a result of higher oil prices. Achieved oil prices were highly volatile during the year, ranging from 88.63 USD/bbl (working interest) in the third quarter to 48.66 USD/bbl in the fourth quarter and averaging USD/bbl 67.86.

In accordance with IFRS requirements, DNO recorded NOK 927 million in non-cash impairment losses for 2008. This includes impairments on both DNO's equity investment in Det norske oljeselskap ASA (DETNOR) and other share assets, an impairment of DNO's carrying value on Block 43 in Yemen as well as an adjustment of the Company's deferred tax asset. These impairments had a significant impact on profits for the full year, with the Company reporting an operating profit of NOK 9 million (2007: NOK 492 million). Net loss for the full year was NOK -904 million (2007: NOK 91 million before discontinued operations), after impairment charges.

The net cash flow from operating activities for the year 2008 was NOK 745.5 million, well ahead of 2007. DNO's cash flow after tax, shown as by netback before impairment, also remained strong at NOK 453 million in 2008 (2007: NOK 690 million), while reflecting the higher exploration costs incurred during the year. Netback before exploration funded 50% of the Company's investments in 2008, with the remaining part of the investments covered by cash reserves.

DNO's cash balance has been significantly reduced during 2008, mainly due to the extensive development and exploration programme combined with falling oil prices in the second half of the year. The cash balance at year-end 2008 of NOK 176.1 million was however augmented in January 2009 through NOK 250 million in cash inflow resulting from the divestment of shares in DETNOR.

In view of the current weak financial markets, the Company has taken a number of actions to preserve its financial flexibility. Cost reductions have been achieved through release of rig contracts and long-term capital expenditure commitments have been avoided. Divestment of financial assets has strengthened its funding and its foreign exchange exposure has been reduced by converting NOK 920 million in bond loans to US dollar denomination. The Company is also reviewing possibilities related to optimizing its asset portfolio.

Going into 2009, DNO is focusing on strengthening the funding and financial flexibility of the Company. By completion of the Tawke phase 1 development, the Company, in its 2009 prognosis, is expecting full scale production to commence. However, there is an uncertainty related to the start-up date of this significant increase in production, and therefore alternative measures are being prepared for. These include structural options such as divestment of financial assets and operational asset optimization.

The Board of Directors confirms the that annual financial statements have been prepared based on the going concern assumption, in accordance with the paragraph 3-3 of the Norwegian Accounting Act.

FINANCIAL RISK

Risks related to oil price, interest rates and currency constitute significant financial risks to the Group. Financial risk management is carried out by a central treasury function and seek to minimize the potential adverse effects on the Group's financial performance. Derivative financial instruments are used to hedge certain risk exposures. Towards the end of 2008, DNO made an exchange of currency from NOK to USD for major parts of its bond loans. The exchange was made for foreign exchange risk management purposes. For further information about the financial risk management objectives and policies, see note 13.

NON-FINANCIAL INFORMATION

Health & Safety

DNO's health and safety record is an important contributor to our standing as a trusted operator and is an operational focus area for the Board. There were no serious incidents recorded in 2008 and the Company continued its efforts to raise the standards of operations and continuous improvement of systems and policies.

Security is an integral part of DNO's approach to health and safety. The Company's systems and security competences have continued to prove effective with no security related incidents during the year. Although an improved stability is seen in Kurdistan, the situation in Yemen has deteriorated so security remains a key priority.

Our health and safety results for the year have been satisfactory, with a total of nine injuries reported which resulted in absence from work, but none caused any permanent disability. Absence due to short and long-term illness was 2.4%, marginally ahead of last year (2007: 2.0%).

Environment
The Oil and Gas industry is making significant changes in response to the focus on global warming and sustainable development. This is being reflected to an increasing degree in the requirements of local regulations and production sharing agreements/ contracts. In line with the international community, DNO is documenting environmental risks and enhancing the Company's competence and systems to mitigate them.

As part of this process, DNO completed all environmental impact assessments in 2008 according to the World Bank Association standards. These record the status of environmental assets as well as risk exposure and will play an important role in how DNO manages environmental issues going forward.

The Company recognizes its role in the source of carbon emissions and in 2008 DNO began reporting to the Carbon Disclosure Project, with the aim of tracking and improving the performance of the Company.

The DNO track record to date is sound and the Company continued to maintain high standards during the year. Seven environmental spills were reported: all were small and responded to as per company procedures, ensuring no wider impact.

Corporate Responsibility
DNO is striving to conduct business activities with integrity and focus on ensuring and supporting sustainable development in the communities in which the Company operates. The Company's policies and standards are anchored in DNO's ethics and company culture.

DNO is acutely aware of the potential impact of the Company's operations on the local communities. The Company has made good progress this year on building relationship with local stakeholders, working to high ethical standards and applying company systems and procedures with sensitivity to the local environment.

For DNO, Corporate Responsibility (CR) has become an integral part of the way the Company conducts its business, and the CR principles apply to all employees. DNO managers are responsible for implementing those principles and fostering a culture of awareness and compliance. Outside the Company, contractors and service companies are expected to adhere to the same set of principles.

The Business Management System of the Company is subject to continuous improvement and amongst others a new Risk Management system was implemented in line with the requirements defined by Norwegian law.

Our People – Diversity and Equal Opportunities
The Oil and Gas industry is dynamic and fast changing, where the ability to respond quickly is a critical success factor. One of the cornerstones of the DNO culture is the flat organization structure which allows open communication and fast decision processes. It also means that the DNO staff have a high degree of responsibility and are empowered to use their skills and experience. This helps the Company to recruit the best talents in the industry and offer them a broad and varied career.

Diversity is a key issue for the Company and the employment of local people in particular. The authorities in the countries in which DNO operates are focusing on development of their local industry and work force, and targets and expectations are clearly communicated by the authorities. DNO has an active training and recruitment program in this respect, and by year end the local work force is 83% and 98% in Yemen and Kurdistan respectively.

DNO policies are aimed at supporting the belief that all employees and job applicants should be treated equally, regardless of race, gender, religion or any other factor. With regards to gender, our equal opportunities statistics show that women accounted for 30% of the overall workforce in Norway. DNO International ASA's Board of Directors consists of 40% women at the end of 2008.

Organization and Personnel
At the end of 2008, DNO had a total workforce of 496 people: 46 are based in Norway and 450 in our international operations. This compares with a total workforce of 508 in 2007.

BOARD OF DIRECTORS REPORT CONTINUED

Work of the Board
The Board of Directors engaged in active discussion and handling of several key strategic and operational issues through 17 meetings in 2008, including:

- Closely monitoring the QS-HSE, operational and financial performance of the group
- Strategies to position the Company to meet the challenges in a possible down-turn in the oil and gas industry as well as financial market
- Amendments of DNO's production sharing contracts in the Kurdistan region of Iraq
- Strategic issues relating to DNO's shareholding in the affiliated company Det norske oljeselskap ASA (DETNOR)
- Progress and results of NOK 1,480 million in development investments and exploration expenditures in DNO's key projects
- Change of currency offer to DNO bond holders aimed at reducing foreign exchange exposure
- Other measures addressing challenges raised by weak financial markets and oil price decline.

Corporate Governance
Good corporate governance is a responsible interaction between shareholders, Board of Directors and executive management in order to develop long-term value. DNO acknowledge the role corporate governance play in growing shareholder value, retaining the confidence of investors and maintaining a low cost of capital.

The Corporate Governance statement, posted on our website at www.dno.no, outlines key principles and guidelines for DNO's corporate governance, approved by the Board of Directors. The statement is reviewed annually or more often if deemed necessary.

MAIN EVENTS SINCE YEAR END

The main events to the Company since year end have been:

- DNO sent a request for Extraordinary General Meeting (EGM) in Det norske Oljeselskap ASA (DETNOR) on 2 January 2009 requesting election of a new Board of Directors in DETNOR. The objective being to elect a Board of Directors with a clear strategy to grow the Company into a strong and sustainable exploration and production company, hence to better serve the shareholders interests. The EGM elected a new Board of Directors on 2 February 2009
- In line with the Integration Agreement in relation to the combination of the businesses of Petra AS and Det Norske Oljeselskap ASA, DNO divested in January 2009 11.9% of the shares in DETNOR to the value of NOK 250 million. DNO's resulting share holding in DETNOR following this divestment is 25%
- By the end of the first quarter 2009 the work to tie-in the Tawke field to the northern pipeline system in Iraq was completed, and the field is thus ready for full scale production into the northern pipeline system
- On 31 March 2009, DNO filed the Annual Statement of Reserves, disclosing the hydrocarbon reserves as of 31 December 2008.

OUTLOOK

The DNO strategy of focusing on low cost, high potential areas, avoiding long-term capital commitments, means that the Company has adjusted to the current downturn in the world economy. The Company has a secure long-term debt structure mainly maturing in 2012, with some minor near term securities maturing in 2009, and DNO is ready to increase production on the Tawke field without further investment. This will increase cash flow, hence enable DNO to strengthen its financial position. With the uncertainty associated with the increase in Tawke production, the Company will alternatively secure funding through sale of financial assets or other structural options.

DNO has substantially reduced the capital investment program for the year 2009. NOK 135 million is committed to capital investment and NOK 100 million to selective exploration and prioritized development opportunities.

The Company will continue to focus on low cost high potential areas, but going forward DNO will also more actively pursue new strategic options including possible consolidation within the oil and gas industry.

DNO will continue to take a proactive role on the Board of DETNOR, in line with our 25% shareholding, whilst reviewing our strategic options.

PARENT COMPANY

The Parent Company's net loss for 2008 was NOK -1,343 million, including NOK 1,217 million in non-cash impairment charges. Total assets as of 31 December 2008 were NOK 4,618 million, whereof the long-term intercompany receivables account for NOK 2,424 million. The investment in the associated company Det norske oljeselskap ASA has been impaired to reflect the decline in fair value during 2008. The investment is carried at NOK 697.5 million at year- end, compared to NOK 1,917.4 million at the end of 2007. The Company's cash balance at year-end 2008 was NOK 139.8 million compared to NOK 684.4 million for 2007, reduced by high exploration activity and falling oil prices. Total shareholders equity at 31 December 2008 was NOK 1,791.6 million compared to NOK 3,128.0 at the end of 2007. The equity ratio thereby decreased from 58% in 2007 to 39% at year-end 2008. The decrease is mainly due to impairment charges. No ordinary dividend is proposed for 2008 as the Board believe that investment in the Company's exploration and development programme will deliver increased shareholder returns in the future.

The Company's unrestricted equity as of 31 December 2008 totalled NOK 1,282.9 million.

The Board proposes the following allocations (NOK million):

Annual loss	-1,343
Transferred from other equity	-1,343
Total allocations	-1,343

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge that the consolidated financial statements for the period 1 January to 31 December 2008 have been prepared in accordance with IFRS and give a fair view of DNO's and the Group's assets, liabilities, financial position and results for the period viewed in their entirety, and that the Board of Directors report includes a fair review of any significant events that arose during the period and their effect on the financial report, any significant related parties' transactions, and a description of the significant risks and uncertainties for the Group.

Oslo, 31 March 2009

Berge G. Larsen
Chairman of the Board

Gunnar Hirsti
Board Member

Elin Karfjell
Board Member

Marit Instanes
Board Member

Trygve Bruvik
Vice Chairman

Helge Eide
Managing Director

ACCOUNTS CONTENTS

CONSOLIDATED INCOME STATEMENTS

1 JANUARY – 31 DECEMBER

NOK Mill	Note	2008	2007
Sales	2, 3	1,376.2	1,319.9
Cost of goods sold	4	(745.5)	(547.1)
Gross profit		**630.7**	**772.8**
Other operating income		0.1	–
Tariffs and transportation		(33.2)	(33.9)
Administrative expense/other operating expenses	5	(34.0)	16.9
Impairment oil and gas assets	10, 19	(197.9)	–
Exploration cost expensed	6	(356.8)	(263.6)
Net gain/(loss) from sale of PP&E	10	(0.1)	–
Profit/(loss) from operating activities		**8.8**	**492.2**
Share of profit/(loss) associates	7, 11	83.3	(5.3)
Financial income	7	54.9	25.4
Financial expenses	7	(836.9)	(214.5)
Profit/(loss) before income tax		**(689.9)**	**297.8**
Income tax expense	8	(214.0)	(206.8)
Net profit/(loss) before discontinued operations		**(903.9)**	**91.1**
Net profit discontinued operations	9	–	915.2
Net profit/(loss)		**(903.9)**	**1,006.3**
Attributable to:			
Equity holders of the parent		(903.9)	1,005.2
Minority interests		–	1.1
Earnings per share, basic	22	(1.02)	1.14
Earnings per share, diluted	22	(1.02)	1.14
Earnings per share, basic for continuing operations	22	(1.02)	0.10
Earnings per share, diluted for continuing operations	22	(1.02)	0.10

CONSOLIDATED BALANCE SHEETS

AS AT 31 DECEMBER

NOK Mill Assets	Note	2008	2007
Non-current assets			
Deferred income tax assets	8	256.0	294.4
Other intangible assets	10	595.3	84.3
Property, plant and equipment	10	3,119.6	2,148.4
Investment in associates	11	697.5	1,324.9
Available for sale investments	12	36.8	165.0
Derivative financial instruments	13, 14	20.2	0.9
Total non-current assets		**4,725.4**	**4,018.0**
Current assets			
Inventories	4	50.7	–
Trade and other receivables	15	174.1	263.0
Derivative financial instruments	13, 14	8.0	–
Other financial assets at fair value through P&L	16	1.1	68.2
Cash and cash equivalents, unrestricted	16	91.2	688.8
Cash and cash equivalents, restricted	16	84.9	2.9
Total current assets		**410.1**	**1,022.9**
Total assets		**5,135.5**	**5,040.8**

NOK Mill Equity and liabilities	Note	2008	2007
Equity			
Share capital		225.2	221.5
Other reserves		42.6	–
Retained earnings		1,854.2	2,203.2
Total equity	17	**2,122.0**	**2,424.7**
Non-current liabilities			
Interest-bearing liabilities	18	2,052.6	1,976.4
Deferred income tax liabilities	8	160.8	153.1
Provisions for other liabilities and charges	19, 20	128.9	16.3
Total non-current liabilities		**2,342.3**	**2,145.9**
Current liabilities			
Trade and other payables	21	388.9	104.6
Income taxes payable	8	7.3	39.7
Current interest-bearing liabilities	18	54.5	50.0
Derivative financial instruments	14	–	15.4
Provisions for other liabilities and charges	19, 20	220.5	260.6
Total current liabilities		**671.2**	**470.2**
Total equity and liabilities		**5,135.5**	**5,040.8**

Oslo, 31 March 2009

Berge G. Larsen
Chairman of the Board

Gunnar Hirsti
Board Member

Elin Karfjell
Board Member

Marit Instanes
Board Member

Trygve Bruvik
Vice Chairman

Helge Eide
Managing Director

CONSOLIDATED CASH FLOW STATEMENTS

YEAR ENDED 31 DECEMBER

NOK Mill	Note	2008	2007
Operating activities			
Profit/(loss) from operating activities before exploration expenses		365.7	755.8
– Exploration cost expensed	6	(356.8)	(263.6)
Profit/(loss) from operations		8.8	492.2
Adjustments for:			
Income taxes paid		(197.9)	(118.3)
Depreciation of PP&E	4	443.8	315.6
Impairment loss on PP&E	10	197.9	–
(Gain)/loss on sale of PP&E		0.1	–
Fair value gain/(loss) on financial assets	7	38.8	(11.4)
Other financial income/(expenses)		(26.4)	(10.9)
Share of profit/(loss) from associates	11	83.3	(5.3)
Exchange gains/(losses)		149.4	(38.0)
Interest paid		(194.8)	(174.8)
Changes in working capital:			
– Inventories		(50.7)	–
– Trade and other receivables		88.8	(124.7)
– Other financial assets at fair value through P&L		68.1	(1.1)
– Trade and other payables		283.6	(55.9)
Other		(147.4)	30.6
Net cash from operating activities, discontinued		–	(277.2)
Net cash from operating activities		**745.4**	**20.8**
Investing activities			
Proceeds from sale of subsidiary, net of cash sold	9	–	459.5
Purchases of PP&E		(1,250.3)	(1,187.3)
Purchases of available-for-sale financial assets		–	(20.0)
Proceeds from sale of available-for-sale financial assets		28.5	45.6
Interest received		36.5	18.3
Other investing activities, net		(0.9)	–
Net cash from investing activities, discontinued		–	(87.0)
Net cash used in investing activities		**(1,186.2)**	**(770.9)**

NOK Mill	Note	2008	2007
Financing activities			
Proceeds from borrowings	18	–	300.0
Repayment of borrowings	18	(50.0)	(5.7)
Purchase of treasury shares, including options		(939.6)	(870.8)
Proceeds from sale of treasury shares		946.2	873.3
Net cash from financing activities, discontinued		–	734.0
Net cash (used in)/from financing activities		**(43.4)**	**1,030.7**
Net increase/(decrease) in cash and cash equivalents		**(484.2)**	**280.6**
Cash and cash equivalents at beginning of the period		(691.7)	418.0
Exchange gain/(losses) on cash and cash equivalents		(31.7)	(6.8)
Cash and cash equivalents at end of the period	16	**176.1**	**691.7**
Hereof restricted cash		84.9	2.9

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED 31 DECEMBER

NOK Mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2008		**221.5**	**–**	**2,203.2**	**2,424.7**
Fair value gains, net of tax:					
– available-for-sale financial assets		–	–	(54.7)	(54.7)
Currency translation differences		–	–	609.6	609.6
Net income/(expense) recognised directly in equity		–	–	554.9	554.9
Profit for the period		–	–	(903.9)	(903.9)
Total recognised income for the period		**–**	**–**	**(349.0)**	**(349.0)**
Share option scheme:					
– value of services provided		–	–	–	–
– proceeds from shares issued		–	–	–	–
Purchase of treasury shares		(27.3)	(930.5)	–	(957.8)
Sale of treasury shares		31.0	747.6	–	778.6
Derivative contracts treasury shares	17	–	225.5	–	225.5
Dividends		–	–	–	–
Transferred to retained earnings		–	–	–	–
		3.7	**42.6**	**–**	**46.3**
Balance at 31 December 2008	17	**225.2**	**42.6**	**1,854.2**	**2,122.0**

NOK Mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2007		**220.3**	**–**	**504.2**	**724.5**
Fair value gains, net of tax:					
– available-for-sale financial assets		–	–	4.1	4.1
Currency translation differences		–	–	(172.9)	(172.9)
Net income/(expense) recognised directly in equity		–	–	(168.8)	(168.8)
Profit for the period		–	–	1,005.1	1,005.1
Total recognised income for the period		**–**	**–**	**836.3**	**836.3**
Share option scheme:					
– value of services provided		–	–	–	–
– proceeds from shares issued		–	–	–	–
Purchase of treasury shares		(20.0)	(814.5)	–	(834.5)
Sale of treasury shares		21.2	850.0	–	871.2
Derivative contracts treasury shares	17	–	(32.1)	–	(32.1)
Dividends		–	–	–	–
Equity effect from disposal of subsidiary	9	–	–	859.3	859.3
Transferred to retained earnings		–	(3.4)	3.4	–
		1.2	**–**	**862.7**	**863.9**
Balance at 31 December 2007	17	**221.5**	**–**	**2,203.2**	**2,424.7**

NOTE DISCLOSURES

NOTE 1. SUMMARY OF IFRS ACCOUNTING PRINCIPLES

PRINCIPAL ACTIVITIES AND CORPORATE INFORMATION

DNO is an international exploration and production company engaged in the acquisition, development and operation of oil and gas properties.

DNO International ASA is a public limited company incorporated and domiciled in Norway. The Company's shares are listed on the Oslo Stock Exchange. DNO International ASA has its registered office in Oslo. DNO International ASA is the ultimate parent of the Group.

STATEMENT OF COMPLIANCE

The consolidated financial statements of DNO have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Parent Company and all subsidiaries have been prepared in accordance with the Norwegian Accounting Act of 1998. The consolidated financial statements were approved by the Board of Directors on 31 March 2009.

BASIS FOR PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, with the following exemption:

- All derivatives, all financial assets and liabilities held for trading, liabilities related to share-based payments and all financial assets that are classified as available-for-sale, are recognised at fair value.

As permitted by IAS 1, the income statement is presented on a mixed basis as a blend of expenses by nature and function, as this gives the most relevant and reliable presentation for the Group.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting principles adopted are consistent with those of the previous financial year.

The Group has not adopted any new or amended IFRS or IFRIC interpretations during the year.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Accounting estimates are employed in the financial statements to determine reported amounts, including the possibility for realization of certain assets, the useful lives of tangible and intangible assets, and income taxes. Although these estimates are based on management's best knowledge of historical experience, current events and actions, actual results may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Changes in estimates will be recognised when new estimates can be determined with certainty.

The key sources of estimation uncertainty for DNO relate to the following:

- the amount, nature and timing of capital expenditures
- the projected drilling of wells
- estimates of proven and probable reserves
- the timing and amount of future production of oil and natural gas
- operating costs, including asset retirement costs, and other expenses
- cash flow, anticipated liquidity and prospects for growth
- deferred tax assets
- impairment considerations.

In addition to the above, there is general uncertainty related to seismic and geological models. Political risk may also influence management judgements and estimates.

See below for further details on important areas affected by estimation uncertainty;

Deferred tax assets – Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax asset to be recognised. Specifically, the uncertainty is related to the timing and value of tax planning activities, as well as the general uncertainty related to the budgeting process. For further details see note 8.

Impairment of oil and gas assets – Management must determine whether there are circumstances indicating a possible impairment of its oil and gas assets. The estimation of the recoverable amount for the oil and gas assets include management evaluations in addition to both expected future cash flows and future market conditions, including production and oil price.

Contingent liabilities, litigations – Management must use judgement to evaluate the probabilities regarding contingent liabilities and litigations, in order to ensure the correct accounting treatment. This also includes the evaluation of future asset retirement obligations.

Reserves and resources – All estimates of oil and gas reserves and resources involve uncertainty. In the estimation, DNO has applied deterministic or scenario based methods. The figures represent a most likely quantity of oil and gas that will be recovered from a field or reservoir given the information available at the end of the year.

Important factors that could cause actual results to differ from the estimates include among others: technical, geological and geotechnical conditions, economic and market conditions, oil prices and changes in governmental regulations, interest rates and fluctuations in currency exchange rates. Specific parameters of uncertainty related to the field/reservoir include, but are not limited to; reservoir pressure and porosity, recovery factors, water cut development and production decline rates, gas/oil ratios and oil properties.

Analogy to similar fields and reservoirs has been applied when production history and information is limited and/or the field/reservoir has a complex structure. It is important to stress that the uncertainty span is larger for fields/reservoirs with limited field information and production history, compared to fields/reservoirs with longer production history.

The estimates for reserves and resources are made in accordance with the guidelines advised by the Society of Petroleum Engineers (SPE) and are in conformity with procedures from the Oslo Stock Exchange for reporting of reserves.

GROUP ACCOUNTING AND CONSOLIDATION PRINCIPLES

Subsidiaries

The consolidated financial statements of DNO include the financial statements of the Parent Company, DNO International ASA, and its subsidiaries. Subsidiaries are those entities in which DNO either owns, directly or indirectly, over 50% of the voting rights, or otherwise has the power to govern their operating and financial policies. Share options, convertibles and other equity instruments are considered when assessing whether an entity is controlled.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets acquired, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess cost of acquisition over the fair value of the net assets of the subsidiary acquired, measured at the date of change of control, is recorded as goodwill (see 'Intangible Assets' for the accounting policy on goodwill).

Subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. Consolidation ceases from the date when the Group no longer has control.

Where necessary, the accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

All intercompany transactions, receivables, liabilities and unrealized profits, as well as intra-group profit distributions, are eliminated.

Investment in an associate

The Group's investment in an associate is accounted for under the equity method of accounting. This is an entity in which the Group generally holds between 20% and 50% of the voting rights and over which the Group has significant influence, but not overall control. Share options, convertibles and other equity instruments are considered when assessing whether an entity is under significant influence.

The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the share of the results of operations of the associate as financial income/expense. Where there has been a change recognised directly in the associate's equity, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

NOTE 1. SUMMARY OF IFRS ACCOUNTING PRINCIPLES CONTINUED

Impairment is assessed at each balance sheet date. A significant or prolonged decline in fair value of the investment indicates that the cost of the investment may not be recovered, and the investment is impaired. A decline in fair value of more than 20% is considered to be significant, while a decline in fair value between 10% and 20% will be assessed specifically in each case. A decline in fair value less than 10% is considered to be insignificant. The decline is considered to be prolonged if it has lasted more than 12 months, while a decline lasting less than six months is not considered prolonged. A decline for a period between six and 12 months will be assessed specifically in each case.

The impairment loss can be reversed in a subsequent period if there is evidence that the impairment no longer exist. The assessment follows the same criteria as mentioned above.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred or guaranteed obligations in respect of the associated company.

Interest in joint ventures
The Group accounts for joint ventures, including jointly controlled operations (oil and gas licenses), by recording its share of the arrangement's assets, liabilities and cash flows. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it divests the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

Functional currency
The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the functional and presentation currency of the Parent Company.

Items included in the financial statements of each subsidiary in the Group are initially recorded in the functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into functional currency at the balance sheet date exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences arising in respect of operating business items are included in operating profit in the appropriate income statement account. Those arising in respect of financial assets and liabilities are recorded net as a financial item.

Foreign exchange gains or losses resulting from changes in the fair value of financial investments classified as available-for-sale, are recognised directly in equity until the investment has been disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Group companies
Income statements and cash flows of subsidiaries, associated companies and joint ventures, whose functional currency is not NOK, are translated into NOK at average exchange rates for the period. Their balance sheets are translated at the balance sheet date exchange rate and the translation differences are taken directly to a separate component of equity. When a foreign entity is sold, such translation differences are recognised on the income statement as part of the gain or loss on sale.

BALANCE SHEET CLASSIFICATION

Current assets and short-term liabilities include items due less than a year from the balance sheet date, and items related to the operating cycle, if longer. The current portion of long-term debt is included under current liabilities. Financially motivated investments in shares are classified as current assets, while strategic investments are classified as non-current assets. Other assets are classified as non-current assets.

PROPERTY, PLANT AND EQUIPMENT

General

Property, plant and equipment acquired by Group companies are stated at historical cost and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment on the balance sheet represents the cost less accumulated depreciation and any impairment charges. Land is not depreciated. Other fixed assets in use (excluding oil and gas properties) are depreciated on a straight-line basis, at rates varying from three to five years. Expected useful lives of long-lived assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly. Any change is accounted for prospectively.

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Major renovations are depreciated over the period to the next major renovation.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties had the same information. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Borrowing costs

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use, which is defined as the development phase. Other borrowing costs are expensed when incurred. The capitalization of borrowing costs is made monthly based on the yearly average interest rate for the Group in the period.

The basis for the monthly capitalization is accumulated average capitalized assets for each project. The capitalized borrowing costs cannot exceed the actual borrowing costs in each period.

Exploration and development costs for oil and gas properties

DNO uses the 'successful efforts' method to account for exploration and development costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are charged to expense as incurred.

Drilling costs of exploration wells are temporarily capitalized pending the determination of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalized and assessed for impairment at each reporting date. 3D seismic acquisitions over a discovery area are capitalized if it is related to the well drilling, and the objective is to learn more about the reservoir and to support the determination of new well locations within the discovery area.

For accounting purposes, the field enters into the development phase when the partners in the license declare the commerciality decision, or the field has matured to a similar level.

All costs of developing commercial oil and/or gas fields are capitalized, including direct costs/own time. Pre-operating costs are expensed as incurred. Capitalized development costs are classified as tangible assets.

Oil and gas properties

Capitalized costs for oil and gas properties are depreciated using the unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proved and probable reserves (expected to be recovered during the concession or contract period) at the beginning of the period. The future development expenditures necessary to bring those reserves into production are included in the basis for depreciation, and are estimated by the management. Any changes in the reserves estimate that affect unit-of-production rates, are dealt with prospectively.

Component cost accounting/decomposition

The Company allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part over its useful life. For oil and gas assets, the Company uses field as the level of aggregation as this represents the lowest level where separate cash flows can be identified. This means that there is no decomposition beyond field level. A plan for development is defined for each field, taking into consideration both exploration wells, production wells and infill wells. The field reserves are evaluated together according to the chosen production plan.

NOTE 1. SUMMARY OF IFRS ACCOUNTING PRINCIPLES CONTINUED

According to the Company's PSAs, the ownership of the property, plant and equipment is transferred back to the government when production ceases.

INTANGIBLE ASSETS

Amortization of intangible assets is based on the following expected useful lives:

- Computer software three to five years
- Other intangible assets five to ten years.

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Exploration and evaluation assets

IFRS 6 Exploration for and Evaluation of Mineral Resources requires exploration and evaluation assets to be classified as tangible or intangible according to the nature of the assets.

Some exploration and evaluation assets should be classified as intangible, for example license acquisition costs and capitalized exploration assets. When technical feasibility and commercial viability of the assets are demonstrable, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets which are classified as intangible are assessed for impairment before reclassification.

Other intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives. Intangible assets are held at cost less accumulated depreciation and impairment losses.

IMPAIRMENT OF LONG-LIVED ASSETS

Property, plant and equipment and other non-current assets are reviewed for potential impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indications of impairment may be decline in oil price, changes in future investments or changes in reserve estimates.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. An oil and gas field is considered one cash generating unit; all other assets are assessed separately. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. Cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. It is not reversed to a higher amount than if no impairment loss had been recognised. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

FARM IN AND FARM OUT

A farm in/farm out involves a situation where the owner of a working interest (the farmor) transfers all or a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed upon action. For example, the farmee may agree to undertake exploration of a property, drill a well or wells, or develop the property. In return, the farmor agrees to transfer all or a portion of the working interest in the property to the farmee.

The farmee should capitalise or expense the exploration, drilling and development costs as incurred according to the accounting method it is using, i.e. successful efforts or full cost. The farmee does not record any receivable nor any of its costs assigned to the acquisition of a mineral interest. In other words, the farmee may have capitalized wells and equipment costs but no capitalized property acquisition costs. The farmor does not record any well and equipment costs. There are no accruals for future commitments in farm in/out agreements in the exploration and evaluation phase and no profit or loss is recognised by the farmor. In the development phase, a farm in/farm out agreement will be treated as a transaction recorded at fair value as represented by the costs borne by the farmee.

LICENSE SWAPS/ASSET SWAPS

A situation where one or more items of property, plant and equipment is exchanged for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, should be measured at fair value.

Oil companies may exchange license interests as part of a portfolio structuring. License swaps are measured at fair value at the time of the transaction, with recognition of gain or loss.

FINANCIAL INSTRUMENTS

Financial instruments, that are not derivatives, consist of investments in debt and equity instruments, trade receivables and other receivables, cash and cash equivalents, loans, trade payables and other payables. These are initially recognised at fair value, which in most cases will be identical to cost. After initial recognition, the measurement and accounting treatment depend on the type of instrument and classification.

Cash and bank deposits, including deposits on special terms, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, form cash and cash equivalents. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, than fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Investments and other financial assets

All purchases and sales of financial assets made in the regular way are recognised on the trade date.

- Investments classified as available-for-sale are measured at fair value. Adjustments to fair value are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Impairment of available-for-sale investments is recognised in the income statement immediately, but any subsequent reversal of the impairment is not recognised in the income statement, but as a fair value adjustment to equity
- Investments classified at fair value through profit or loss are measured at fair value, with adjustments to fair value recognised immediately in the income statement
- Investments classified as loans and receivables are measured at amortized cost using the effective interest rate method. This classification is used for non-derivative assets with fixed or determinable payments that are not quoted in an active market. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortization process
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. These assets are subsequently measured at amortized cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by using generally accepted valuation techniques. The valuations are primarily collected from external parties (banks, other financial institutions), or, if not available, performed by the Group.

Amortized cost is calculated by taking into account any discount or premium on acquisition over the years to maturity. For investments carried at amortized cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortization process.

NOTE 1. SUMMARY OF IFRS ACCOUNTING PRINCIPLES CONTINUED

Derecognition of financial assets and liabilities
A financial asset is derecognised where:

- The Group no longer has the right to receive cash flows from it
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. A bond loan is derecognised when it is repurchased.

Derivative financial instruments and hedging
Derivative financial instruments are initially and subsequently recognised on the balance sheet at fair value. Certain derivative instruments, while providing effective economic hedges under the Group Financial Policy, do not qualify for hedge accounting under the specific rules in IAS 39. These are accounted for as financial assets or liabilities at fair value through profit and loss. Changes in fair value are classified as financial income or expense.

To the extent that derivative contracts on own shares contain an obligation to settle in cash or another financial asset, the financial liability for the redemption amount is recognised as a liability with a corresponding entry against equity.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Embedded derivatives are separated from the host contracts and accounted for as derivatives at fair value, only if: (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When bond loans include a prepayment option, an evaluation is performed in order to decide whether the options are closely related to the bond loan. Whether or not the option is closely related, depends on the difference between the option premium and amortized cost at the time of repayment.

As of 31 December 2008, the Group has no hedging instruments for accounting purposes.

Share capital
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options, are recognised as a reduction of equity, net of any tax effects.

Repurchase of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

LEASES
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. Each lease payment is allocated between liability and finance, where the interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risk and reward of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

OTHER LONG-TERM RECEIVABLES
Other long-term receivables are measured at net present value when the expected payments are long due and these are not Interest-bearing.

INVENTORIES

Inventories, other than inventories of oil, are valued at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

Petroleum products and over and under lifts of crude oil are recorded at net realisable values.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business, less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventories.

TRADE RECEIVABLES

Trade receivables are recognised and carried at their anticipated realisable value, which is the original invoice amount less an estimated valuation allowance for any uncollectible amounts. A provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

INTEREST-BEARING LIABILITIES

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised on the income statement over the period of the interest-bearing liabilities. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortization process.

REVENUE RECOGNITION

Revenues from the production of oil and gas properties are recognised on the basis of the Group's net working interest in those properties, regardless of whether the production is sold (the entitlement method). The revenue recognition according to the net entitlement method is based on actual production in the period.

Overlift and underlift of oil and gas follows from the entitlement method and is valued at its net realisable value on the balance sheet date. Overlift and underlift are calculated as the difference between the Group's share of production and its actual sales and are classified as other current liabilities/assets.

Revenues from services are recorded when the service has been performed.

Revenues from lease arrangements are recognised over the life of the agreement. Revenues from other activities are recognised when the title passes to the customer.

Production Sharing Agreements/Production Sharing Contracts (PSAs)

In many countries ownership of unexploited petroleum resources remains with the state, whereas exploration and production is carried out by private contractors under a specific production sharing agreement, or PSA. The PSA typically is a contract between an oil-producing company and the host government that governs the rights and duties of both parties in respect of the operations of a production block. In particular it governs how the revenues from oil produced are to be shared between the government and the contracting oil producers. DNO operates currently under PSAs in Yemen and in Kurdistan region of Northern Iraq.

Under the PSAs, DNO, along with other working interest holders, typically bears all risk and costs for exploration, development and production. In return, if exploration is successful, DNO recovers the sum of its investment and operating costs ('cost oil') from a percentage of the production and sale of the associated hydrocarbons. DNO is also entitled to receive a share of production in excess of cost oil ('profit oil'). The sharing of profit oil varies between the working interest holders and the government from PSA contract to PSA contract.

The sum of cost oil attributable to DNO's share of costs and DNO's share of profit oil represents DNO's entitlement to oil produced under a PSA.

DNO's share of cost oil in the PSAs varies from 35% to 66.7%.

NOTE 1. SUMMARY OF IFRS ACCOUNTING PRINCIPLES CONTINUED

Under a PSA the government typically receives portions of oil produced in several steps. Normally, there is a fraction of gross oil production (a royalty), before any attribution to cost oil, payable to a governmental body. As described above, the government will also have a specified share of profit oil and in some instances a governmentally controlled enterprise will have its share as well. The sum of royalties and governmental share of profit oil, including that of a governmentally controlled enterprise, represents the 'government take' of oil produced under a PSA.

DNO presents its operations governed by PSAs according to the net entitlement method. The net entitlement method means that DNO recognizes as revenue only its working interest of oil produced, after deduction of the government take.

Financial income and expenses
Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis.

INCOME TAXES
The tax expense consists of taxes payable and changes to deferred tax.

Taxes payable are provided based on taxable profits at the current tax rate.

Deferred tax/tax assets are calculated on all taxable temporary differences, except to the extent that both of the following conditions are satisfied:

- The Group is able to control the timing of the reversal of the temporary differences
- It is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised when it is probable that the Company will have a sufficient profit for tax purposes to utilise the tax asset. At each balance sheet date, the Group carries out a review of its unrecognized deferred tax assets and the value it has recognised. The companies recognise formerly unrecognized deferred tax assets to the extent that it has become probable that the Company can utilise the deferred tax asset. Similarly, the Group will reduce its deferred tax assets to the extent that it can no longer utilise these.

Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the companies in the Group. Deferred tax and deferred tax assets are set off within the same tax regime only if the use of group contribution is available.

Deferred tax and deferred tax assets are recognised irrespective of when the differences will be reversed. They are recognised at their nominal value and classified as non-current assets (long-term liabilities) in the balance sheet.

Taxes payable and deferred tax are recognised directly in equity to the extent that they relate to items that are charged directly to equity.

Production Sharing Agreements/Production Sharing Contracts (PSAs)
DNO presents its operations governed by PSAs according to the net entitlement method. For more information see the description under revenue recognition.

A PSA may also affect payment of corporate taxes. Normally, the contractor is liable for national corporate tax on taxable profits, which, in a successful operation, will be a function of its share of profit oil (taking into account that costs over time will be recovered through cost oil). However, some PSAs include clauses for corporate taxes to be paid out of the government take. To the extent that the government take includes a portion assigned to cover DNO's corporate tax eligible for classification as tax according to the IAS 12 definition, DNO presents this element as an income tax expense with a corresponding increase in revenue.

EMPLOYEE BENEFITS

Pension obligations

The Group has currently only contribution plans. For defined contribution plans, contributions are paid to pension insurance plans and charged to the income statement in the period to which the contributions relate. Once the contributions have been paid, there are no further payment obligations.

Share option program

The Group has a synthetic share option programme for its employees. The share options are settled in cash and are recorded at fair value.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised when: the Group has a present obligation (legal or constructive) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as the discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as interest expense.

Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Asset retirement obligations

Provisions for decommissioning liabilities for oil and natural gas production facilities are recognised in full. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. The decommissioning provision is accreted to the discounted liability, with the accretion of the discount being classified as interest expense. The discount rate used is a modified interest rate which equals the Group's average interests on debts.

The provision and the discount rate are reviewed at each balance sheet date. According to IFRIC 1.5, changes in the measurement of the decommissioning liability that result from a change in the timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are added to or deducted from the cost of the related asset in the current period. Changes in estimated asset retirement obligations will impact both the cost of the asset and the income statement in the period in which the estimate is revised.

SEGMENT REPORTING

The Company has identified its reportable segments based on the nature of the risk and return within its business. The Group's primary reporting format is geographical segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. The Group's geographical segments are determined by the location of the Group's assets and operations.

Transfer prices between geographical segments are set on an arm's length basis in a manner similar to transactions with third parties.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as held for sale when it is highly probable that their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of the carrying amount and fair value less sales costs.

DISCONTINUED OPERATIONS

A discontinued operation results from a decision, pursuant to a single disposal plan, to divest an operation comprising a separate major line of business, for which the assets less liabilities and net financial results may be distinguished physically, operationally and for financial reporting purposes. The pre-tax gain or loss on disposal of discontinued operations, as well as the financial results from discontinued operations, are shown as a separate item on the consolidated income statement.

NOTE 1. SUMMARY OF IFRS ACCOUNTING PRINCIPLES CONTINUED

EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period. The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period. That is:

- The net profit for the period attributable to ordinary shares is increased by interest recognised in the period in respect of the dilutive potential ordinary shares. It is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares increases the weighted average number of ordinary shares outstanding.

The amount of the dilution is the average market price of ordinary shares during the period minus the issue price of the options.

RELATED PARTIES

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial or operational decisions. Parties are also related if they are subject to common control.

Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged. All transactions between related parties are made based on the principle of 'arm's length', which is the estimated market price.

For more information about related parties, see note 25.

COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

IFRS AND IFRIC INTERPRETATIONS NOT YET EFFECTIVE

IFRS 3 (R) Business Combinations

Changes in the standard, effective from periods beginning after 1 January 2009, will affect recognised amount of goodwill and the reported profit, both in the period when the business combination takes place and in future periods. The implications will only have impact prospectively.

IFRS 8 Operating Segments

IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and to assess its performance. IFRS 8 also requires additional disclosures, including information on how the entity identifies its operating segments and the types of products and services from which each segment derives its revenues. The Group will apply IFRS 8 from annual periods beginning 1 January 2009.

IAS 1 (R) Presentation of Financial Statements: A revised presentation

The revised standard involves changes to the primary statements, especially to the statement of changes in equity, and introduces a 'statement of recognised income and expense'. This statement will show changes in equity other than those arising from transactions with equity holders. DNO will apply IAS 1 (R) from annual periods beginning 1 January 2009.

IAS 27 (R) Consolidated and Separate Financial Statements

The revised standard requires that changes in ownership interest in subsidiaries are accounted for as an equity transaction.

Annual improvements from IFRS

The annual improvement project includes several improvements to different standards. The project provides a vehicle for making non-urgent but necessary improvements to IFRSs. Changes apply for annual periods beginning on or after 1 January 2009. The annual improvements are not expected to have a major impact on the Group's financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The interpretation becomes effective 1 October 2009. It clarifies the accounting treatment in respect of net investment hedging. This include the fact that net investment hedging relates to differences in functional currency and not presentation currency, and hedging instruments may be held anywhere in the Group. It is not expected to have a material impact on the Group's financial statement.

NOTE 2. SEGMENT INFORMATION

DNO only has one business segment and is therefore not presenting any secondary reporting format.

The primary segment reporting format is determined to be based on geography as DNO's risks and rates of return are affected by the differences in these economic environments. Internal organizational structure, management structure and DNO's internal financial reporting system are organized by geography.

DNO's geographic segments consist of Northern Europe (NE), Yemen (YEM), Kurdistan region of Iraq (KUR) and Africa (AFR).

The segment Northern Europe (NE) includes operations in the UK. The operation in Norway was sold in 2007 (see note 9). The share of profit or loss from associated company is included in NE.

The segment Africa (AFR) includes both Equatorial Guinea and Mozambique, where DNO participates in one block in each country. Yemen (YEM) consists of Yemen (8 blocks) and Syria.

NOK mill Twelve months ended 31 December 2008	Note	NE	YEM	KUR	AFR	Total report. segm.	Unalloc. /elimin.	GROUP
Income statement information								
External sales	3	–	1,073.7	288.3	–	1,362.0	14.2	**1,376.2**
Inter-segment sales		–	22.7	29.9	0.3	53.0	(53.0)	**–**
Cost of goods sold	4	–	(579.8)	(165.3)	–	(745.1)	(0.3)	**(745.5)**
Gross profit		**–**	**516.6**	**152.9**	**0.3**	**669.8**	**(39.1)**	**630.7**
Other operating income		–	–	0.1	–	0.1	–	**0.1**
Tariffs and transportation		–	(33.2)	–	–	(33.2)	–	**(33.2)**
Administrative expenses	5	(6.6)	(0.6)	(3.5)	–	(10.8)	(22.6)	**(33.4)**
Other operating expenses	5	(0.6)	–	–	–	(0.7)	–	**(0.7)**
Impairment oil and gas assets	10, 26	–	(197.9)	–	–	(197.9)	–	**(197.9)**
Exploration cost expensed	6	(1.0)	(188.6)	(111.6)	(53.9)	(356.8)	–	**(356.8)**
Net gain/(loss) from sale of PP&E		–	–	–	–	–	(0.1)	**(0.1)**
Finance costs – net (excl. interest, gain/(loss) on sale of shares)		(708.6)	42.0	(6.5)	–	(673.2)	38.0	**(635.2)**
Segment result before disc. operations		**(716.8)**	**138.3**	**31.3**	**(55.3)**	**(602.6)**	**(23.9)**	**(626.4)**
Net profit discontinued operations	9	–	–	–	–	–	–	**–**
Segment result after disc. operations		**(716.8)**	**138.3**	**31.3**	**(55.3)**	**(602.6)**	**(23.9)**	**(626.4)**
Share of profit/(loss) from associates	11	83.3	–	–	–	83.3	–	**83.3**
Interest – net								**(155.7)**
Gain/(loss) on sale of shares								**9.0**
Income tax expense								**(214.0)**
Net profit/(loss)								**(903.9)**

NOTE 2. SEGMENT INFORMATION CONTINUED

NOK mill Twelve months ended 31 December 2008	Note	NE	YEM	KUR	AFR	Total report. segm.	Unalloc. /elimin.	GROUP
Balance sheet information								
Capital expenditures this period		–	373.3	874.9	(6.0)	1,242.1	1.8	**1,243.9**
Property, plant and equipment		0.6	628.7	2,422.6	65.7	3,117.5	2.0	**3,119.6**
Total segment assets (excl. tax assets, interest-bearing receivables)		**780.5**	**946.4**	**2,908.3**	**71.2**	**4,706.5**	**165.0**	**4,871.5**
Net assets, discontinued operations		–	–	–	–	–	–	**–**
Total segment assets including discontinued operations		780.5	946.4	2,908.3	71.2	4,706.5	165.0	**4,871.5**
Unallocated corporate assets								**264.0**
Consolidated total assets								**5,135.5**
Total segment liabilities (excl. tax liabilities, interest-bearing liabilities)		**2.4**	**176.3**	**311.5**	**5.1**	**495.2**	**235.1**	**730.3**
Unallocated corporate liabilities								**2,283.2**
Consolidated total liabilities								**3,013.5**
Other segment information								
Net entitlement production (mboe)		–	2,174.6	1,753.9	–	3,928.5	–	**3,928.5**
Sale of oil		–	1,073.7	288.3	–	1,362.0	–	**1,362.0**
Lifting cost		–	(247.4)	(54.3)	–	(301.7)	–	**(301.7)**
Lifting cost (USD/bbl)		–	(13.3)	(4.1)	–	(17.4)	–	**(9.5)**
Amortization and depreciation		–	(332.4)	(111.0)	–	(443.5)	(0.3)	**(443.8)**
Netback, including asset sale proceeds		(8.2)	230.7	148.8	(55.3)	316.0	(61.4)	**254.7**

NOK mill Twelve months ended 31 December 2007	Note	NE	YEM	KUR	AFR	Total report. segm.	Unalloc. /elimin.	GROUP
Income statement information								
External sales	3	–	1,154.4	165.5	–	1,319.9	–	**1,319.9**
Inter-segment sales		–	12.3	31.3	0.7	44.3	(44.3)	**–**
Cost of goods sold	4	–	(498.5)	(48.1)	–	(546.7)	(0.4)	**(547.1)**
Gross profit		**–**	**668.2**	**148.6**	**0.7**	**817.4**	**(44.6)**	**772.8**
Other operating income		–	–	–	–	–	–	**–**
Tariffs and transportation		–	(33.9)	–	–	(33.9)	–	**(33.9)**
Administrative expenses	5	(8.6)	3.4	–	–	(5.2)	24.3	**19.1**
Other operating expenses	5	(0.4)	0.9	(2.0)	–	(1.5)	(0.8)	**(2.3)**
Exploration cost expensed	6	(6.0)	(166.4)	(71.3)	(13.1)	(263.6)	–	**(263.6)**
Net gain/(loss) from sale of PP&E		–	–	–	–	–	–	**–**
Finance costs – net (excl. interest, gain/(loss) on sale of shares)		(2.4)	(6.5)	(1.7)	–	(10.6)	(56.6)	**(67.1)**
Segment result before disc. operations		**(17.3)**	**465.7**	**73.6**	**(12.4)**	**502.8**	**(77.7)**	**425.1**
Net profit discontinued operations/(loss)	9	915.2	–	–	–	915.2	–	**915.2**
Segment result after disc. operations		**897.9**	**465.7**	**73.6**	**(12.4)**	**1,418.0**	**(77.7)**	**1,340.3**
Share of profit/(loss) from associates	11	(5.3)	–	–	–	(5.3)	–	**(5.3)**
Interest – net								**(126.3)**
Gain/(loss) on sale of shares								**4.4**
Income tax expense								**(206.8)**
Net profit/(loss)								**1,006.3**

NOTE 2. SEGMENT INFORMATION CONTINUED

NOK mill Twelve months ended 31 December 2007	Note	NE	YEM	KUR	AFR	Total report. segm.	Unalloc. /elimin.	GROUP
Balance sheet information								
Capital expenditures this period		1.5	312.1	878.9	22.8	1,215.3	1.9	**1,217.2**
Property, plant and equipment		0.7	723.8	1,375.2	48.1	2,147.8	0.7	**2,148.4**
Total segment assets (excl. tax assets, interest-bearing receivables)		1,323.4	941.9	1,479.6	60.6	3,805.5	941.0	**4,746.4**
Net assets, discontinued operations		–	–	–	–	–	–	**–**
Total segment assets including discontinued operations		**1,323.4**	**941.9**	**1,479.6**	**60.6**	**3,805.5**	**941.0**	**4,746.4**
Unallocated corporate assets								**294.4**
Consolidated total assets								**5,040.8**
Total segment liabilities (excl. tax liabilities, interest-bearing liabilities)		**2.4**	**20.5**	**54.1**	**–**	**77.0**	**319.9**	**396.8**
Unallocated corporate liabilities								**2,219.3**
Consolidated total liabilities								**2,616.1**
Other segment information								
Net entitlement production (mboe)		–	2,894.1	1,031.3	–	3,925.4	–	**3,925.4**
Sale of oil		–	1,154.4	165.5	–	1,319.9	–	**1,319.9**
Lifting cost		–	(213.1)	(18.4)	–	(231.5)	–	**(231.5)**
Lifting cost (USD/bbl)		–	(8.8)	(3.0)	–	(11.8)	–	**(7.6)**
Amortization and depreciation		–	(285.3)	(28.7)	–	(313.9)	(1.7)	**(315.6)**
Netback, including asset sale proceeds		208.6	639.4	105.0	(19.2)	933.7	(20.7)	**689.5**

NOTE 3. SALES

NOK mill	Years ended 31 December 2008	2007
Sale of petroleum products	1,362.0	1,319.9
Other operating income*	14.2	–
Total sales	**1,376.2**	**1,319.9**

* Other operating income is related to final payment in connection with sales of UK assets in 2003/2004.

DNO presents its operations governed by PSAs according to the net entitlement method. For more information see accounting principles on revenue recognition.

Reconciliation sales – working interest/net entitlement

NOK mill	Years ended 31 December 2008	2007
Sale of petroleum products working interest	2,154.1	1,898.5
Government share of production before income tax payable	(792.1)	(578.7)
Sale of petroleum products net entitlement	**1,362.0**	**1,319.9**

NOTE 4. COST OF GOODS SOLD

NOK mill	Years ended 31 December 2008	2007
Lifting costs*	(301.7)	(231.5)
Depreciation, depletion and amortization	(443.8)	(315.6)
Other cost of goods sold	–	–
Total cost of goods sold	**(745.5)**	**(547.1)**

* Lifting costs consist of expenses relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurances, CO_2 taxes, royalties to the state and costs in own organization.

Spare parts at the Tawke field in Kurdistan are classified as inventory in 2008. For previous years these spare parts have been classified as other current assets due to insignificant amounts.

NOTE 5. ADMINISTRATIVE/OTHER EXPENSES

This note should be read in conjunction with note 25 on related parties.

NOK mill	Years ended 31 December 2008	2007
Salaries and social expenses*	(19.5)	(23.4)
General and administration expenses	(40.5)	(30.3)
Reclassification to exploration costs	26.6	72.9
Other operating expenses**	(0.7)	(2.3)
Total administrative/other expenses	**(34.0)**	**16.9**
Average man-year labour	32	10

* Salaries and social expenses directly attributable to operations are reclassified to lifting cost and exploration cost in the income statement.

** As part of the acquisition of Unocal's 31.25% share in the West Heather/Broom field in 1997, an agreement was entered into for the payment of royalties to Unocal according to certain criteria. The extent of the obligation to pay royalty is contingent on cumulative income exceeding cumulative expenditures on the Broom field. Total liability as of 31 December 2008 is NOK 20.1 million, of which NOK 9.4 million is classified as current. For more information on the royalty agreement, refer to note 19.

Specification of salaries and social expenses

NOK mill	Years ended 31 December 2008	2007
Salaries, bonuses, etc.	(44.4)	(24.5)
Employer's payroll tax expenses	(7.6)	(2.8)
Pensions	(3.0)	(1.0)
Other personnel costs	(3.4)	(2.4)
Reclassification of salaries and social expenses to lifting costs and exploration costs	39.0	7.2
Salaries and social expenses	**(19.5)**	**(23.4)**

Salaries and social expenses in 2007 include an ordinary bonus and a share-based bonus scheme. The total limit for the share-based bonus scheme was NOK 16.3 million, based on a minimum share price of NOK 15.60 as of 30 June 2008. The threshold for payments under this scheme was a share price of NOK 12.00. Estimated value recognised as of 31 December 2007 was NOK 1.3 million. Key management are included in the scheme. All other ordinary bonus payments will be deducted in a possible share-based bonus payment.

Salaries and social expenses in 2008 include an ordinary bonus and a share-based bonus scheme. The total limit for the share-based bonus scheme is NOK 16.3 million, based on a minimum share price of NOK 15.60 as of 30 June 2009. The threshold for payments under this scheme is a share price of NOK 12.00. Estimated value recognised as of 31 December 2008 is NOK 0.8 million. All employees are included in the scheme. All other ordinary bonus payments will be deducted in a possible share-based bonus payment.

Black & Scholes valuation model is used to determine the value of the option.

Pensions
DNO has a defined contribution scheme for employees in DNO International ASA (parent company). In 2008, a total of NOK 3.0 million was expensed under the scheme. The corresponding figure for 2007 was NOK 1.0 million. The Group's obligations are limited to the annual contributions.

DNO meets the Norwegian requirements for mandatory occupational pension ('obligatorisk tjenestepensjon').

Director and executive remuneration
Expensed remuneration to Board of Directors, Executive Chairman and Managing Director:

NOK mill	Years ended 31 December 2008	2007
Managing Director:		
Remuneration	4.17	3.37
Pension	0.05	0.05
Bonus	–	0.34
Other remuneration (including options exercised)	0.25	9.37
Total compensation paid to Managing Director	**4.47**	**13.12**
Other key management:		
Remuneration	10.49	7.33
Pension	0.21	0.12
Bonus	–	0.40
Other remuneration (including options exercised)*	5.63	4.73
Total compensation paid to other key management	**16.33**	**12.58**
Number of managers included	5	5
Executive Chairman:		
Consulting allowance to Increased Oil Recovery Ltd/AS	4.20	4.20
Total compensation to Increased Oil Recovery Ltd/AS	**4.20**	**4.20**
Board of Directors	1.31	0.93
Total director and executive remuneration	**26.31**	**30.83**

* Compensation to Roar Tessem, former Managing Director in NOIL Energy ASA, for 2007 is included in other remuneration as part of discontinued operations.

For further specifications of remuneration to key management, refer to note 3 in the Parent Company accounts.

The Managing Director is, depending on the circumstances, entitled to severance pay equivalent to two or three times annual salary.

Severance pay agreements (equal to one or two times annual salary) have also been entered into with the following executives in DNO International ASA: Magne Normann, Managing Director DNO Iraq AS, Ivar Brandvold, Chief Operating Officer, Tore Lilloe-Olsen, Corporate Head of Exploration and Haakon Sandborg, Chief Financial Officer.

The Executive Chairman has no bonuses, share options, nor severance pay agreement, and the consulting contract has a three-month termination period.

No loans have been granted and no guarantees have been issued for executives, shareholders or Directors of the Board.

NOTE 5. ADMINISTRATIVE/OTHER EXPENSES CONTINUED

Shares and Options held by Directors, executives and key management personnel as at 31 December 2008

Directors, executives and key management personnel	Shares	Options
Companies controlled by Berge G. Larsen, Executive Chairman	45,263,220	–
Trygve Bruvik, Non-executive Vice-Chairman	1,599,996	–
Elin Karfjell, Non-executive Director	–	–
Marit Instanes, Non-executive Director	18,288	–
Gunnar Hirsti, Non-executive Director	–	–
Helge Eide, Managing Director	1,600,000	–
Ivar Brandvold, Chief Operating Officer	–	–
Tore Lilloe-Olsen, Corporate Head of Exploration	51,000	–
Haakon Sandborg, Chief Financial Officer	–	–
Magne Normann, Managing Director DNO Iraq AS	1,621,996	–
Sven Erik Lie, Managing Director DNO Yemen AS	–	–
Total	**50,154,500**	**–**

For more information on options, see note 23.

Auditors' fees

NOK mill (excluding VAT)	2008	2007
Auditors' fees	2.45	2.29
Other financial auditing	0.10	0.45
Tax advisory services	0.08	0.47
Other advisory services	0.01	0.19
Total fees	**2.64**	**3.40**

NOTE 6. EXPLORATION EXPENSES

NOK mill	Years ended 31 December 2008	2007
Seismic acquisitions, analysis and general G&G	(195.7)	(143.0)
Exploration costs capitalized in previous years carried to cost	(7.6)	–
Exploration costs capitalized this year carried to cost	(150.7)	(95.6)
Impairment of capitalized exploration costs	–	–
Other exploration cost expensed	(2.9)	(25.0)
Total exploration cost expensed	**(356.8)**	**(263.6)**

Seismic studies have been performed in Yemen, in Kurdistan and in Mozambique in 2008. In addition, there have been field studies and geology work in all business segments.

Exploration costs expensed in 2008 include dry well costs related to Maleen #1, Suwehed #1 & #1S, Dahgah #1, Ghatel #1, Seer #1, Mesari #1, Wasaa #1 and Tasour #17S in Yemen, and Sangussi #1 in Mozambique.

NOTE 7. NET FINANCE

NOK mill	Years ended 31 December 2008	2007
Interest received	36.5	18.2
Other financial income	13.9	4.4
Interest expense	(194.8)	(174.8)
Capitalized interest	2.6	30.2
Exchange rate gain/(loss), realized items	3.6	1.3
Exchange rate gain/(loss), unrealized items	114.1	(46.1)
Fair value gain/(loss) on financial instruments – net[1]	38.9	(11.4)
Share of profit/loss from associates	83.3	(5.3)
Impairment of financial assets	(765.4)	–
Other financial expenses	(31.3)	(10.9)
Net finance	**(698.7)**	**(194.4)**

[1] Fair value gain/(loss) on financial instruments – net

NOK mill	Years ended 31 December 2008	2007
Interest rate derivatives	23.6	(5.7)
Oil price derivatives	19.0	(6.8)
Foreign exchange derivatives	–	–
Other derivative financial instruments	–	–
Other financial assets at fair value through profit or loss	(3.8)	1.1
Fair value gain/(loss) on financial instruments, net	**38.9**	**(11.4)**

Capitalized interest in 2008 is related to development projects in Equatorial Guinea.

The increase in interest expense is mainly due to higher interest-bearing, long-term liabilities.

Impairment of financial assets relates to the investment in associate and available-for-sale shares. For further details on impairment of financial assets, see note 26.

NOTE 8. TAXES

Income tax expense

NOK mill	Years ended 31 December 2008	2007
Deferred taxes	(48.5)	(64.7)
Income taxes payable related to production sharing agreements (PSAs)	(165.5)	(142.0)
Total income tax expense	**(214.0)**	**(206.8)**

Reconciliation of the year's income tax

NOK mill	Years ended 31 December 2008	2007
Profit/(loss) before income tax	**(689.9)**	**297.8**
Expected income tax according to nominal tax rate (28%)	174.9	(85.1)
Taxes paid in kind under PSAs exceeding 28%	(73.3)	(47.4)
Adjustment of previous years	–	–
Adjustment of deferred tax assets not recorded	(97.9)	(44.1)
Impairment financial assets, non-deductible for tax purpose	(214.3)	–
Non-deductible expenses/non–taxable income	(6.9)	5.1
Other items	3.4	(35.2)
Total income taxes	**(214.0)**	**(206.8)**
Effective income tax rate	(31.0%)	69.4%
Taxes charged to equity	–	–

Temporary differences relate to the following items:

NOK mill Tax effect of temporary differences	2008	2007
Other current items	–	2.0
Tangible assets	10.8	(13.6)
Other fixed items (receivables, abandonment, etc.)	49.9	18.6
Losses carried forward	294.8	296.7
Total	**355.6**	**303.7**
Deferred tax asset allowance	(260.3)	(162.4)
Total deferred taxes	95.2	141.3
Capitalized deferred tax assets	256.0	294.4
Capitalized deferred tax liabilities	(160.8)	(153.1)

For taxes payable related to production sharing agreements (PSAs), refer to note 1 accounting principles.

The tax loss carry forward of NOK 294.8 million as of year end is significantly influenced by historical hedging losses related to oil price contracts in the Parent Company. The unused tax losses can be carried forward indefinitely under Norwegian tax rules. The subsidiary DNO UK Ltd has a tax loss carry forward of £10 million.

Deferred tax and deferred tax assets are offset within the same tax regime only if the use of group contribution is available.

The deferred tax asset is recognised based on identified and available tax planning opportunities. In addition to utilisation of group contribution in future years, this includes possible sale of assets, if considered feasible and favorable. The anticipated market values of the assets in question have been indicated by external parties.

A write-down of deferred tax asset related to cost oil carry forward on Block 43 in Yemen made in 2008. This deferred tax asset has previously been offset against deferred tax. The write-down has increased deferred tax by approximately NOK 60 million.

NOTE 9. DISCONTINUED OPERATIONS

In October 2007, DNO announced that it had entered into an Integration Agreement to combine its subsidiary NOIL Energy ASA and Pertra ASA, creating the second largest Norwegian oil company on the Norwegian Continental Shelf. On 8 November 2007, the agreement was approved by the General Meeting in all three companies. The combination was structured as an exchange offer, where DNO swapped its shares in NOIL Energy ASA with shares in Pertra ASA. Following the transaction, DNO held 36.9% of the shares in Pertra ASA (renamed Det norske oljeselskap ASA).

See note 11 for financial information regarding the investment in Det norske oljeselskap ASA.

Booked values of the subsidiary in Group accounts at the date of disposal were:

NOK mill	8 Nov 2007
Assets	
Non-current assets	447.3
Current assets	833.6
Total assets	**1,280.9**
Equity and liabilities	
Equity	616.4
Non-current liabilities	256.8
Current liabilities	407.7
Total equity and liabilities	**1,280.9**
Cash from initial sale of shares, prior to transaction	662.4
– sales costs	(32.4)
– cash sold (in subsidiary)	(170.5)
Net cash inflow	**459.5**

NOK mill	Years ended 31 December 2008	2007
Net profit from discontinued operations[1]	–	44.4
Net gain/(loss) from sale of operations[2]	–	870.8
Net profit from discontinued operations	**–**	**915.2**

(1) Net profit from discontinued operations in 2007 is specified in the following table:

NOK mill	Years ended 31 December 2008	2007
Sales	–	104.4
Cost of goods sold	–	(69.6)
Gross profit	**–**	**34.8**
Other operating income	–	18.2
Tariffs and transportation	–	(0.4)
Administrative expenses	–	(17.0)
Other operating expenses	–	(3.7)
Exploration cost expensed	–	(204.6)
Net gain/(loss) from sale of PP&E	–	93.4
Profit/(loss) from operating activities	**–**	**(79.3)**
Net finance	–	(9.5)
Profit/(loss) before income tax	**–**	**(88.8)**
Income tax expense	–	133.2
Net profit/(loss) from discontinued operations	**–**	**44.4**
Earnings per share, basic	–	1.04
Earnings per share, diluted	–	1.04

(2) Net gain/(loss) from sale of operations:

NOK mill	Value	Total	SIC 13	Corrected value
23,800,000 shares received in Pertra ASA	80	1,904.0	(761.1)	1,142.9
– booked value in Group accounts (excl. minority share)		(379.2)	151.6	(227.6)
– sales costs		(10.9)	–	(10.9)
– translation differences through profit or loss		(56.0)	22.4	(33.6)
Net gain from sale of operations		**1,458.0**	**(587.2)**	**870.8**

DNO had an indirect shareholding in the divested subsidiary through its investment in Det norske oljeselskap ASA. The SIC 13 correction was made based on the transfer of a 'non-monetary asset' where the gain only related to the part going out of the Group. The part remaining in Group (equity method) was not recognised in profit or loss, but allocated to the investment in the balance sheet.

NOTE 10. PROPERTY, PLANT AND EQUIPMENT/INTANGIBLE ASSETS

Depreciation is charged to cost of goods sold in the income statement.

Property, plant and equipment

NOK mill	Develop. assets	Asset in operatn.	Total oil & gas prop.	Other PP&E	Total
At 1 January 2008					
Cost	48.1	2,902.3	2,950.4	14.5	2,964.9
Accumulated depreciation	–	(807.7)	(807.7)	(8.7)	(816.5)
Net book amount	**48.1**	**2,094.6**	**2,142.7**	**5.8**	**2,148.4**
Period ended 31 December 2008					
Opening net book amount	48.1	2,094.6	2,142.7	5.8	2,148.4
Exchange differences	14.1	734.3	748.5	1.1	749.6
Additions	3.4	838.3	841.7	2.8	844.5
Transfers	–	14.8	14.8	–	14.8
Disposals	–	–	–	(0.2)	(0.2)
Impairment	–	(193.7)	(193.7)	–	(193.7)
Depreciation charge	–	(442.1)	(442.1)	(1.8)	(443.9)
Closing net book amount	**65.6**	**3,046.2**	**3,111.8**	**7.7**	**3,119.6**
At 31 December 2008					
Cost	65.6	4,844.1	4,909.7	20.0	4,929.7
Accumulated impairment	–	(193.7)	(193.7)	–	(193.7)
Accumulated depreciation	–	(1,604.2)	(1,604.2)	(12.3)	(1,616.5)
Net book amount	**65.6**	**3,046.2**	**3,111.8**	**7.7**	**3,119.6**

Intangible assets

NOK mill	License interest	Explor. assets	Total
At 1 January 2008			
Cost	23.5	60.8	84.3
Accumulated depreciation	–	–	–
Net book amount	**23.5**	**60.8**	**84.3**
Period ended 31 December 2008			
Opening net book amount	23.5	60.8	84.3
Exchange differences	10.2	110.8	121.0
Additions	41.6	367.4	409.0
Transfers	–	(14.8)	(14.8)
Disposals	–	–	–
Impairment	(4.2)	–	(4.2)
Depreciation charge	–	–	–
Closing net book amount	**71.2**	**524.2**	**595.3**
At 31 December 2008			
Cost	76.4	524.2	600.5
Accumulated impairment	(4.2)	–	(4.2)
Accumulated depreciation	(1.0)	–	(1.0)
Net book amount	**71.2**	**524.2**	**595.3**

NOTE 10. PROPERTY, PLANT AND EQUIPMENT/INTANGIBLE ASSETS CONTINUED

Property, plant and equipment

NOK mill	Develop. assets	Asset in operatn.	Total oil & gas prop.	Other PP&E	Total
At 1 January 2007					
Cost	740.2	1,683.7	2,423.9	15.4	2,439.3
Accumulated depreciation	–	(871.5)	(871.5)	(8.6)	(880.0)
Net book amount	**740.2**	**812.2**	**1,552.5**	**6.8**	**1,559.3**
Period ended 31 December 2007					
Opening net book amount	740.2	812.2	1,552.5	6.8	1,559.3
Exchange differences	(132.2)	(144.2)	(276.4)	(1.0)	(277.4)
Additions	481.1	781.2	1,262.3	4.5	1,266.8
Transfers	(1,041.1)	1,107.3	66.2	–	66.2
Disposals	–	(122.5)	(122.5)	(2.5)	(124.9)
Depreciation charge	–	(339.6)	(339.6)	(2.0)	(341.6)
Closing net book amount	**48.1**	**2,094.6**	**2,142.6**	**5.8**	**2,148.4**
Discontinued depreciation	–	(13.0)	(13.0)	(0.5)	(13.5)
At 31 December 2007					
Cost	48.1	2,902.3	2,950.4	14.5	2,964.9
Accumulated depreciation	–	(807.7)	(807.7)	(8.7)	(816.4)
Net book amount	**48.1**	**2,094.6**	**2,142.7**	**5.8**	**2,148.4**

Intangible assets

NOK mill	License interest	Explor. assets	Total
At 1 January 2007			
Cost	79.6	242.6	322.3
Accumulated depreciation	–	–	–
Net book amount	**79.6**	**242.6**	**322.3**
Period ended 31 December 2007			
Opening net book amount	79.6	242.6	322.3
Exchange differences	(10.7)	(32.7)	(43.5)
Additions	9.9	200.8	210.7
Transfers	(8.6)	(57.6	(66.2)
Disposals	(46.7)	(292.3)	(338.9)
Depreciation charge	–	–	–
Closing net book amount	**23.5**	**60.8**	**84.3**
Discontinued depreciation	–	–	–
At 31 December 2007			
Cost	23.5	60.8	84.3
Accumulated depreciation	–	–	–
Net book amount	**23.5**	**60.8**	**84.3**

NOTE 10. PROPERTY, PLANT AND EQUIPMENT/INTANGIBLE ASSETS CONTINUED

Impairment testing
All assets have been reviewed for impairment as of 31 December 2008. The impairment test compares booked values to values in use. Value in use is calculated as net present value (before tax).

The test includes the following parameters: forward oil price, remaining reserves, future capital expenditures and lifting costs. Impairment charges on assets in operations (Block 43 in Yemen) and on license interest in Syria have been recorded in 2008 and relate to the YEM segment. For further information on impairment assessments, see note 26.

Capitalized interest
Interest costs on borrowings to finance the construction of property, plant and equipment in the development phase are capitalized.

Capitalized interest for 2008 of NOK 2.6 million relates to development projects in Equatorial Guinea. The corresponding figure for 2007 was NOK 30.2 million, and was related to development in Kurdistan.

The capitalization of interest in Kurdistan ceased on 30 June 2007 as the Tawke field then entered into the test production phase.

NOTE 11. INVESTMENT IN ASSOCIATE

The Group has, from 13 November 2007, a 36.9% interest in Det norske oljeselskap ASA, which is a Norwegian independent E&P company. Det norske oljeselskap ASA is listed on the Oslo Stock Exchange and has its business office in Trondheim. The headquarter functions are divided between Trondheim and Oslo.

As of 31 December 2008, DNO holds a total of 23,967,500 shares in Det norske oljeselskap. The market value of Det norske oljeselskap as of 31 December 2008 was NOK 29.10 per share, indicating a market value of the investment as of 31 December 2008 of NOK 697.5 million. The investment has been impaired with NOK 707 million to reflect the significant decline in value since the acquisition in 2007. For further information on impairment, see note 26.

DNO has, according to the integration agreement, reduced its ownership interest to 25% in January 2009.

Excess values at the acquisition date are allocated to oil and gas fields.

The following table illustrates summarized financial information of the Group's investment in Det norske oljeselskap ASA:

Share of associate's balance sheet:

NOK mill	Years ended 31 December 2008	2007
Current assets	922.4	538.6
Non-current assets	1,006.8	1,833.8
Current liabilities	(156.4)	(220.3)
Non-current liabilities	(385.3)	(844.4)
Net assets	**1,387.5**	**1,307.7**

Share of associate's revenue and profit:

NOK mill	Years ended 31 December 2008	2007
Revenue	234.4	10.3
Profit/(loss)	83.3	(5.3)
Impairment of the investment	707.3	–
Carrying amount of the investment	**697.5**	**1,324.9**

Share of associate's contingent liabilities:

	0 to 12 months	1 to 5 years	Over 5 years	Total
Lease commitments rig contracts	351.7	693.1	–	1,044.8
Lease commitments through license interests	20.2	60.7	–	80.9
Lease commitments offices	7.8	102.8	57.5	168.1
Total	**379.7**	**856.6**	**57.5**	**1,293.8**

NOTE 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are revalued at fair value (market price, where available) at the end of each period, with changes charged directly to equity. Impairment will be charged to the income statement, while reversal of impairment will be charged directly to equity.

NOK mill	Years ended 31 December 2008	2007
Beginning of the period	165.0	192.1
Additions	–	–
Sales/Reclassifications	(15.4)	(31.3)
Revaluation surplus/deficit transfer to equity	(54.7)	4.3
Impairment	(58.1)	–
Exchange differences	–	(0.2)
End of the period[1]	**36.8**	**165.0**
Non-current portion	**36.8**	**165.0**
Current portion	**–**	**–**

Sales in 2007 relate to sale of shares in IOT ASA and Premier Oil plc. Sales in 2008 relate to sale of shares in Petrolia Drilling ASA and Rocksource ASA.

The shares in Petrolia Drilling and Rocksource have been impaired in 2008 and previously fair value changes to equity have been reversed through profit or loss.

For further information on impairment, see note 26.

[1] Available-for-sale financial assets include the following:

NOK mill	Years ended 31 December 2008	2007
Listed securities:		
– Petrolia Drilling ASA	12.7	59.0
– Rocksource ASA	24.1	106.0
[1] Total available-for-sale financial assets	**36.8**	**165.0**

NOTE 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview
The Group is exposed to a variety of risks from its use of financial instruments, including oil price risk, liquidity risk, currency risk, interest rate risk and credit risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

Risk management is carried out by a central treasury function (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas.

The Audit Committee, established at the beginning of 2008, oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Oil price risk
Oil price fluctuations may have considerable impact on the Group's earnings.

DNO enters into crude oil derivative contracts to reduce the volatility of the Group's cash flows associated with anticipated sales of oil.

DNO's main oil price hedging policy is to use hedging instruments (preferably put options) to meet strategic goals and to support execution of annual business plans, by focusing on securing defined cash flow levels through use of such instruments.

DNO has entered into a put option for 2010 with a strike price of USD 40. At 31 December 2008, the market value of the put option was NOK 20.2 million.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping both committed and uncommitted credit lines available.

The tables below summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows.

NOK mill At 31 December 2008	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	–	54.5	2,052.6	–	2,107.1
Other liabilities	–	–	128.9	–	128.9
Income taxes payable	–	7.3	–	–	7.3
Trade and other payables	388.9	–	–	–	388.9
					2,632.2

NOK mill At 31 December 2007	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	–	50,0	348,8	1,627.6	2,026.4
Other liabilities	–	–	16.3	–	16.3
Income taxes payable	–	39.7	–	–	39.7
Trade and other payables	104,6	–	–	–	104.6
					2,187.0

Currency risk
DNO's corporate commercial revenues are earned in USD. The corporate operational costs are in USD, NOK and EUR. The currency risk of the USD costs is neutralized by the USD income. Corporate currency risk is related to the share of non-USD cash flow.

Trading in currency instruments is for hedging purposes only, to hedge underlying risk exposure linked to the Group's commercial activities.

The commercial risk exposure shall be hedged at the time the exposure becomes known.

The following table demonstrates the sensitivity to a reasonable possible change in the USD exchange rate, with all other variables held constant, of the Group's profit before tax and equity.

	Increase/decrease in USD rate	Effect on profit before tax (NOK mill)	Effect on equity (NOK mill)
2008	+/- 10%	+/- 31.9	+/- 0.0
2007	+/- 10%	+/- 5.7	+/- 0.0

Interest rate risk
The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The main objective for interest rate risk hedging is to minimise exposure to variability of cash flows arising from changes in interest rates. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps and vice versa.

Interest rate fixing is considered for large investments that have significant impact on the size of net liabilities. Factors such as the expected duration of the investment, its projected cash flow and DNO's ability to withstand interest rate fluctuations following the new investment will determine whether the interest rate should be fixed in such cases. Lenders may also require interest rate hedging.

DNO has one interest swap agreement for the period 2007/2012. Under the agreement, DNO is receiving a floating interest rate of 7.215% and is paying a fixed interest.

As hedge accounting is not used for the interest swap, changes in the fair value is recognised into earnings. As of 31 December 2008, the market value of the interest swap was NOK 8 million.

For 2007 DNO had two other interest swap agreements for the period 2003/2009. In February 2008, DNO paid USD 54,000 to terminate these agreements.

At 31 December 2008, DNO has three long-term bond loans that mature in 2009 and 2012, with fixed interest rates of 7.9%, 7.215% and 6.445% respectively. The loan maturing in 2009 has been classified as short-term liability in the balance sheet.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	Increase/decrease in basis points	Effect on profit before tax (NOK mill)	Effect on equity (NOK mill)*
2008	+/- 100	+-/18.5	+/- 0.0
2007	+/- 100	+-/17.9	+/- 14.8

* Adjusted for capitalized interest.

Credit risk
The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are only made to customers with an appropriate credit history. The Group has one customer in Yemen and one customer in Iraq. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. The Group has no historic losses on customers.

NOTE 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Market risk investments
DNO is exposed to market risk on investments which are primarily classified as available-for-sale. Adjustments to fair value are recognised in equity until the investment is sold.

The Group's financial investments are all within the oil and gas sector.

Political risk
DNO's worldwide operations are subject to different levels of political risk. DNO seek to mitigate this risk through balancing the asset portfolio.

A federal oil and gas law in Iraq is yet to be established, but in 2007 the new Oil and Gas Law for the Kurdistan region of Iraq was endorsed by the Regional Parliament. DNO's PSCs were reviewed in March 2008 to bring them into conformity with the Oil and Gas Law of the Kurdistan Region of Iraq and KRG's standard commercial terms. This review resulted in three PSCs instead of the previous two PSCs. In September 2008, some amendments were made to the PSCs, extending the Tawke PSC to include a part of the West Dohuk structure, and pre-relinquishment of parts of the Dohuk PSC.

It is the opinion of DNO that the potential risks associated to our PSCs in the Kurdistan Region of Iraq and future export of oil are at an acceptable level.

Capital management
The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

DNO monitors capital on the basis of its book equity ratio. This ratio is calculated as book equity divided by total assets. It is the Group's policy that this ratio be 30% or higher. As of 31 December 2008, the book equity ratio was 41% (2007: 48%). The higher book equity ratio for 2007 is mainly due to the sale of shares in the Norwegian subsidiary NOIL Energy ASA in the fourth quarter of 2007.

NOK mill	31 December 2008	2007
Total equity	2,122.0	2,424.7
Total assets	5,135.5	5,040.8
Book equity ratio	**41.3%**	**48.1%**

Financial instruments

Set out below is a comparison by category for carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements. The following estimated fair values have been determined by the Group, using appropriate market information or accepted valuation methodologies. The carrying amount of bank deposits and current interest-bearing liabilities are a reasonable estimate for their fair values. DNO's bond loans are listed on the Oslo Stock Exchange. The fair values of the bond loans are based on market quotations for these loans.

		31 December 2008		31 December 2007	
NOK mill	Notes	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Bank deposits	16	176.1	176.1	691.7	691.7
Derivative financial instruments (current)	13, 14	8.0	8.0	–	–
Derivative financial instruments (non-current)	13, 14	20.2	20.2	0.9	0.9
Other financial assets at fair value through P&L	16	1.1	1.1	68.2	68.2
Available-for-sale investments	12	36.8	36.8	165.0	165.0
Investment in associate	11	697.5	697.5	1,324.9	1,917.4
Other financial assets (current)	15	174.1	174.1	263.0	263.0
		1,113.8	**1,113.8**	**2,513.7**	**3,106.2**
Financial liabilities					
Current interest-bearing liabilities	18	54.5	54.5	50.0	50.0
Derivative financial instruments	14	–	–	15.4	15.4
Interest-bearing liabilities (non-current)	18	2,052.6	1,976.2	1,976.4	1,905.6
		2,107.1	**2,030.7**	**2,041.8**	**1,971.0**

NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS

NOK mill	Years ended 31 December 2008	2007
Non-current assets:		
– Oil price swaps/options	20.2	0.8
– Interest–rate swaps*	–	0.1
– Other derivative financial instruments	–	–
Total non–current assets	**20.2**	**0.9**
Current assets:		
– Oil price swaps/options	–	–
– Interest-rate swaps	8.0	–
– Other derivative financial instruments	–	–
Total current assets	**8.0**	**–**
Total assets	**28.2**	**0.9**
Current liabilities:		
– Oil price swaps/options	–	–
– Interest-rate swaps*	–	15.4
Total current liabilities	–	15.4
Total liabilities	**–**	**15.4**

* DNO holds one interest-rate swap (IRS) with a principal amount of NOK 300 million, maturing on 12 October 2012. The fixed rate is 7.215%. This IRS is classified as held-to-maturity as it is closely related and has the same maturity as the loan. Changes in fair value of the IRS during 2008 was NOK 23.6 million, recognised as financial income. For 2007, DNO had two other interest swap agreements for the period 2003-2009. In February 2008, DNO paid USD 54,000 to terminate these agreements.

Recognised amounts for derivative financial instruments equal the fair value.

NOTE 15. TRADE AND OTHER RECEIVABLES

Current assets

NOK mill	Years ended 31 December 2008	2007
Trade receivables	74.4	99.4
Less: provisions for impairment of receivables	–	(1.9)
Trade receivables – net	74.4	97.5
Prepayments	6.5	3.8
Underlift, entitlement method	13.9	9.0
VAT receivable	3.4	3.3
Tax refund on exploration costs*	–	(2.6)
Other short-term receivables**	75.9	151.9
Total trade and other receivables	**174.1**	**263.0**

* Tax refund on exploration costs relates to the Norwegian activities which were divested in 2007.

** Included in other short-term receivables is working capital related to the participation in oil and gas licenses.

As of 31 December, the ageing analysis of trade receivables is as follows:

NOK mill	TOTAL	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	60-90 days	>120 days
2008	74,4	–	74,4	–	–	–
2007	99,4	–	99,4	–	–	–

Trade receivables are non-interest bearing and are generally on 0-30 days terms.

NOTE 16. CASH, CASH EQUIVALENTS AND OTHER SHORT-TERM FINANCIAL ASSETS

NOK mill	Years ended 31 December 2008	2007
Cash and cash equivalents, non-restricted	91.2	688.8
Cash and cash equivalents, restricted	84.9	2.9
Total cash and cash equivalents	**176.1**	**691.7**

Included in restricted cash at 31 December 2008 is a margin call amount of NOK 80 million deposited with ABG Sundal Collier. The margin call is related to an option on treasury shares.

Cash held in currency

NOK mill	31/12/2008 Amount in currency	Amount in NOK	31/12/2007 Amount in currency	Amount in NOK
NOK	302.9	302.9	847.3	847.3
EUR	(0.4)	(3.8)	–	–
USD	(17.3)	(121.1)	(28.9)	(156.1)
GBP	(0.2)	(1.9)	–	0.5
Total cash and cash equivalents		**176.1**		**691.7**

The negative cash balance in USD for 2008 and 2007 is not classified as a liability as DNO has a group bank accounts system.

Money market funds
DNO has placed surplus liquidity in Norwegian money market funds with an investment profile based on short-term interest certificates.

Money market funds were transferred back to cash in 2008.

Shares held-for-trading
Through a demerger from Rocksource ASA in May 2006, DNO acquired shares in Nordic Mining ASA. The value of the shares at the time of the demerger was NOK 7.3 million.

NOK mill	Currency	Amount	Years ended 31 December 2008	2007
Money market funds				
Storebrand Likviditet	NOK	50.0	–	53.3
Larvikbanken, time deposit	NOK	10.0	–	10.0
Shares held-for-trading				
Nordic Mining ASA			1.1	4.9
Other financial assets at fair value through profit or loss			**1.1**	**68.2**

NOTE 17. EQUITY

Share capital

2007 – NOK mill	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2007	904,856	226.2	(5.9)	220.3
Share option scheme:				
– value of services provided	–	–	–	–
– proceeds from shares issued	–	–	–	–
Treasury shares purchased/sold	–	–	1.2	1.2
Share issues	–	–	–	–
At 31 December 2007	**904,856**	**226.2**	**(4.7)**	**221.5**

2008 – NOK mill	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2008	904,856	226.2	(4.7)	221.5
Share option scheme:				
– value of services provided	–	–	–	–
– proceeds from shares issued	–	–	–	–
Treasury shares purchased/sold	–	–	3.7	–
Share issues	–	–	–	–
At 31 December 2008	**904,856**	**226.2**	**(1.0)**	**225.2**

The total number of Ordinary Shares is 904,856,912 shares with a par value of NOK 0.25 per share. All issued shares are fully paid.

All shares have equal voting and dividend rights.

See note 23 on share options and share-based payments.

The Board of Directors has been authorised by the Annual General Meeting to increase the Company's share capital by up to NOK 20,000,000 by issuing up to 80,000,000 shares with a face value of NOK 0.25, at a price and other subscription terms to be stipulated by the Board. The authorisation also covers a capital increase against contributions in kind, including in connection with mergers, and was given for two years from the date of the general meeting.

NOTE 17. EQUITY CONTINUED

The Company's Board of Directors has been authorised by the Annual General Meeting to buy treasury shares within the framework of the Norwegian Public Limited Companies Act.

At 31 December 2008, the Company held 4,000,000 treasury shares. In addition, DNO International ASA holds 16,000,000 call options on treasury shares with the expiry date 13 January 2009 and a strike price of NOK 2.00, and 40,000,000 call options on treasury shares with the expiry date 26 February 2009 and a strike price of NOK 4.00. DNO International ASA has also written 40,000,000 put options on treasury shares with the expiry date 26 February 2009 and a strike price of NOK 4.00.

Purchases and sales of treasury shares are made when the Board of Directors regard the transaction to be favorable for the shareholders.

Other reserves

	Share premium/ other paid-in capital	Available-for-sale investm.	Other reserves	Trans-lation	Total
Balance at 1 January 2007	**1,196.2**	**50.6**	**(1,088.9)**	**(157.8)**	**–**
Revaluation, net of tax	–	–	–	–	–
Premium, paid-in capital	–	–	–	–	–
Treasury shares:					
– Sale of treasury shares	(44.8)	–	894.8	–	850.0
– Purchase of treasury shares	–	–	(814.5)	–	(814.5)
Other paid-in capital	–	–	–	–	–
Options granted	–	–	–	–	–
Derivative contracts treasury shares	–	–	(32.1)	–	(32.1)
Dividends	–	–	–	–	–
Cash flow hedges:					
– Fair value gains/(losses), net of tax	–	–	–	–	–
– Transfers to net profit, net of tax	–	–	–	–	–
Currency translation differences:					
– Group	–	–	–	–	–
– Associates	–	–	–	–	–
Transferred to retained earnings	–	–	(3.4)	–	(3.4)
Balance at 31 December 2007	**1,151.4**	**50.6**	**(1,044.1)**	**(157.8)**	**–**

Other reserves

	Share premium/ other paid-in capital	Available-for-sale investm.	Other reserves	Trans-lation	Total
Balance at 1 January 2008	**1,151.4**	**50.6**	**(1,044.1)**	**(157.8)**	**–**
Revaluation, net of tax	–	(50.6)	–	–	–
Correction opening balance	(9.3)	–	9.3	–	–
Premium paid-in capital	–	–	–	–	–
Treasury shares:					
– Sale of treasury shares	(345.3)	–	1,092.9	–	747.6
– Purchase of treasury shares	–	–	(930.5)	–	(930.5)
Other paid-in capital	–	–	–	–	–
Options Board members	–	–	–	–	–
Derivative contracts treasury shares[1]	–	–	225.5	–	225.5
Dividends	–	–	–	–	–
Cash flow hedges:					
– Fair value gains/(losses), net of tax	–	–	–	–	–
– Transfers to net profit, net of tax	–	–	–	–	–
Currency translation differences:					
– Group	–	–	–	–	–
– Associates	–	–	–	–	–
Transferred to retained earnings	–	–	–	–	–
Balance at 31 December 2008	**796.8**	**–**	**(596.3)**	**(157.8)**	**42.6**

[1] Changes in derivative contracts treasury shares:

Premium, purchase of call option	(216.6)
Reclassification of premium call options exercised	394.5
Reversal of provision, written put options not exercised	193.6
Provision, written put option	(146.0)
Reclassification of settled forward contracts	–
Additional forward contracts purchased	–
Total changes in derivative contracts treasury shares	**225.5**

NOTE 17. EQUITY CONTINUED

Retained earnings

	Retained earnings
Balance at 1 January 2007	**504.2**
Profit for the period	1,006.3
Equity effect of disposal of subsidiary	858.1
Available-for-sale investments, revaluation net of tax	4.1
Currency translation differences group	(172.9)
Transferred from other reserves	3.4
Balance at 31 December 2007	**2,203.2**
Balance at 1 January 2008	**2,203.2**
Profit for the period	(903.9)
Available-for-sale investments, revaluation net of tax	(54.7)
Currency translation differences group	609.6
Transferred from other reserves	–
Balance at 31 December 2008	**1,854.2**

The Company's shareholders at 31 December 2008	Shares	% interest
KAS Depository Trust Company	49,758,861	5.52%
Larsen Oil & Gas AS*	45,263,220	5.02%
HSBC Bank plc	43,873,960	4.87%
JP Morgan Chase Bank, nominee account	37,059,544	4.11%
JP Morgan Casenove	23,213,600	2.58%
ABG Sundal Collier Norge ASA	21,000,000	2.33%
Clearstream Banking SA	18,465,050	2.05%
Deutsche Bank AG London	18,360,000	2.04%
Corleone II AS	17,500,000	1.94%
JP Morgan Chase Bank, nominee account	11,193,213	1.24%
Goldman Sachs & Co – Equity	10,001,666	1.11%
EGD Holding AS	10,000,000	1.11%
DnB NOR Luxembourg SA	9,900,000	1.10%
DnB NOR Bank ASA	9,248,567	1.03%
Svenska Handelsbanken Stockholm	8,436,493	0.94%
Morgan Stanley & Co Intl Plc	8,038,700	0.89%
Nordea Bank Denmark AS	7,548,311	0.84%
Six Sis AG 25 PCT	7,313,229	0.81%
Bank of New York, nominee account	6,946,432	0.77%
Other Shareholders	537,736,066	59.69%
Total number of shares excluding treasury shares	**900,856,912**	**100.0%**
Treasury shares at 31 December 2008	4,000,000	
Total number of shares including treasury shares	**904,856,912**	

* Company controlled by Berge G. Larsen, Executive Chairman.

NOTE 18. INTEREST-BEARING LIABILITIES

NOK mill	Years ended 31 December 2008	2007
Non-current		
Convertible loans	–	–
Bonds	2,052.6	1,976.4
Liabilities to financial institutions	–	–
Mortgage loans	–	–
Total non-current interest-bearing liabilities	**2,052.6**	**1,976.4**
Current		
Current portion of bonds	54.5	–
Liabilities to financial institutions	–	50.0
Total current interest-bearing liabilities	**54.5**	**50.0**
Total interest-bearing liabilities	**2,107.1**	**2,026.4**

On 19 January 2007, DNO funded a NOK 300 million drawdown under the bond loan facility DNO07.

On 30 November 2007, DNO signed a new loan agreement for an amount of NOK 50 million with a floating interest. The loan matured on 28 November 2008.

On 8 December 2008, DNO made an exchange of parts of the loans DNO06, DNO07 and DNO08 from NOK to USD. Three new bond loans were issued with the same loan structure as DNO06, DNO07 and DNO08, but with USD currency and a corresponding additional margin of 0.5%. The change of currency were made for foreign exchange risk management purposes.

There is one covenant related to the different bond loans, which requires that net interest-bearing debt should not exceed three times the booked equity. At 31 December 2008, DNO satisfied all loan agreement requirements.

DNO has had one finance leasing agreement related to a central production facility (CPF) in Yemen. The leasing period was 18 months, ending 31 March 2007. The discount rate used was 7%.

Interest-bearing bonds:

NOK mill	Ticker OSE	Currency	Amount	Interest	Maturity	Effective interest rate 2008	Fair value 2008	Fair value 2007	Carrying amount 2008	Carrying amount 2007
Non-current interest-bearing bonds:										
Bond loan (ISIN NO0010226574)	DNO03	NOK	25.5	NIBOR + 3.5%	01/06/09	9.85%	26.4	26.3	25.5	25.5
Bond loan (ISIN NO0010226582)	DNO04	NOK	29.0	Fixed 7.9%	01/06/09	8.02%	30.1	29.0	29.0	29.0
Bond loan (ISIN NO0010270523)	DNO05	USD	85.0	LIBOR + 3.5%	06/06/12	6.75%	523.5	446.6	594.9	459.9
Bond loan (ISIN NO0010283732)	DNO07	NOK	177.0	Fixed 7.215%	12/10/12	7.32%	149.1	557.0	177.0	615.5
Bond loan (ISIN NO0010283724)	DNO06	NOK	286.0	NIBOR + 3.5%	12/10/12	10.00%	256.7	579.9	286.0	580.0
Bond loan (ISIN NO0010302649)	DNO08	NOK	51.0	NIBOR + 2.5%	02/03/11	8.90%	46.7	300.3	51.0	300.0
Bond loan (ISIN NO0010478027)	DNO12	USD	41.8	LIBOR + 4.0%	12/10/12	–	292.6	–	292.6	–
Bond loan (ISIN NO0010478019)	DNO11	USD	62.4	Fixed 6.445%	12/10/12	–	436.7	–	436.7	–
Bond loan (ISIN NO0010478001)	DNO10	USD	35.6	LIBOR + 3.0%	02/03/11	–	249.2	–	249.2	–
Borrowing issue costs							(34.7)	(33.5)	(34.7)	(33.5)
Total interest-bearing bonds							**1,976.2**	**1,905.6**	**2,107.1**	**1,976.4**

There are no commitments related to further drawdown on the bond loans.

The maturity of interest-bearing liabilities is as follows:

NOK mill	Years ended 31 December 2008	Years ended 31 December 2007
0-12 months	54.5	50.0
Between 1 and 2 years	–	54.5
Between 2 and 5 years	2,052.6	294.3
Over 5 years	–	1,627.6
Total interest-bearing liabilities	**2,107.1**	**2,026.4**

NOTE 18. INTEREST-BEARING LIABILITIES CONTINUED

The carrying amounts of the Group's interest-bearing liabilities are denominated in the following currencies:

NOK mill	Years ended 31 December 2008	2007
NOK	559.8	1,574.9
USD	1,547.3	451.5
Total interest-bearing liabilities	**2,107.1**	**2,026.4**

NOTE 19. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

NOK mill	Years ended 31 December 2008	2007
Non-current		
Asset retirement obligations*	14.9	2.1
Other long-term obligations**	114.0	14.2
Total non-current provisions for other liabilities and charges	**128.9**	**16.3**
Current		
Provisions, derivative contracts treasury shares***	158.0	197.2
Other provisions and charges	62.5	63.3
Total current provisions for other liabilities and charges	**220.5**	**260.6**
Total provisions for other liabilities and charges	**349.4**	**276.9**

* Asset retirement obligations (AROs) are related to future well closure, decommissioning and removal expenditures for oil installations. The obligations are imposed and defined by national and international legal requirements.

The asset retirement obligation for 2007 relates to the removal of wellhead in UK. The figure for 2008 also includes decommissioning at the Tawke field in Kurdistan.

No significant removal costs are expected to accrue in connection with the on-shore activity in Yemen. In accordance with the production sharing agreements, the production facilities and the operating equipment will be transferred to the authorities when the fields are no longer commercial.

** Royalty obligation to Unocal in connection with the acquisition of its 31.25% share of the West Heather/Broom field in 1997. The extent of the obligation is contingent on cumulative income exceeding cumulative expenditures at the Broom field. The total liability was originally estimated at USD 9.9 million, but is pending on future production performance of the field and development in oil prices. The liability expires in 2011 independent of the life of the field. After royalty payments of NOK 7.9 million made in 2008, the provision at year end is NOK 20.1 million, of which NOK 9.4 million is classified as current liabilities as this relates to estimated payments for 2009. The provision is based on forecasted production levels for the Broom field. The highest rate of royalty (USD 1.10 per boe) has been assumed in the calculations, implying an expected future oil price above 30 USD/bbl.

Provision for production bonus on the Tawke field of NOK 103 million is also included in Other long-term obligations.

NOK mill	Asset retirem. oblig.	Other non-current	Prov. treasury shares	Other current	Total
Balance at 1 January 2007	**17.4**	**23.6**	**198.2**	**139.4**	**378.6**
Charged to consolidated income statement:					
– Additional provisions	51.8	–	3.6	29.5	85.0
– Unused amounts reversed or reclassified	(67.2)	–	(2.4)	–	(69.6)
Charged to equity:					
– Additional provisions	–	–	193.6	–	193.6
– Unused amounts reversed	–	–	(195.8)	–	(195.8)
– Contracts exercised	–	–	–	–	–
Exchange differences	–	–	–	–	–
Incurred and charged against the provision during the period	–	(9.3)	–	(105.6)	(114.9)
Balance at 31 December 2007	**2.1**	**14.2**	**197.2**	**63.3**	**276.9**
Charged to consolidated income statement:					
– Additional provisions	12.8	–	4.0	(0.8)	16.0
– Unused amounts reversed or reclassified	–	–	(3.6)	–	(3.6)
Charged to equity:					
– Additional provisions	–	–	154.0	–	154.0
– Unused amounts reversed	–	–	(193.6)	–	(193.6)
– Contracts exercised	–	–	–	–	–
Exchange differences	–	–	–	–	–
Incurred and charged against the provision during the period	–	99.7	–	–	99.7
Balance at 31 December 2008	**14.9**	**114.0**	**158.0**	**62.5**	**349.4**

Forward contracts and written put options are recognised as liabilities with a corresponding adjustment to equity. Option premiums are recognised as equity.

*** Provisions treasury shares (NOK mill):	
Forward contracts, treasury shares	–
Written put options, treasury shares	158.0
Total provisions treasury shares	**158.0**

NOTE 20. COMMITMENTS AND CONTINGENCIES

a) Lease obligations
DNO rents the premises at Stranden 1, Aker Brygge. The annual rent is NOK 3.6 million and the agreement expires 30 June 2014.

b) Legal disputes
Following the review of DNO's PSCs in Kurdistan in March 2008, DNO is involved in arbitration proceedings related to third party assignments. A formal award, if any, may only be completed in 1-2 years. However, DNO does not consider the claims to be justified and thereby not likely to become payable. No provision has thereby been made in the financial accounts for 2008.

c) Contractual obligations/license commitments
The Group has the following obligations relating to its interests in own and partner-operated oil and gas fields:

Contractual obligations/license commitments (NOK mill)	2009
Drilling and exploration	100.0
Field development	135.0
Total contractual obligations/license commitments related to future investments	**235.0**

d) Guarantees at 31 December 2008

NOK mill	Continued	Discontinued	Total
Parent Company guarantees to external parties on behalf of companies in the Group	–	–	–
Other Parent Company guarantees to external parties	–	–	–
Other guarantees to external parties	0.9	–	0.9
Total guarantees	**0.9**	**–**	**0.9**

In addition to the above mentioned guarantees, Parent Company guarantees have been issued to the Kurdistan Regional Government and the Ministry of Oil and Minerals Yemen for PSA obligations. The Parent Company guarantees that it shall make available to the subsidiaries DNO Yemen AS and DNO Iraq AS the financial and technical resources necessary for them to fulfill their obligations according to the PSAs.

e) Liability for damages/insurance
The Group's operations involves risk for damages, including pollution. Installations and operations are covered by an operations insurance policy.

f) Other
Tax audit
The Parent Company is subject to an ongoing tax audit by the Norwegian IRS for the period 1996-2004. The Board expects no material effects from the audit.

Water purification project – Kurdistan
As an incentive for all parties to produce and sell oil internationally, DNO has in the Tawke PSC license agreed to support a water purification project for the Dohuk governorate with USD 150 million which will be payable in monthly installments based on production and achieved oil price. The payments are contingent on defined monthly gross revenue levels and will be fully recovered through cost oil. As of 31 December 2008, no provision has been made in the financial accounts.

Production bonuses
According to the PSCs for the Dohuk and the Erbil licenses, a production bonus is payable based on different levels of production. As no decision for development on these two licenses has been made yet, no provision has been recorded for this potential liability. When the licenses enter the development phase, the production bonuses will be provided for and capitalized and depreciated together with other assets, using the unit of production method.

Asset retirement obligation – Kurdistan
According to the PSC for the Tawke field, DNO has a commitment for future decommissioning and site restoration at the end of the license period. The obligation is estimated to USD 10 million (undiscounted).

NOTE 21. TRADE AND OTHER PAYABLES

NOK mill	Years ended 31 December 2008	2007
Trade creditors	6.1	26.9
Public duties payable	5.7	3.0
Prepayment from customers	1.3	–
Other accrued expenses*	375.8	74.6
Overlift, entitlement method	–	–
Total trade and other payables	**388.9**	**104.6**

* Included in Other accrued expenses is working capital related to participation in oil and gas licenses.

Terms and conditions of the above financial liabilities:
Trade payables are non-Interest-bearing and are normally settled on 30 to 60 day terms.

Other payables are non-Interest-bearing and have an average term of one to two months.

NOTE 22. EARNINGS PER SHARE

NOK	Years ended 31 December 2008	2007
Net profit attributable to ordinary equity holders of the parent	(903.9)	1,006.3
Weighted average number of ordinary shares (excluding treasury shares)	885.9	883.8
Effect of dilution:		
Options	–	–
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	885.9	883.8
Earnings per share, basic	**(1.02)**	**1.14**
Earnings per share, diluted	**(1.02)**	**1.14**
Earnings per share, basic for continuing operations	**(1.02)**	**0.10**
Earnings per share, diluted for continuing operations	**(1.02)**	**0.10**

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

NOTE 23. SHARE OPTIONS AND SHARE-BASED PAYMENTS

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

	2008		2007	
	Avg exercise price	Options (1000)*	Avg exercise price	Options (1000)*
At 1 January	–	–	5.9	4,800.0
Granted	–	–	–	–
Forfeited	–	–	–	–
Exercised	–	–	5.9	(4,800.0)
Lapsed	–	–	–	–
At 31 December	**–**	**–**	**–**	**–**

A total of 1.2 million ordinary share options were granted to Board members at the General Assembly in June, 2005, of which all are exercisable. The exercise price of the granted options is equal to the market price of the shares on the date of the grant (22 June 2005). The options expired 21 June 2007. The options are settled in equity.

In addition, a share-based bonus scheme exists. Refer to note 5 for further information.

The fair value of the options granted to the Board has been determined using the Black-Scholes valuation model. The significant inputs in the model were share price at the grant date (adjusted for split and dividend), exercise price of NOK 24.41, risk-free interest rate 2.50%, and expected exercise after 18 months. Volatility is based on historic volatility. Since the options granted had no vesting conditions, the fair value of the options granted, estimated to total NOK 5.7 million, were booked in full to equity in 2005 with a corresponding entry to the income statement. No options have been granted in 2007 or 2008.

NOTE 24. GROUP COMPANIES

NOK mill	Business address	Ownership and voting interest (in %)	Share capital
DNO Yemen AS	Oslo	100.0	291.0
DNO UK Ltd	London	100.0	–
DNO Invest AS	Oslo	100.0	2.0
DNO Iraq AS	Oslo	100.0	0.6

NOTE 25. RELATED PARTY DISCLOSURE

The following table provides details of the Group's related party transactions in 2008. See also note 5 on remuneration.

Related party (NOK mill)	Transaction	Years ended 31 December 2008	2007
Increased Oil Recovery Ltd	Business development sub-lease of DNO apartment (terminated)	–	0.2
	Business development sub-lease of DNO London office	1.0	1.0
Increased Oil Recovery AS/Ltd	Project consulting agreement	4.2	4.2
Kver AS	Bergen office – rent/administration agreement	4.6	1.7
Other	Consulting services	–	0.8
	Coverage of legal costs of tax audit	3.7	3.4
		13.4	**11.3**

Description of transactions with related parties:
Increased Oil Recovery AS (IOR AS) – Related party
At 31 December 2008, Berge G. Larsen indirectly holds a 28% ownership interest in Increased Oil Recovery AS, and 49% is owned by a closely related party to Berge G. Larsen. DNO has a consultancy agreement with IOR AS, which states that IOR AS has a consulting agreement with IOR Ltd.

IOR Ltd has a part-time employment agreement with Berge G. Larsen.

Through this series of agreements, IOR Ltd/AS provides DNO with business development project consulting services. For 2007 and 2008, the fees have been accrued, but not paid for.

In 1996, IOR AS transferred free of charge the strategy of a new type of oil company to DNO on the condition that if the strategy proved successful, IOR AS would be compensated. The strategy proved successful and in 2002 the Board offered 3 million option shares, well below market price, which the General Meeting the same year cancelled by a group trying to take control over DNO. No other compensation has so far been paid.

NOTE 25. RELATED PARTY DISCLOSURE CONTINUED

Kver AS – Closely related party
Berge G. Larsen indirectly owns 51% of Kver AS. DNO has entered into an administrative agreement with the company. Under the agreement, DNO is required to pay office lease, ICT expenses and secretarial and travel expenses in Bergen. The 2008 figure includes office rent for fourth quarter 2007 and price regulations for the period 2006-2007.

Increased Oil Recovery Ltd (IOR Ltd) – Related party
Berge G. Larsen is part-time employed by Increased Oil Recovery Ltd (IOR Ltd) and holds an indirect ownership of 32% in the company.

Sub-lease of the DNO London office is paid through IOR Ltd. IOR Ltd receives a 5% handling fee for administration of the office agreement. The sub-lease agreement has been terminated in 2009.

Dove Energy Inc – Network party
Berge G. Larsen indirectly owns a minority interest in Independent Oilfield Rentals (IOR) Ltd, which owns Dove Energy Inc. Dove is operator of Block 53 in Yemen and was operator of Block 6 in Syria where DNO was a partner.

Other
Bjørge Gretland, previous member of the Board, received for 2007 an annual payment of NOK 0.8 million for financing, restructuring and other services provided to DNO International ASA and its subsidiaries. No consulting services have been performed in 2008.

Coverage of legal costs of tax audit relates to costs incurred by DNO, DNO companies and companies associated with key personnel in DNO. A final settlement will be made when the audit is closed. DNO has claimed Skatt Vest for reimbursement of incurred legal costs due to breach of confidentiality of the tax legislation.

In addition to the above mentioned transactions, there are also transactions between group companies.

Overhead expenses in the Parent Company, DNO International ASA, are allocated to the subsidiaries based on how much they have used the services provided by the Parent Company.

Licenses have been sold from the Parent Company DNO International ASA to the subsidiary DNO Yemen AS at market prices.

NOTE 26. IMPAIRMENT ASSESSMENTS

2008 has been a turbulent year, both in the capital markets and in the commodity markets. The downturn in the global economy has impacted the oil prices and the value of listed shares and oil and gas assets.

DNO has performed impairment tests for its assets at year-end 2008, according to IAS 36 Impairment of Assets. IAS 36.9 requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If such indications exists, the recoverable amount of the asset shall be estimated. The financial crisis is such an indicator.

The shareholding in the associated company, Det norske oljeselskap ASA, is accounted for using the equity method. DNO's share of profit or loss from the company is presented as financial income or financial expense, with a corresponding adjustment of the carrying value of the investment in the balance sheet. The investment is assessed for impairment each quarter. According to IAS 39.61, a prolonged or significant decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. Fair value of Det norske oljeselskap ASA is the share price on the Oslo Stock Exchange. The market share price as of 31 December 2008 was NOK 29.10 per share, significantly below DNO's cost price of NOK 55 per share. The investment has been impaired with NOK 707 million (net NOK 621 million) in the fourth quarter, adjusting the carried value of the investment to fair value as of 31 December 2008 (NOK 697.5 million). Due to the impairment situation, the share of profit from the associated company has increased the gross impairment loss, but is presented as financial income.

The shares in Petrolia Drilling ASA and Rocksource ASA are classified as available-for-sale, with changes in fair value recorded directly in equity. In line with DNO's accounting principles, an impairment loss will be recorded when there has been a significant or prolonged decline in fair value. Fair value of these shares is the share price on the Oslo Stock Exchange. A decline in the share price of Petrolia Drilling ASA has led to an impairment loss of NOK 48 million for 2008. An impairment loss of NOK 10 million related to the shares in Rocksource ASA has also been recorded. The fair value changes previously recorded in equity are reversed through profit or loss when accounting for impairment.

A possible future reversal of these impairment losses is taken through equity.

Oil and gas assets have been assessed for impairment as of 31 December 2008. Booked values of the oil and gas assets has been compared to use values calculated as the net present value (before tax) of the assets. DNO has defined field level as the lowest level where separate cash flows can be identified. Field level is thereby the aggregation level for depreciation purposes, and also when assessing impairment. Net present value per field is calculated by discounting the future cash flows and comparing them to the booked value. The following assumptions have been used in calculating net present value; the oil price is based on the forward curve for BRENT as of 31 December 2008, adjusted for any discounts in oil quality applicable to each field. The discount rate used is based on DNO's WACC (Weighted Average Cost of Capital) of 12.1% (2007: 11.7%) which is used both for the assets in Yemen and Kurdistan. The higher risk in Kurdistan is reflected through lower estimated future cash flows. Based on these assumptions, Block 43 (Nabrajah field) and Syria had net present values below booked values. An impairment charge of respectively NOK 194 million and NOK 4 million has been recorded in 2008 related to these assets.

DNO International ASA has unused tax losses which can be carried forward indefinitely under Norwegian tax rules. At year-end 2008, an evaluation of the Group's total tax positions has led to a non-cash write-down of the deferred tax asset of NOK 77 million, recorded as tax expense.

NOTE 27. SIGNIFICANT TRANSACTIONS IN 2008 AND EVENTS AFTER THE BALANCE SHEET DATE

SIGNIFICANT TRANSACTIONS IN 2008

Amendments to Production Sharing Contracts (PSC) in Kurdistan region of Iraq

In accordance with the local Petroleum Law approved by the Kurdish Parliament, the PSCs held by DNO were reviewed by a committee appointed for such purposes. This review was finalized in March 2008, and resulted in three PSCs as follows:

	Tawke PSC	Dohuk PSC	Erbil PSC
Working interest	55%	40%	40%
Paying interest	75%	60%	60%
Royalty	10%	10%	10%

The purpose of the amendments was to bring the PSCs into conformity with the Oil and Gas Law of the Kurdistan Region of Iraq and the standard commercial terms published by KRG.

In September 2008, the Tawke PSC contract area was extended to include an area to the west of The Tawke Field including the West Dohuk Structure, increasing DNO's working interest in this structure by 15% to 55%. In return for this extension of the Tawke PSC contract area, DNO pre-relinquished most of the Dohuk area, except for the Summail Prospect and the Summail Extension area in the southern part of the current Dohuk contract area. In addition, all Petroleum Costs incurred within the Dohuk area to date will be recovered from the Tawke production. This was estimated to be in the range of USD 40 million.

New discoveries

A total of four new discoveries were made in 2008; three in Yemen and one in Kurdistan. Three discoveries were made on Block 47, all in complex structural settings. In Kurdistan, the Benenan discovery was made in the Erbil PSC.

Completion of the Tawke Phase 1 development

During 2008, DNO completed the Tawke Phase 1 development and commenced the remaining work to prepare for full-scale production from the field.

In the fourth quarter, the required activities to connect the Tawke pipeline to the northern pipeline system operated by the North Oil Company (NOC), were initiated as authorised by the KRG. This work also included a compatibility study of the Tawke oil for comparison with other crude oil qualities currently being transported through the pipeline system.

NOTE 27. SIGNIFICANT TRANSACTIONS IN 2008 AND EVENTS AFTER THE BALANCE SHEET DATE CONTINUED

Initiated permanent development of the Bayoot field
Development of permanent process and export facilities at the Bayoot area was initiated in 2008, with targeted completion ultimo 2009. The project includes oil being piped to the Sharyoof field for export, where the gas will be used both at the Sharyoof field and Bayoot area for power generation at the well heads.

Exchange of currency on bond loans
In December 2008, DNO made an exchange of parts of the bond loans DNO06, DNO07 and DNO08 from NOK to USD. Three new bond loans were issued with the same loans structure as the mentioned loans, but in USD and with an additional margin of 0.5%. The exchange was made for foreign exchange risk management purposes in order to reduce foreign exchange risk exposure. Following the exchange, 75% of DNO's bond loans are in USD.

Reserve assessment UK – P1067
DNO completed an interpretation of the license potential based on re-evaluation of well 211/22-2 data in 2008. Based on a full re-evaluation of available log and core data, as well as correlation with neighboring wells, the well was considered to be a discovery of a 20m oil column within the Brent Group. This was identified as the Mulle discovery, estimated to contain gross recoverable reserves between 4 mmboe (low) and 36 mmboe (high), with a mid case of 17mmboe within the P1067 license. The license group was awarded Block 211/27d in the 25th Seaward Licensing Round, located immediately adjacent to Block 211/22b, and hosts a mapped southern extension of the Mulle discovery. The focus is now on maturing the discovery further including a possible appraisal well.

Sale of treasury shares
In October, DNO sold all of its treasury shares, providing the Company with approximately NOK 170 million in cash. At year end DNO holds 56 million options on treasury shares with maturity in 2009 and 4 million treasury shares.

Impairment charges
DNO assessed its assets for impairment at year end as required by IFRS. This resulted in non-cash impairments related to the investment in the associated company Det norske oljeselskap ASA, oil and gas assets in Yemen and Syria, available-for-sale investments and a deferred tax asset. For further details on impairment, see note 26.

Temporary halt in test production in Kurdistan
In July 2008, the KRG temporarily put on hold all the production for the local market in the Kurdistan region, to enable the local authorities to review the licensing, compliances and uniformity of procedures applied to the small topping plant owners in order to regulate the manner that crude oil was supplied to them. This also included crude oil pricing issues and the quality of the products generated by the topping plants. During the temporary halt in test production, DNO installed pressure gauges for recording of updated static pressure information across the field. The test production resumed in September.

EVENTS AFTER THE BALANCE SHEET DATE

Ongoing exploration drilling
Raoq #1 exploration well in Block 53 was spudded on 1 October 2008. The main objective of this well was to explore the resource potential on a Basement structure to the south of the Bayoot area. Oil was confirmed during the clean-up test of the wells. The forward plan is to acidize the well and resume testing.

Sale of shares in Det norske oljeselskap ASA
On 7 January 2009, DNO sold 11.9% of its shares in the associated company Det norske oljeselskap ASA. The sale was according to the integration agreement from October 2007. Following the sale DNO holds 25% of the shares in Det norske oljeselskap ASA. The transaction provided NOK 250 million in cash.

Assignment of license interests – Kurdistan
On 31 March 2009, the Kurdistan Regional Government ('KRG'), DNO International ASA and other parties signed an agreement concerning assignment of working interests in the Tawke, Dohuk and Erbil licenses in Kurdistan. Under the agreement, the KRG reduced its working interest position in the Tawke license from 45% to 20% by assignment of 25% working interest in the license to new third party license partners. The KRG also reduced its working interest position in the Dohuk and Erbil licenses from 60% to 20% by assignment of 40% working interest in each license to new third party license partners.

Under the assignment agreement, DNO's paying interest in the Tawke license is reduced from 100% to 75% and its paying interest in the Dohuk and Erbil licenses is reduced from 100% to 60%. As part of the assignment agreement, DNO will receive approximately USD 11 million from the new license partners in refund of its capital expenditures on the Dohuk and Erbil licenses in 2008. This amount, together with refunds applicable to capital expenditures in the first quarter 2009, is due for payment to DNO in the second quarter 2009.

NOTE 28. DIVIDENDS PAID AND PROPOSED

Ordinary distribution of dividend
No ordinary dividend has been distributed in 2008.

Extraordinary distribution of dividend
No extraordinary dividend has been distributed in 2008.

Proposed dividends
No dividends have been proposed for 2008.

NOTE 29. WORKING INTEREST PROVEN AND PROBABLE RESERVES AND RESOURCES* AFTER ROYALTY (UNAUDITED)

	NORTHERN EUROPE		YEMEN		KURDISTAN		AFRICA		DNO GROUP		
Mill boe	reserves	resources	reserves	resources	reserves	resources	reserves	resources	reserves	resources	Total
1 January 2007	**1.1**	**62.1**	**23.7**	**4.4**	**55.0**	**3.6**	**–**	**1.3**	**79.7**	**71.4**	**151.2**
Discoveries, additions and extensions	–	–	–	–	88.4	(3.6)	–	–	88.4	(3.6)	84.8
Acquisition of reserves/resources	–	–	–	–	–	–	–	–	–	–	–
Divestment of reserves/resources	(1.1)	(62.1)	–	–	–	–	–	–	(1.1)	(62.1)	(63.2)
Divestment of reserves	–	–	(10.0)	(0.9)	–	–	–	0.2	(10.0)	(0.7)	(10.7)
Other	–	–	–	–	–	–	–	–	–	–	–
Year 2007 production	–	–	(4.2)	–	(1.0)	–	–	–	(5.3)	–	(5.3)
31 December 2007	**–**	**–**	**9.5**	**3.5**	**142.3**	**–**	**–**	**1.5**	**151.8**	**5.0**	**156.8**
Discoveries, additions and extensions	–	–	–	1.8	–	1.1	–	–	–	3.0	3.0
Acquisition of reserves/resources	–	–	–	–	–	–	–	–	–	–	–
Divestment of reserves/resources	–	–	–	–	–	–	–	–	–	–	–
Revision of previous estimates	–	10.0	3.4	(2.2)	13.1	–	–	–	16.5	7.8	24.3
Other	–	–	–	–		–	–	–	–	–	–
Year 2008 production	–	–	(3.4)	–	(2.3)	–	–	–	(5.7)	–	(5.7)
31 December 2008	**–**	**10.0**	**9.5**	**3.1**	**153.2**	**1.1**	**–**	**1.5**	**162.6**	**15.8**	**178.4**
Associated reserves and resources 31 December 2008	11.1	29.0							11.1	29.0	40.1
Total reserves and resources 31 December 2008	**11.1**	**39.1**	**9.5**	**3.1**	**153.2**	**1.1**	**–**	**1.5**	**173.7**	**44.8**	**218.5**

* Reserves according to Annual Statement of Reserves released 31 March 2009, classification as in Norwegian Petroleum Directorate class 1-3. Resources corresponds to class 4, 5 and 7 in NPD definitions. The figures represent best estimate (P50 base case).

As discussed above in the accounting principles, estimation of oil and gas reserves and resources involves uncertainty. The figures above represent management's opinion of what is the most likely quantity of oil and gas that will be recovered from the fields, given the information at year-end 2008. The estimates have a large spread especially in fields where we have limited data. The uncertainty will be reduced as more information becomes available through production history and reservoir information. In addition, for fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a large impact on the profitability and hence the economic cut-off time for production from the fields.

At the Mulle field in UK, a re-evaluation of discovery well 211/22-2 during 2008 resulted in revised interpretation of the reserve potential. In Yemen, a discovery was made in the Sharnah #1 well in Block 47. Revision of previous estimates relate to producing fields in Yemen, where reserve estimates have increased for Nabrajah field in Block 43 and Bayoot in Block 53, while Hekma in Block 53 (class 7) estimates have been reduced based on new data for this area.

NOTE 29. WORKING INTEREST PROVEN AND PROBABLE RESERVES AND RESOURCES* AFTER ROYALTY (UNAUDITED) CONTINUED

For the Tawke PSC in Kurdistan region of Iraq, the revision relates to an increased share of carried interest (20% versus 13.75% at 31 December 2007), and the DNO share (paying interest) after carried interest is thereby increased to 75% (68.75% in last year's report).

Associated reserves and resources represent DNO's shareholdings in Det norske oljeselskap ASA (DETNOR). The reported reserves and resources in Det norske was as of 31 December 2008 a total of 108.6 million barrels of oil equivalents, and DNO's ownership share was 36.9% (40.1 million barrels).

Working interest share in Yemen and Kurdistan region of Iraq includes DNO's share of cost oil resulting from carried interests.

The production includes diesel volumes used as fuel.

The following table reflects DNO's net entitlement (after royalty) proven and probable reserves**

Mill boe	NORTHERN EUROPE reserves	YEMEN reserves	KURDISTAN reserves	AFRICA reserves	DNO GROUP reserves
31 December 2007	–	5.8	49.5	–	55.3
31 December 2008	**–**	**6.2**	**57.6**	**–**	**63.8**

Net entitlement reserves in Yemen and Kurdistan region of Iraq are based on economic evaluations of the Production Sharing Contracts and include a volume related to the notional tax paid on behalf of the contractors by the government.

** Reserves according to NPD class 1-3 only. Associated reserves from shareholdings in Det norske oljeselskap ASA have not been included.

PROFIT AND LOSS STATEMENTS

1 JANUARY – 31 DECEMBER

NOK 1,000	Note	2008	2007
Operating revenues			
Other operating revenues	2	74,638	2,348,050
Total operating revenues		**74,638**	**2,348,050**
Operating expenses			
Exploration expenses		65,941	71,225
Ordinary depreciation	7	352	410
Impairments	7	4,762	–
Payroll and payroll-related expenses	3	42,497	24,193
Other operating expenses	4	43,617	28,008
Total operating expenses		**157,168**	**123,836**
OPERATING PROFIT/(LOSS)		**(82,530)**	**2,224,214**
Net other financial items	5	(1,260,541)	(69,694)
PROFIT/(LOSS) BEFORE TAXES		**(1,343,071)**	**2,154,520**
Income taxes	6	–	–
ANNUAL PROFIT/(LOSS)		**(1,343,071)**	**2,154,520**
Transferred from/to other equity		(1,343,071)	2,154,520
Total allocations		**(1,343,071)**	**2,154,520**
Earnings per share, basic	20	(1.48)	2.38
Earnings per share, diluted	20	(1.48)	2.38

BALANCE SHEETS

AS AT 1 JANUARY – 31 DECEMBER

Assets NOK 1,000	Note	Per 31 December 2008	2007
Fixed assets			
Intangible assets			
Deferred tax assets	6	250,000	250,000
Total intangible assets		**250,000**	**250,000**
Tangible assets			
Oil and gas fields		67,291	82,759
Other tangible assets		2,125	808
Total tangible assets	7	**69,416**	**83,567**
Financial assets			
Shares in subsidiaries	8	1,014,116	1,014,116
Investment in associates	8	697,454	1,917,358
Intercompany receivables	21	2,423,920	1,369,503
Other investments		11	11
Total financial assets		**4,135,502**	**4,300,988**
Total fixed assets		**4,454,918**	**4,634,555**
Current assets			
Inventories, trade and other receivables	9	11,425	24,608
Money market funds	19	–	63,322
Derivative financial instruments	15	11,614	814
Cash and cash equivalents, non-restricted	10	54,875	681,544
Cash and cash equivalents, restricted	10	84,970	2,865
Total current assets		**162,884**	**773,153**
Total assets		**4,617,802**	**5,407,708**

Shareholders' equity and liabilities NOK 1,000	Note	Per 31 December 2008	2007
Shareholders' equity			
Paid-in capital			
Share capital		226,214	226,214
Treasury shares		(1,000)	(4,718)
Share premium account		32,456	32,456
Other paid-in capital		181,172	178,225
Total paid-in capital		**438,842**	**432,176**
Retained earnings			
Retained earnings		1,352,784	2,695,856
Total retained earnings		**1,352,784**	**2,695,856**
Total shareholders' equity	11	**1,791,626**	**3,128,032**
Liabilities			
Provisions for liabilities and charges			
Other liabilities and charges	12	20,145	21,688
Total provision for liabilities and charges		**20,145**	**21,688**
Other long-term liabilities			
Long-term interest-bearing intercompany debt	21	603,925	130,586
Bond loan	13	2,052,637	1,976,448
Total other long-term liabilities		**2,656,562**	**2,107,034**
Current liabilities			
Interest-bearing short-term debt	13	54,500	50,000
Non-interest-bearing short-term debt	14	94,969	100,955
Total current liabilities		**149,469**	**150,955**
Total liabilities		**2,826,175**	**2,279,676**
Total liabilities and shareholders' equity		**4,617,802**	**5,407,708**
Collateral	13		
Guarantees	12		
Financial instruments	15		

Oslo, 31 March 2009

Berge G. Larsen
Chairman of the Board

Gunnar Hirsti
Board Member

Elin Karfjell
Board Member

Marit Instanes
Board Member

Trygve Bruvik
Vice Chairman

Helge Eide
Managing Director

CASH FLOW STATEMENTS

1 JANUARY – 31 DECEMBER

NOK 1,000	Note	2008	2007
Operating activities			
Profit before tax		(1,343,071)	2,154,520
Taxes paid	6	–	–
Depreciation and impairment of tangible and intangible assets	7	5,114	410
Impairment of financial assets	8	1,355,092	–
(Gain)/loss on sale of operating assets and securities		(55,493)	(2,340,479)
Changes in net current assets and other accruals		(162,513)	110,001
Net cash flow from operating activities		**(200,872)**	**(75,548)**
Investing activities			
Proceeds from sale of subsidiaries		–	629,979
Acquisition of subsidiaries	8	–	(500,000)
Payments made for investments in oil and gas field	7	(12,438)	(34,263)
Payments received on disposal of tangible fixed assets		30	–
Payments made for acquisitions of bonds, securities, stocks and shares		–	(10,000)
Payments received on disposal of bonds, securities, stocks and shares		62,401	(11)
Net cash flow from other investments and sales		(318,355)	201,205
Net cash flow from investing activities		**(268,362)**	**286,910**
Financing activities			
New interest-bearing debt	13	–	300,000
Repayment of interest-bearing debt	13	(50,000)	–
Purchase of treasury shares and options	11	(1,445,120)	(1,721,588)
Sale of treasury shares and options	11	1,451,785	1,725,290
Net cash flow from financing activities		**(43,335)**	**303,702**
Effects of change in currency (cash and cash equivalents)		**(31,995)**	**(49,183)**
Cash and cash equivalents 1 January		684,409	219,779
Net change in cash and cash equivalents		(544,563)	464,630
Cash and cash equivalents 31 December	10	**139,845**	**684,409**
Hereof restricted cash and cash equivalents		84,970	2,865

NOTES TO THE ACCOUNTS

NOTE 1. ACCOUNTING PRINCIPLES

General
The financial statements are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles. The accompanying notes are an integral part of the financial statements.

Use of estimates
The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Functional currency
The financial statements are presented in Norwegian Kroner (NOK), which is the functional and presentation currency of the Company.

Consolidated financial statements
The consolidated financial statements of the DNO Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been presented separately from the Parent Company accounts.

Investments in subsidiaries and associated companies
Investments in subsidiaries and associated companies are recorded at historical cost.

If expected discounted future cash flow from the investment is lower than the carrying value of the investment, an impairment charge is recorded and a new cost basis of the investment is established.

Valuation and classification of balance sheet items
Assets and liabilities linked to the flow of goods are classified as current assets and current liabilities. Receivables and liabilities not relating to the flow of goods are classified as current assets or current liabilities if they are short-term, that is normally due within one year. Shares and investments not intended for permanent ownership are classified as current assets.

Other assets are classified as fixed assets and other liabilities as long-term liabilities.

Shares, bonds, certificates, etc
Shares, bonds, certificates, etc classified as current assets are valued at the lower of their historical cost and market value. Other shares classified as fixed assets are valued at their cost price and written down in the case of permanent and significant decline in value. Money market funds are valued at fair value.

Cash and cash equivalents
Cash and cash equivalents include cash and highly liquid investments with insignificant interest rate risk and with original maturities of three months or less.

Property, plant and equipment
Property, plant and equipment are carried at cost less accumulated depreciation and impairment charges. Capital lease assets are recorded at the present value of future lease obligations or fair value if lower.

Capitalized costs for oil and gas properties are depreciated using the unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period to proved and probable developed reserves. In addition to capitalized cost, estimated future investments that have been considered in the calculation of the Company's reserves are added to the basis for depreciation. For capitalized acquisition costs the rate is equal to the ratio of oil and gas production for the period to proved and probable reserves.

The Company records impairment provisions when the book value of oil and gas fields, or other assets where separate cash flows can be identified, exceeds discounted future expected cash flows. The impairment amount is the difference between the book value and the fair value of the asset. Capitalized costs relating to production are depreciated under the unit-of-production method.

Liabilities relating to the acquisition of license interests for which the Company has entered into long-term bank financing agreements, are classified as long-term liabilities.

Amortization of capital lease assets is included in 'Depreciation, depletion and amortization'.

Machinery and equipment is depreciated using the straight-line method based on estimated useful life. Estimated useful life varies between three to five years for these assets.

NOTE 1. ACCOUNTING PRINCIPLES CONTINUED

Exploration and development costs for oil and gas properties
The Company employs the 'Successful Efforts' method to account for exploration and development costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are charged to expense as incurred. Drilling costs of exploration wells are temporarily capitalized pending the evaluation of potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed to be not technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalized, and periodically assessed for impairment. All costs of developing commercial oil and/or gas fields are capitalized. Pre-production costs are expensed as incurred.

Interest expenses and own expenses relating to development projects
Interest expenses and own expenses relating to development projects are capitalized and depreciated under the unit-of-production method. Expenses related to financing are capitalized and amortized over the loan period.

Leases
Leases that substantially transfer all the risks and rewards of ownership to DNO (financial leasing) are recognised as assets in PP&E at the present value of the minimum lease payments, or if lower, at fair value. The assets are amortized according to plan. The installment part of the lease obligation is classified as interest-bearing debt in the balance sheet. The obligation is reduced by paid rent after deduction of estimated interest expense. The interest expense is recorded as a financial expense. Operational leases are expensed as incurred.

Deferred taxes
Deferred taxes are computed according to the liability method. Based on the tax rates and tax provisions applicable on the balance sheet date, deferred taxes are computed on temporary differences between the carrying amount of the Company's assets and liabilities in the financial statements and the carrying amount of the Company's assets and liabilities for tax purposes. Deferred tax benefits and deferred tax liabilities in the same tax regime are netted in the balance sheet. Capitalization of deferred tax benefit presupposes that future application can be rendered possible.

Pension obligations
The Company records pension schemes according to the Norwegian accounting standard for pension costs. The Company has contribution plans for its employees. For contribution plans, only the contributions paid during the period are expensed.

Revenue Recognition
Revenue from sale of goods are recorded at the time of delivery. Revenue from services are recorded when the service has been performed.

Maintenance and repairs
Maintenance and repairs are expensed as incurred. Significant costs considered to increase the production capacity or to extend the useful economic life of the facilities are capitalized.

Financial instruments, etc
The Company uses various financial instruments to manage its exposure to fluctuations in exchange rates, interest rates and commodity price risks. Instruments meeting hedging criteria are valued together with the hedged item (unrealized gains/losses are not recognised). Instruments not meeting hedging criteria are valued in separate portfolios at the lower of their historical cost and market value (unrealized losses are expensed). Unrealized gains are not taken to income.

Foreign currency transactions
Cash items denominated in foreign currencies are converted using exchange rates on the balance sheet date. Realized and unrealized currency gains and losses are included in the annual profit (loss). Foreign currency transactions are recorded using exchange rates on the date of transaction.

Options to the Directors of the Board and management
See note 1 Accounting principles in the consolidated accounts for information regarding options.

Allowance for doubtful accounts
Allowances for doubtful accounts are made for foreseeable losses on trade receivables.

Contingent gains/losses
According to Norwegian accounting standards relating to contingent items, provisions are made for contingent losses that are probable and quantifiable, while contingent gains are not taken to income.

Cash flow statement
The cash flow statement is based on the indirect method. Cash equivalents include bank deposits and liquid funds maturing in less than three months.

Comparable figures
Comparable figures for previous years have been prepared to reflect changes in accounting principles and presentation (classification).

NOTE 2. OTHER OPERATING REVENUES

NOK 1,000	2008	2007
Other operating revenues	14,792	7,571
Gain from sale of license interests[1]	59,846	–
Gain from sale of subsidiary[2]	–	2,340,479
Total other operating revenues	**74,638**	**2,348,050**

[1] Gain in 2008 relates to intercompany sale of Block 47 and Block 52 in Yemen from DNO International ASA to the subsidiary DNO Yemen AS.

[2] Gain from sale of subsidiary relates to sale of shares in NOIL Energy ASA. For further information related to the sale, see note 9 in the consolidated accounts.

NOTE 3. REMUNERATION, SEVERANCE PAY, SALARIES, OPTIONS AND PENSIONS

Payroll expenses NOK 1,000	2008	2007
Salaries, bonuses, options, etc	40,583	21,022
Employer's payroll tax expense incl. payroll tax on option[1]	7,590	2,761
Pensions	2,199	426
Other personnel costs	2,292	1,197
Reclass. of payroll and payroll-related expenses to exploration and production	(10,168)	(1,213)
Payroll and payroll-related expenses	**42,497**	**24,193**
Average number of man-labour years	31.2	10.3

Payroll expenses relating to participation in non-operated licenses are classified as exploration and production costs in the profit and loss statement.

Pensions
DNO has a defined contribution scheme for employees in the Company. The pension costs in the 2008 accounts are related only to premiums for the employees of the Company. DNO meets the Norwegian requirements for mandatory occupational pension ('obligatorisk tjenestepensjon').

NOTE 3. REMUNERATION, SEVERANCE PAY, SALARIES, OPTIONS AND PENSIONS CONTINUED

Director, executive and key management remuneration

Remuneration to the Directors of the Board NOK 1,000	2008	2007
Berge G. Larsen, Executive Chairman[1]	235,000	205,000
Trygve Bruvik, Vice-Chairman	210,000	180,000
Elin Karfjell, Board member	25,000	–
Marit Instanes, Board member	25,000	–
Gunnar Hirsti, Board member	25,000	–
Anders Farestveit, former Vice–Chairman	185,000	180,000
Bjørge Gretland, Board member	185,000	180,000
Helge Eide, Managing Director and Board member	210,000	230,000
Total	**1,100,000**	**975,000**

Hereof, NOK 1,075,000 relates to Directors' fees for DNO International ASA in 2008.

[1] Consultant fees to Increased Oil Recovery AS/Ltd for hire of executive chairman management services were NOK 4.2 million in 2008 (NOK 4.2 million in 2007). No severance pay agreement has been entered into with the executive chairman.

Remuneration to Managing Director and key management in 2008 (NOK mill)	Salary	Bonus	Pension	Other incl. options exercised	Total
Helge Eide, Managing Director and Executive Director	4.17	–	0.05	0.25	4.47
Ivar Brandvold, Chief Operating Officer	2.69	–	0.05	0.16	2.90
Tore Lilloe–Olsen, Corporate Head of Exploration	2.19	–	0.06	0.09	2.34
Haakon Sandborg, Chief Financial Officer	2.23	–	0.05	0.12	2.40
Magne Normann, Managing Director DNO Iraq AS	3.27	–	0.05	0.98	4.30
Sven Erik Lie, Managing Director DNO Yemen AS	–	–	–	4.32	4.32

No loans have been granted and no guarantees have been issued for executives, shareholders or Directors.

Shares and Options held by Directors, executives and key management personnel as at 31 December 2008

Directors of the Board and key management	Shares	Options
Companies controlled by Berge G. Larsen, Executive Chairman	45,263,220	–
Trygve Bruvik, Vice-Chairman	1,599,996	–
Elin Karfjell, Board member	–	–
Marit Instanes, Board member	18,288	–
Gunnar Hirsti, Board member	–	–
Helge Eide, Managing Director and Executive Director	1,600,000	–
Ivar Brandvold, Chief Operating Officer	–	–
Tore Lilloe-Olsen, Corporate Head of Exploration	51,000	–
Haankon Sandborg, Chief Financial Officer	–	–
Magne Normann, Managing Director, DNO Iraq AS	1,621,996	–
Sven Erik Lie, Managing Director, DNO Yemen AS	–	–
Total	**50,154,500**	**–**

See note 23 in the consolidated accounts for more information about share options.

Except for synthetic options, no options were expensed in 2008.

Auditors' fees

All figures are exclusive of VAT (NOK 1,000)	2008	2007
Auditors' fee	1,350	1,250
Other financial auditing	50	453
Total, auditing fees	**1,400**	**1,703**
Other assistance	–	188
Tax assistance	38	345
Total auditors' fees	**1,438**	**2,236**

Declaration regarding determination of salary and other remuneration to the managing director and other senior employees
The management remuneration for 2008 was in accordance with the directions approved by the General Meeting in June 2008.

There was no annual bonus for 2008.

According to the new article in the Norwegian Act relating to public limited liability companies § 6-16 a, cf § 5-6, third section, the general meeting shall consider the Board's declaration regarding determination of salary and other remuneration to the general manager and senior employees for the coming financial year. The Board will propose the following declaration for the annual general meeting to consider:

The Board of Directors of DNO International ASA has since 2003 had a compensation committee which consider questions related to the compensation to the managing director and key management. When determining the methods that shall be used for evaluating the remuneration and possible bonus, options and other incentive arrangements, the committee shall ensure that the size of the remuneration reflects the duties and responsibilities of the employees, and that the arrangements also shall contribute to the long-term value added for the company's shareholders.

NOTE 3. REMUNERATION, SEVERANCE PAY, SALARIES, OPTIONS AND PENSIONS CONTINUED

Fixed salary
No upper or lower limit for the determination of fixed salary to key management, has been set by the Board for the coming financial year, beyond the main principles set out above.

Variable elements
In addition to the fixed salary, the Company has the following arrangements in order to keep management priorities in accordance with goals and strategies, set by the Board;

Annual bonus
Bonus arrangements have been in place for several years to ensure priority for important business objectives. The annual bonus is maximized to 3 months salary. Target figures are partly financial or operational, including HES.

Share-based bonus scheme
The objective of the scheme is to ensure a continuous high focus on developing value for shareholders, in addition to strengthening the incentive programme for management and resource persons in the company. Payment under the scheme is calculated on the rise in the company's share price in the bonus period, within specified share price intervals. No shares or ordinary options are granted under this bonus scheme.

Total limit for the share based bonus scheme is NOK 16.3 million, based on a minimum share price of NOK 15.60 as of 30 June 2009. The threshold for payments under this scheme is a share price of NOK 12.00. Estimated value recognised as of 31 December 2008 is NOK 0.8 million. All employees are included in the scheme, including key management as described above. All other ordinary bonus payments will be deducted in a possible share based bonus payment.

Severance pay agreements
The managing director will be entitled to severance pay corresponding to 2-3 times his annual remuneration, depending on the circumstances.

Severance pay agreements (equal to one or two times annual salary) have also been entered into with the following key employees in DNO International ASA: Ivar Brandvold – Chief Operating Officer, Tore Lilloe-Olsen, Corporate Head of Exploration, Magne Normann – Managing Director DNO Iraq AS and Haakon Sandborg – Chief Financial Officer.

NOTE 4. OTHER OPERATING EXPENSES

NOK 1,000	2008	2007
Lease expense – buildings and equipment	6,279	5,882
Materials and supplies	9,749	105
Travel expenses	3,321	1,669
Legal expenses	5,164	5,464
Consultant fees	29,992	19,833
Other general and administrative costs	22,064	13,112
Management fees to Group companies	(32,952)	(18,057)
Total other operating expenses	**43,617**	**28,008**

NOTE 5. NET OTHER FINANCIAL ITEMS

NOK 1,000	2008	2007
Interest received	35,494	21,638
Interest received from Group companies	135,667	158,634
Gain on foreign exchange	1,666,107	26,555
Reversal of write-down on intercompany receivables	10,799	–
Net gain/(loss) on sale of securities	(4,225)	–
Total financial income	1,843,841	206,828
Interest expense	(68,120)	(178,101)
Interest expense Group companies	(126,498)	–
Loss on foreign exchange	(1,553,618)	(79,265)
Impairment financial assets	(1,355,092)	–
Other financial expenses	(1,055)	(19,155)
Total financial expenses	(3,104,382)	(276,521)
Net other financial items	**(1,260,541)**	**(69,694)**

NOTE 6. TAXES

NOK 1,000	2008	2007
Taxes payable	–	–
Change in deferred taxes	–	–
Income taxes	**–**	**–**
Effective tax rates	**–**	**–**

NOK 1,000	2008	2007
Profit/(loss) before taxes	(1,343,071)	2,154,520
Expected income tax according to nominal tax rate (28%)	(376,060)	603,266
Adjustment of deferred tax assets	28,546	52,069
Impairment financial assets	340,648	–
Tax-free gain/loss on sale of shares	1,183	(655,334)
Other items	5,683	–
Total income taxes	**–**	**–**
Effective tax rate (including change in deferred taxes)	**0%**	**0%**

NOTE 6. TAXES CONTINUED

The tax effect of temporary differences and losses carried forward:

NOK 1,000	2008	2007
Other current items	–	(1,972)
Property, plant and equipment	(303)	(495)
Other fixed items (receivables, abandonment, etc)	(49,900)	(18,630)
Losses carried forward	(286,764)	(287,324)
Total, basis for deferred taxes/(tax assets)	**(336,967)**	**(308,421)**
Deferred tax asset allowance	86,967	58,421
Total deferred taxes/(tax assets)	**(250,000)**	**(250,000)**
Capitalized deferred tax assets	**250,000**	**250,000**
Capitalized deferred tax liabilities	**–**	**–**

Tax rates effective at 31 December 2008 have been used to calculate deferred taxes. The tax rate is 28% for revenues in Norway. Capitalized deferred tax assets relate to activities taxable in Norway.

The deferred tax asset is recognised based on identified and available tax planning opportunities. In addition to utilisation of group contribution in future years, this includes possible sale of assets, if considered feasible and favorable.

The tax loss carry forward is NOK 286.7 million as of year-end 2008. The carrying forward period for the unused losses in Norway is indefinite.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

NOK 1,000	License costs	Exploration costs	Other PP&E	Total PP&E
Cost 1 January 2008	**24,172**	**58,588**	**4,487**	**87,248**
Additions 2008	7,861	2,751	1,827	12,438
Disposals 2008	(7,033)	(14,285)	(260)	(21,578)
Transfers 2008	–	–	–	–
Cost 31 December 2008	**24,999**	**47,053**	**6,054**	**78,108**
Accum. depreciation 1 January 2008	**–**	**–**	**(3,679)**	**(3,679)**
Depreciation 2008	–	–	(352)	(352)
Impairments 2008	(4,762)	–	–	(4,762)
Accumulated depreciation disposals	–	–	103	103
Disposals and transfers 2008	–	–	–	–
Acc. depr. & impairments 31 December 2008	**(4,762)**	**–**	**(3,928)**	**(8,690)**
Book value 31 December 2008	**20,238**	**47,053**	**2,125**	**69,416**
Book value 31 December 2007	24,172	58,588	807	83,567

Exploration costs are capitalized pending the evaluation of potential existence of oil and gas reserves.

Other PP&E are depreciated using the straight-line method based on estimated useful life of three to five years.

The impairment in 2008 relates to the write-down of license interest in Syria.

NOTE 8. SUBSIDIARIES AND INVESTMENT IN ASSOCIATES

Subsidiaries owned by DNO International ASA	Company's business address	Ownership and voting interest (%)	Company's share capital in 1,000	Company's equity in NOK 1,000	Company's profit/ (loss) in NOK 1,000	Book value in NOK 1,000
DNO Yemen AS	Oslo	100%	NOK 291 000	1,474,492	73,024	481,000
DNO UK Ltd	London	100%	GBP 0	(163,252)	(23,009)	0
DNO Iraq AS	Oslo	100%	NOK 600	409,286	(54,772)	500,116
DNO Invest AS	Oslo	100%	NOK 2 000	(105,492)	(109,034)	33,000
Total 2008				**1,615,033**	**(113,791)**	**1,014,116**

Investment in associates owned by DNO International ASA	Company's business address	Ownership and voting interest (%)	Company's equity in NOK 1,000 (ownership share)	Company's profit /(loss) in NOK 1,000 (ownership share)	Number of shares	Fair value in NOK 1,000
Det norske oljeselskap ASA[1]	Trondheim	36.9%	1,387,490	83,252	23,967,500	697,454
Total 2008			**1,387,490**	**83,252**		**697,454**

[1] The investment has been impaired by NOK 1,216,599 in 2008. DNO reduced its ownership share to 25% in January 2009.

NOTE 9. OTHER CURRENT RECEIVABLES

NOK 1,000	2008	2007
Trade receivables	267	6,693
Prepayments and accrued income	4,681	141
Other current receivables	6,477	17,773
Total other current receivables	**11,425**	**24,608**

NOTE 10. CASH AND CASH EQUIVALENTS

NOK 1,000	2008	2007
Cash and cash equivalents, non-restricted	54,875	681,544
Cash and cash equivalents, restricted	84,970	2,865
Total cash and cash equivalents	**139,845**	**684,409**

Included in restricted cash at 31 December 2008 is a margin call amount of NOK 80 million deposited with ABG Sundal Collier. The margin call is related to an option on treasury shares.

NOTE 11. SHAREHOLDERS EQUITY

NOK 1,000	Share capital	Treasury shares, number (1,000)*	Treasury shares amount	Share premium account	Paid-in capital, treasury shares	Other paid-in equity	Total other paid-in capital	Other equity	Total
Shareholders' equity on 1 January 2008	226,214	4,718	(4,718)	32,456	1,192,174	(1,013,949)	178,225	2,695,856	3,128,032
Purchase of treasury shares including options	–	27,250	(27,250)	–	–	(1,417,870)	(1,417,870)	–	(1,445,120)
Sale of treasury shares including options	–	(30,968)	30,968	–	–	1,420,817	1,420,817	–	1,451,785
Profit/(loss) for the year	–	–	–	–	–	–	–	(1,343,071)	(1,343,071)
Shareholders' equity on 31 December 2008	**226,214**	**1,000**	**(1,000)**	**32,456**	**1,192,174**	**(1,011,002)**	**181,172**	**1,352,784**	**1,791,626**

The total number of ordinary shares is 904,856,912 shares with a par value of NOK 0.25 per share. All issued shares are fully paid.

The Company has issued a put option on own shares.

For other information regarding the Company's equity and shareholders, see note 17 in the consolidated accounts.

NOTE 12. GUARANTEES AND COMMITMENTS

For information regarding guarantees and commitments, see notes 19 and 20 in the consolidated accounts.

NOTE 13. INTEREST-BEARING LIABILITIES

See note 18 in the consolidated accounts for information on other interest-bearing liabilities.

NOTE 14. CURRENT LIABILITIES

NOK 1,000	2008	2007
Accounts payable	6,068	26,644
Public duties payable	2,437	3,030
Accrued interest	–	31,660
Provision for loss, financial instruments	14,424	16,060
Accrued expenses and other current liabilities	72,039	23,561
Total non-interest-bearing current liabilities	**94,969**	**100,955**

NOTE 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In accordance with NGAAP, financial instruments meeting the hedging criteria are valued together with the hedged item (unrealized losses are not recognised). Instruments not meeting the hedging criteria, are valued in separate portfolios at the lower of their historical cost and market value (unrealised losses are recognised). Unrealised gains are not taken to income.

In 2006, DNO entered into an oil price put option for 2010 with a strike price of USD 40. The purchase price was NOK 11.6 million. Market value of the derivative at 31 December 2008 was NOK 20.2 million, which equals the booked value. The write-down in 2007 of NOK 11 million has been reversed in 2008.

See notes 13 and 14 in the consolidated accounts for further information on financial instruments and risk management.

NOTE 16. HEALTH, SAFETY AND THE ENVIRONMENT

The Company's activities were carried out in accordance with official requirements relating to the natural environment.

NOTE 17. RELATED PARTIES DISCLOSURE

See note 25 in the consolidated accounts for further description of transactions with related parties.

NOTE 18. EVENTS AFTER THE BALANCE SHEET DATE

For more information on events after the balance sheet date, see note 27 in the consolidated accounts.

NOTE 19. MONEY MARKET FUNDS

DNO International ASA has placed surplus liquidity in money market funds with an investment profile based on short-term interest certificates.

NOK 1,000	2008	2007
Storebrand Kapitalforvaltning	–	53,322
Larvikbanken, time deposit	–	10,000
Total	**–**	**63,322**

NOTE 20. EARNINGS PER SHARE

For information regarding earnings per share, reference is made to note 22 in the consolidated accounts.

NOTE 21. INTERCOMPANY

Long-term intercompany receivables

NOK 1,000	Currency	2008	2007
DNO UK Ltd	GBP	165,935	151,333
DNO Iraq AS	USD	2,218,567	1,055,294
DNO Invest AS	NOK	39,419	162,876
Total long-term intercompany receivables		**2,423,920**	**1,369,503**

Long-term intercompany debt

NOK 1,000	Currency	2008	2007
DNO Yemen AS	USD	983,420	510,081
DNO Yemen AS	NOK	(379,495)	(379,495)
Total long-term intercompany debt		**603,925**	**130,586**

Intercompany receivables and debt are Interest-bearing with an average interest rate charged for 2008 of 8.0% and 7.8% for 2007.

The receivable on DNO Invest AS has been impaired by NOK 138.5 million in 2008.

AUDITOR'S REPORT

Statsautoriserte revisorer
Ernst & Young AS
Christian Frederiks pl. 6, NO-0154 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tel. +47 24 00 24 00
Fax. +47 24 00 24 01
www.ey.no

Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of DNO International ASA

Auditor's report for 2008
We have audited the annual financial statements of DNO International ASA as of 31 December 2008, showing a loss of NOK 1 343 million for the Parent Company and a loss of NOK 903,9 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,
- the financial statements of the Parent Company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2008, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Oslo, 31 March 2009
Ernst & Young AS

Finn Ole Edstrøm
State Authorised Public Accountant (Norway)

(sign)

Note: The translation to English has been prepared for information purposes only.

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GLOSSARY AND DEFINITIONS

2P/P50
Proven and probable reserves.

BASEMENT
The rock underlying the typical oil-bearing or oil-generating formations.

BOE
Barrels of oil equivalents.

BOPD
Barrels of oil per day.

CR
Corporate responsibility.

DD&A
Depletion, depreciation and amortization.

EBITDA
Operating profit/(loss) adjusted for depreciation and amortization, impairments and abandonment expenses.

EBITDAX
EBITDA minus exploration cost (including the cost of dry wells and impairment of oil and gas fields).

FDA COSTS
Finding, developing and acquisition cost.

FINDING COST
The amount of money spent per unit (barrel of oil) to acquire reserves. Includes discoveries, acquisitions and revisions to previous reserve estimates.

KPI
Key performance indicator.

MBOE
Million barrels of oil equivalent.

NETBACK
EBITDA adjusted for taxes paid.

POSSIBLE
Reserves which at present cannot be regarded as probable, but which are estimated to have a significant but less than 50% chance of being technically and commercially producible.

PROBABLE
Reserves which are not yet proven, but which are estimated to have a better than 50% chance of being technically and commercially producible.

PROVED
Reserves which on the available evidence are virtually certain to be technically and commercially producible, i.e. have a better than 90% chance of being produced.

RECYCLE RATIO
Netback from RoO per barrel divided by Finding, Development and Acquisition Cost per barrel.

GLOSSARY AND DEFINITIONS

RESERVE REPLACEMENT RATIO (RRR)
Gross Reserve Growth divided by Production.

SPUDDING
Initiation of drilling operations.

TSR
Total shareholder return.

UNIT-OF-PRODUCTION DEPRECIATION
Method of depreciation for capital costs. This method attempts to match the costs with the production those costs are associated with.

UNRISKED
Gross potential reserves (3P) before applying a risk factor.

PRODUCTION SHARING AGREEMENT (PSA)
A contractual agreement between a contractor and a host government, whereby the contractor bears all exploration costs, risks, development and production costs in return for a stipulated share of the production resulting from this effort.

CONTRACTOR
An oil company operating in a country under a Production Sharing Agreement on behalf of the host government for which it receives either a share of production or a fee.

COST OIL
The oil (or revenues) used to reimburse the contractor for exploration costs, development capital costs and operating costs.

PROFIT OIL
Production remaining after royalty and cost oil, which is split by the government and the contractors according to the Production Sharing Agreement.

GOVERNMENT TAKE
The sum of royalties and governmental share of profit oil, including that of a governmentally controlled enterprise.

ROYALTY
A fraction of gross oil production, before any attribution to cost oil, payable to a governmental body.

INCOME TAXES PAYABLE UNDER PSA
Income tax paid by the government on behalf of the oil company. The tax is paid out of the government's share of profit oil.

WORKING INTEREST
The percentage interest ownership a company (or government) has in a joint venture, partnership or consortium after deducting the royalty from gross revenues (production). This method has previously been referred to as the gross method.

NET ENTITLEMENT
The percentage interest ownership after deducting royalty and the government share. Includes volumes related to the income tax paid by the government on behalf of the contractors.

WORKING INTEREST RESERVES
Reserves based on working interest production.

NET ENTITLEMENT RESERVES
Reserves based on net entitlement production.

NOTES

Designed and produced by **Emperor Design Consultants Ltd**
Tel **+44 (0)131 220 7990 www.emperordesign.co.uk**

www.dno.no

DNO International ASA
Stranden 1, Aker Brygge
0250 Oslo
NORWAY
Phone: (+47) 23 23 84 80
Fax: (+47) 23 23 84 81