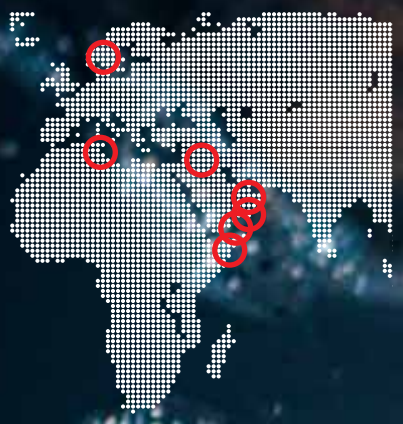


7 COUNTRIES | **3** CONTINENTS

— 20 LICENSES —

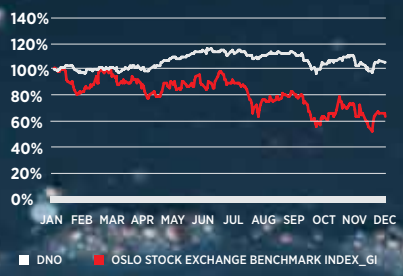
the Kurdistan Region of Iraq, the Republic of Yemen, the Sultanate of Oman, the United Arab Emirates, the Tunisian Republic and Somaliland

DNO
EST - 1971

WORKFORCE

1,107

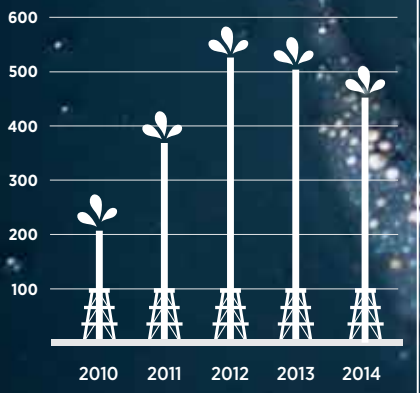
SHARE PRICE DEVELOPMENT



DNO ASA
ANNUAL REPORT AND ACCOUNTS
— 2014 —

SALES (USD million)

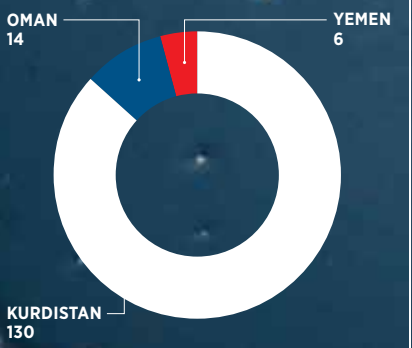
452.0



NET LOSS (USD million)

-226.1

GROSS PROFIT (USD million)

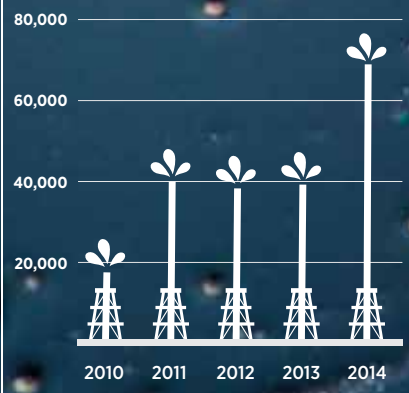


"DNO continues to have one foot on the accelerator and one on the brake."

Bijan Mossavar-Rahmani,
DNO's Executive Chairman

CWI PRODUCTION (boepd)

68,958



CWI 2P RESERVES (MMboe)

483.6

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Highlights

DNO ASA reported record levels of production in 2014, driven by strong performance of the company's assets in the Kurdistan region of Iraq. We also made substantial progress towards ambitious capacity expansion plans at our flagship Tawke field and are on track to increase total field production and processing capacity to 200,000 barrels of oil per day (bopd) in early 2015. With Tawke's expansion firmly established, we now shift our focus to the development of the Benenan field in the Erbil license, in addition to exploration and appraisal of discoveries on several other blocks in our portfolio.

The decline in global oil prices commencing in mid-2014 has prompted all oil and gas companies to reduce costs - and DNO is no exception. This involves optimizing operations, cutting back discretionary expenditures and high-grading our portfolio, a process DNO initiated in the second half of 2014. Though our low finding, development and operating costs give us a significant competitive advantage in a weak oil price environment, our top priority in 2015 will be to align our spending with our earning.

We look to exit 2015 as a leaner and nimbler company with a stronger balance sheet and an exciting portfolio of exploration, development and production assets.

Key figures

USD million	2014	2013
Key financials		
EBITDA	254.1	348.1
Netback	203.6	285.9
Acquisition and development cost	297.3	288.3
Exploration cost expensed	50.6	10.3
Reserves and production		
Gross production (mboe)	117,482	70,614
Working interest production per day (boe)	68,958	39,170
Working interest reserves and resources (mboe)	590.3	641.3
Key performance indicators		
Lifting cost (USD/boe)	4.8	8.0
Netback (USD/boe)	8.3	20.8

Board of directors

Bijan Mossavar-Rahmani
Executive Chairman

Bijan Mossavar-Rahmani is an experienced oil and gas executive and has served on DNO's Board of Directors since 2011.

Bijan Mossavar-Rahmani was elected to DNO's Board of Directors in the spring of 2011 and to the chairmanship of the company in the summer of that year. Mr. Mossavar-Rahmani serves concurrently as Executive Chairman of Oslo-listed RAK Petroleum plc, DNO's largest shareholder. Mr. Mossavar-Rahmani is a Director of the Persepolis Foundation and serves on the Visiting Committee of the Harvard Kennedy School as well as on the Board of Trustees of the New York Metropolitan Museum of Art, where he chairs the Visiting Committee of the Department of Islamic Art. He has published more than ten books and numerous articles on global energy markets and was decorated Commandeur de l'Ordre National de la Côte d'Ivoire for services to the energy sector of that country. Mr. Mossavar-Rahmani is a graduate of Princeton (AB) and Harvard Universities (MPA). He is also a member of the nomination and remuneration committees.

Lars Arne Takla
Deputy Chairman

Lars Arne Takla has extensive experience from various managerial, executive and board positions in the international oil and gas industry and was appointed Commander of the Royal Norwegian Order of St. Olav in 2005 for his strong contribution to the Norwegian petroleum industry.

Mr. Takla held various managerial positions with ConocoPhillips, including Managing Director and President of the Scandinavian Division and VP of the Europe-Africa Division. He also co-founded the Norwegian Energy Company ASA (Noreco) and was its Executive Chairman from 2005-2011. Mr. Takla has served on a number of boards, including the Offshore Northern Sea Foundation (ONS), the Rogaland Research Institute, the main board and innovation division of the Norwegian Research Council, and Upstream AS. Mr. Takla holds a Master of Science degree in chemical engineering from the Norwegian University of Science and Technology (NTNU) in Trondheim. He was elected to DNO's Board of Directors in 2012 and is a member of the HSSE committee.

Ellen K. Dyvik
Director

Ellen K. Dyvik has extensive experience in the energy sector and has worked in public and private sector institutions in more than ten countries.

As Principal Banker at the European Bank for Reconstruction and Development (EBRD) in London, she led several energy investment operations and advised governments in Eastern Europe on energy sector reforms. Previously, she has also served as an advisor for the Polish Ministry of Finance and acted as program coordinator in the Energy and Environmental Policy Center at Harvard University. Ms. Dyvik is a member of the Dean's Council of the Harvard Kennedy School. She holds a Bachelor of Arts, cum laude, and a Master of Public Administration, both from Harvard University. Ms. Dyvik was elected to DNO's Board of Directors in 2013 and is a member of the audit committee.

Board of directors

Gunnar Hirsti
Director

Gunnar Hirsti has extensive experience from various managerial, executive and board positions in the oil and gas industry as well as the information technology industry in Norway.

Mr. Hirsti was Chief Executive Officer of DSND Subsea ASA (now Subsea 7 S.A.) for a period of six years. He also served as Executive Chairman of the Board of Blom ASA, which is listed on the Oslo Stock Exchange, for eight years. Mr. Hirsti holds a degree in drilling engineering from Tønsberg Maritime Høyskole in Norway. He was elected to DNO's Board of Directors in 2007 and is a member of the audit, remuneration and nomination committees.

Shelley Watson
Director

Shelley Watson began her career as a reservoir surveillance and facilities engineer with Esso Australia in its offshore Bass Strait operation.

Subsequently she held commercial management roles with Novus Petroleum and Indago Petroleum. Ms. Watson joined RAK Petroleum PCL as Group Commercial Director in 2007 and held the position of General Manager until the summer of 2014. Ms. Watson holds a First Class Honours degree in chemical engineering and a Bachelor of Commerce degree from the University of Melbourne. She has served on DNO's Board of Directors since 2010 and is a member of the audit committee.

Board of directors' report

Introduction

2014 full-year results highlights

- Record output with gross production up 66 percent from 2013 to 117,482 barrels of oil equivalent per day (boepd) and company working interest (CWI) production up 76 percent to 68,958 boepd;
- Gross production at flagship Tawke field in the Kurdistan region of Iraq rose 131 percent year-on-year to 91,255 bopd in 2014;
- Operating revenue of USD 452 million in 2014 with operating cash flow of USD 181 million;
- Capital expenditures of USD 297 million, up from USD 288 million in 2013, primarily driven by capacity expansion and field development programs in Kurdistan;
- Impairments of USD 297 million to adjust for significant decline in global oil prices and operational results led to full-year operating loss of USD 243 million;
- Year-end cash balance of USD 114 million, with an additional USD 63 million in marketable securities;
- Process of normalization of Kurdistan's oil industry continues despite challenging political, economic and security environment, with first payment of USD 21 million in respect of independent exports received in December; and
- CWI 2P reserves at year-end 2014 of 484 million barrels of oil equivalent (MMboe)

Our vision and strategic priorities

DNO's vision is to be a leading independent exploration and production company in the Middle East and North Africa (MENA) region, with the aim of delivering attractive returns to shareholders by finding and producing oil at low cost and at an acceptable level of risk. We have mapped out six strategic priorities to deliver sustainable growth in a responsible manner:

- Increasing production through the development of our existing reserves base
- Creating reserves and contingent resource growth through a focused exploration and appraisal drilling campaign
- Maintaining operational control, financial flexibility and the efficient allocation of capital in line with DNO's full-cycle business model to deliver growth at a low unit cost
- Encouraging an entrepreneurial culture and attracting the best talent in the industry
- Pursuing materially accretive acquisitions
- Recognizing our corporate responsibilities and managing risks to the business

DNO continues to make good progress against each of these priorities but retains flexibility to align the company's spending with its earning.

Production strength and capacity

DNO's oil and gas production rose 76 percent year-on-year, from 39,170 boepd on a CWI basis in 2013 to a record 68,958 boepd in 2014. Production growth was driven primarily by the Tawke field in Kurdistan, where output grew to 58,414 boepd on a CWI basis, while in Oman and Yemen CWI production stood at 7,839 and 2,705 boepd, respectively.

DNO achieved several important milestones towards its plan to increase production and processing capacity at the Tawke field to 200,000 bopd in early 2015, including completion of the 24-inch pipeline connecting the Tawke central processing facility to the Fish Khabur export facility.

With CWI 2P reserves of 483.6 MMBoe across our portfolio, we have the asset base to sustain long-term production growth.

Organic reserves and resource growth

Done in a structured manner, successful exploration drilling can be one of the most cost-efficient methods of delivering significant reserves growth and associated value creation.

At DNO, we focus our efforts on areas where we have in-depth knowledge of the subsurface, playing to our technical and operational strengths as a fractured carbonate specialist within the MENA region.

And we benchmark each prospect in the context of our wider portfolio so that capital deployed to exploration is only allocated to those opportunities that meet our technical, financial and strategic requirements.

Looking ahead, we will continue to actively pursue opportunities in high potential basins across the MENA region, with a clear focus on transforming resources into reserves at a low unit cost.

Operational control and financial flexibility

We operate nearly all of our oil and gas assets and have the necessary operational and financial management processes in place to efficiently deliver our work programs. It is important to maintain the financial strength and flexibility to fund growth opportunities. To do so, we will use available funding sources including internally generated funds and, when necessary, equity raise and debt.

During 2014, the company achieved an average lifting cost of USD 4.8 per boe, down from USD 8.0 per boe in 2013. On a three-year rolling average basis, our finding and development costs are USD 9.9 per boe, demonstrating the efficient deployment of DNO's capital and the ability to deliver growth at a low unit cost.

Encouraging an entrepreneurial culture

DNO's growth and success revolve importantly around the quality and commitment of our people. We are an entrepreneurial company with a flat organizational structure which means we can make decisions quickly and execute flexibly. Our employment practices and policies help our staff realize their full potential and ensure that we attract and retain the very best in the industry. We are committed to developing local talent in each of our operating areas.

Mergers and acquisitions

In addition to organic growth, we continuously evaluate new assets and take an opportunistic approach to potential corporate acquisitions. In 2014 we completed the acquisition of an 87.5 percent participating (100 percent paying) interest in the Sfax Offshore Exploration Permit in Tunisia.

We high-grade our existing portfolio of licenses through periodic farm-outs or divestments to ensure that risk and investments are adequately managed. During 2014, we farmed down our interests in Block SL 18 in Somaliland, the RAK Onshore license in Ras Al Khaimah and the Sfax license in Tunisia.

Corporate responsibility and effective risk management

One of our priorities is to ensure that DNO is a responsible and transparent enterprise. We are committed to the highest standards of corporate governance and business conduct. Recognizing that the success of an oil and gas company is directly linked to how well risks are managed, we seek to improve our systems designed to identify and manage risks effectively. We are also committed to the health, safety and security of our employees, contractors and the communities in which we operate, as well as to responsible environmental practices. Please refer to the 2014 Corporate Social Responsibility Highlights and Country-by-Country Report 2014 for more information on activities in the areas in which we operate. Both reports are available on our website: (www.dno.no).

Operations review

Annual Statement of reserves

The company's annual statement of reserves (ASR) has been prepared in accordance with the Oslo Stock Exchange listing and disclosure requirements circular no. 4/2013. A majority of the company's assets were reviewed and audited independently by international petroleum consultants DeGolyer and MacNaughton. The company has internally assessed the remaining assets.

As of 31 December 2014, DNO's CWI 2P reserves were estimated at 480.5 million barrels (MMbbl) of oil, including condensate and other liquids, and 17.5 billion cubic feet (Bcf) of gas, resulting in 483.6 MMboe on an aggregate barrel equivalent basis. The comparable figure as of 31 December 2013 was 541.9 MMboe.

The ASR report for 2014 is available for download at the company's website (www.dno.no).

Kurdistan region of Iraq

APPRAISAL AND FIELD DEVELOPMENT

Tawke license

Five horizontal wells were drilled at Tawke in 2014, bringing the total number of wells at the field to 28, with 26 on production.

Tawke-24 and Tawke-26 were completed in the second quarter, followed by Tawke-25 in the third quarter. Tawke-28 and Tawke-27 were both completed in the fourth quarter. Tawke-27, spudded in November, was completed in record time and at a cost of less than USD 10 million. Despite its challenging well path, it only took 31 days to reach its target of 3,090 meters, plus an additional 12 days to log, complete and rig down.

During 2014, the company also commenced its second 3D seismic acquisition program at the Tawke field, designed for detailed production monitoring and planning of new infill production wells. Additional objectives are to obtain better coverage of the northern flank of the field as well as improved imaging of the Tertiary Jeribe and Euphrates reservoirs. This new information will also improve data quality of the Tawke deep prospect horizons.
Drilling of Tawke-30, the last well in the current drilling campaign, will be completed in the first quarter of 2015. Total field production and processing capacity at Tawke is expected to reach 200,000 bopd in early 2015.

To transport the increased output, a new 24-inch pipeline was installed on time and on budget along the same route as the existing 12-inch pipeline which connects the central processing facility at Tawke to the Fish Khabur export facility.

Elsewhere on the license, the company is further processing 3D seismic data at the Peshkabir field ahead of new drilling. The Peshkabir field is currently estimated to contain over 225 million barrels in gross unrisked prospective resources.

Dohuk license

DNO started up the Summail gas field in 2014, but deliverability from the field remains significantly lower than initially expected. Gas sales to the power plant commenced in late May from Summail-1, one of three wells drilled at the field. A second well, Summail-3, was completed in the first quarter, followed by a third well, Summail-2, in the third quarter. Summail-1 is currently producing intermittently.

Erbil license

Recent testing and appraisal have indicated higher volumes of oil-in-place for the Benenan heavy oil field in excess of two billion barrels. Further testing of the Najmeh interval is underway at the Benenan-4 and Erbil-2 wells. Interference test data for Erbil-2 showed excellent communication in parts of the reservoir.

The company is now evaluating how best to optimize commercial production and deliver Benenan heavy oil to the local market.

PRODUCTION

Gross production from Tawke rose 131 percent to 91,255 bopd in 2014 (56,578 bopd on a CWI basis). Accumulated gross production from the field reached nearly 100 million barrels of oil by year-end.

An important milestone was reached in December with an initial payment totaling USD 21 million net to DNO in respect of independent exports by the Kurdistan Regional Government (KRG) from Tawke. With further payments expected to follow, this is an important step towards the normalization of Kurdistan's oil industry.

RESERVES

As of 31 December 2014, CWI 2P reserves in Kurdistan stood at 474.2 MMBoe.

Gross 2P reserves for the Tawke field were at 680.3 MMbbls of oil (421.8 MMbbls on a net CWI basis to DNO), down from 713.6 MMbbls at year-end 2013. The reduction is due to production in 2014. The produced volumes from the Tawke field in 2014

were 33.3 MMbbls (91,225 bopd) and cumulative production at end-2014 was 96.7 MMbbls. At the Peshkabir field, estimated 2P reserves remains unchanged at 32.2 MMbbls (20.0 MMbbls on a net CWI basis to DNO).

As a result of lower than anticipated production, there are no remaining recognized reserves at the Summail gas field at the Dohuk license.

Although in-place volumes have increased at the Benenan field, reserves were kept unchanged in 2014 at 58.0 MMbbls on a gross basis (27.0 MMbbls on a net CWI basis to DNO). Reserves at the Bastora field are estimated at 11.9 MMbbls (5.5 MMbbls on a net CWI basis to DNO).

Yemen

EXPLORATION

Due to Yemen's security environment, all new exploration activities remain suspended.

APPRAISAL AND FIELD DEVELOPMENT

While production in Yemen is ongoing at the older fields, a Block 47 production startup at the Yaalen field is on hold, as is appraisal of the Meshgha discovery at Block 32.

PRODUCTION

Production averaged 6,792 bopd (2,705 bopd on a CWI basis) in 2014. This included 1,624 bopd in 2014 (646 bopd on a CWI basis) at Block 32; 1,285 bopd (831 bopd on a CWI basis) at Block 43; and 3,883 bopd (1,228 bopd on a CWI basis) at the non-operated Block 53.

RESERVES

Due to the falling oil price and the degree of maturity of the fields in Yemen, all producing assets are currently operating below commerciality and as such hold no recognized reserves.

As of the end of 2014, CWI 2P reserves for the Yaalen field at Block 47 have been estimated at 6.2 MMbbls on a gross basis (3.0 MMbbls on a net CWI basis to DNO).

Oman

EXPLORATION

At onshore Block 36, DNO continues to identify drilling targets.

PRODUCTION

At Block 8, DNO operates Oman's only producing offshore fields, Bukha and West Bukha, where combined gross production totaled 15,678 boepd in 2014 (7,839 boepd on a CWI basis). A new development well is under consideration to increase West Bukha oil and gas output.

RESERVES

As of the end of 2014, gross 2P reserves were estimated at 6.5 MMbbls of oil, condensate and other liquids and 35.0 Bcf of marketable gas (6.2 MMboe), of which 6.4 MMboe is net to DNO on a CWI basis.

United Arab Emirates

EXPLORATION

Following the farm-down of 30 percent of the company's working interest in the RAK Onshore exploration license to Edison International Spa in April 2014, a detailed technical study of the block was initiated, including reprocessing existing seismic data.

PRODUCTION

The Saleh field continues to produce small volumes of gas and liquids on an intermittent basis.

Tunisia

EXPLORATION

At the Sfax Offshore Exploration Permit, the Jawhara-3 well was spudded in October and vertically drilled to a total depth of 2,815 meters. The Douleb and Bireno formations proved to be water bearing in compartments of the structure targeted by the well. Two other secondary objectives had oil shows. Further analysis of logging and testing results are being performed to re-evaluate Jawhara field oil-in-place estimates.

In November, Petrogas E&P Tunisia BV, a wholly-owned subsidiary of Petrogas LLC, acquired a 35 percent participating (40 percent paying) interest in Sfax. Under the terms of the farm-out agreement, Petrogas will pay part of DNO's share of the Jawhara-3 well costs in addition to its paying interest share of prior expenditures incurred by DNO. Completion of the farm-out is subject to approval by Tunisian authorities. Once completed, DNO will hold a 52.5 percent participating (60 percent paying) interest in the permit.

Somaliland

EXPLORATION

At Block SL 18 in Somaliland, a field geological survey and an environmental impact assessment were conducted during 2014. The government is in the process of implementing an Oil Protection Unit (OPU) to provide security in support of seismic acquisitions. DNO has been granted a two-year extension to its production sharing agreement at the block, which now expires in November 2017.

Business development

DNO is currently focused on the MENA region, home to some of the world's most attractive oil and gas real estate. Present in the region since 1998, we are well-positioned to identify and capture new opportunities. Today, we have a diversified portfolio which includes production and exploration assets in Kurdistan, Oman and Yemen, as well as exploration assets in Tunisia, Somaliland and the United Arab Emirates.

Although some basins have been extensively drilled, several others have received limited attention, have been overlooked or have been inaccessible. We are developing a pipeline of new business opportunities in both new and established regions in MENA and are strategically placed to leverage our strong regional identity, subsurface knowledge and industry track record to grow our portfolio.

Financial performance in 2014

Revenues, profits and cash flow

Operating revenue in 2014 stood at USD 452.0 million, down from USD 503.0 million in 2013.

Total revenue from Kurdistan, including local sales and exports, amounted to USD 306.6 million in 2014. Revenue from production at Block 8 in Oman amounted to USD 87.2 million, while revenue from production in Yemen totaled USD 58.2 million.

Impairment charges of USD 296.7 million led to an operating loss of USD 243.2 million for the year.

The company ended the year with USD 113.8 million in cash and an additional USD 63.2 million in marketable securities.

Operating cash flow for the year was USD 181.4 million, compared to USD 270.4 million in 2013. The difference between the loss from operations and the operating cash flow is mainly due to impairment and depreciation charges.

Cost of goods sold

In 2014, the total cost of goods sold was USD 316.5 million, compared with USD 208.3 million in 2013. The increase was due to higher production.

Lifting costs in 2014 totaled USD 117.9 million, compared with USD 110.6 million in 2013. Lifting costs for Kurdistan operations fell to USD 3.13 per barrel in 2014, compared with USD 5.3 per barrel in 2013 due to higher production. Lifting costs in Oman were stable at USD 5.5 per barrel, compared with USD 5.2 per barrel in 2013, while lifting costs in Yemen increased to USD 42.0 per barrel, compared with USD 33.7 per barrel in 2013. Depreciation, depletion and amortization (DD&A) costs rose to USD 196.5 million in 2014 from USD 96.8 million a year earlier on higher production.

Exploration costs expensed

Total expensed exploration costs for the full year were USD 50.6 million, up from USD 10.3 million in 2013. The increase is mainly due to activities in Tunisia and Oman.

Acquisition and development costs

Total investments rose to USD 297.3 million, up from USD 288.3 million in 2013. The majority of the investments were related to the company's capacity expansion and field development programs in Kurdistan.

Impairment charges

The company's total impairment charges of USD 296.7 million in 2014 included: USD 140.0 million in Kurdistan; USD 55.0 million in Oman; USD 57.2 million in Yemen; and USD 44.5 million in the United Arab Emirates.

Assets, liabilities and equity

At the end of 2014, total assets stood at USD 1.1 billion, down from USD 1.3 billion at the end of 2013. Property, plant and equipment (PP&E) and intangible assets decreased to USD 679.4 million mainly due to impairment charges. The equity ratio was 48.4 percent, while the ratio between current assets and current liabilities was 172.8 percent. As of 31 December 2014, DNO has two bond loans with floating rates, both of which mature in 2016.

Currency change

DNO changed its presentation currency from NOK to USD with effect from 1 January 2014. A change of presentation currency is considered a change of accounting policy and is applied retrospectively.

Going concern

DNO's Board of Directors finds that the assumptions for future and continued operations have not been changed as the basis for approval of the 2014 accounts. Consequently, these annual accounts are based on the going concern assumption in accordance with sections 3–3a of the Norwegian Accounting Act.

Corporate governance

DNO's corporate governance policy is based on the recommendations of the Norwegian Code of Practice for Corporate Governance.

The Articles of Association and the Norwegian Public Limited Liability Companies Act form the corporate legal framework for DNO's business activities. In addition, DNO is subject to, and complies with, the requirements of Norwegian securities legislation.

The company regularly reports on its strategy and the status of its business activities through its annual reports, quarterly presentations and other market presentations.

Equity and dividends

SHAREHOLDERS' EQUITY

It is DNO's policy to maintain a strong credit profile and robust capital ratios. We therefore monitor capital on the basis of our equity ratio, with a policy that this ratio should be 30 percent or higher. As of 31 December 2014, this ratio was 48.4 percent. The Board of Directors considers this figure to be satisfactory given the company's business objectives, strategy and risk profile.

DIVIDEND POLICY

The Board of Directors assesses on an annual basis whether dividend payments should be proposed for approval at the Annual General Meeting (AGM). Assessment is based on planned capital expenditure, cash flow projections and DNO's objective of maintaining a strong credit profile and robust capital ratios. There were no dividends proposed in 2014.

AUTHORIZATIONS TO THE BOARD OF DIRECTORS

At the 2014 AGM, the Board of Directors was authorized to buy treasury shares with a total nominal value of up to NOK 25,000,000. The maximum amount to be paid per share is NOK 100 and the minimum amount is NOK 1. Purchases of treasury shares are made on the Oslo Stock Exchange. The authorization is valid until the AGM in 2015, but not beyond 30 June 2015.

As of 31 December 2014, DNO held 13,050,000 treasury shares purchased in prior calendar years.

The Board of Directors was further authorized to increase the company's share capital by up to NOK 38,372,972, which corresponds to 153,491,888 new shares. The authorization is valid until the AGM in 2015, but not beyond 30 June 2015.

Equal treatment of shareholders and transactions with close associates

DNO has one class of shares and each share represents one vote at the AGM. We are committed to treating all shareholders equally.

It is our policy that all transactions between the company and related parties must be on arm's length terms. Members of the Board of Directors and executive management are required to notify the board if they have any direct or indirect material interest in any transaction entered into by the company.

For more information about related party transactions, please refer to Note 21 in the consolidated financial statements for 2014.

Freely negotiable shares

DNO's shares are listed on the Oslo Stock Exchange and are freely negotiable.

General meetings

The AGM is the highest authority of the company. The AGM is to be held by the end of June each year. The minutes of the meetings are available on the company's website.

AGMs are convened by written notice to all shareholders with a known address and published on the company's website together with all appendices, including the recommendation of the nomination committee. The notice is sent and published no later than 21 days prior to the date of the meeting. Any person who is a shareholder at the time of the AGM can attend and vote, provided they have been registered as a shareholder no later than the fifth working day before the meeting.

Shareholders unable to attend a general meeting may vote through a proxy.

In accordance with the Norwegian Public Limited Liability Companies Act, the auditor of the company, or a shareholder representing at least five percent of the share capital, may request an extraordinary general meeting to deal with specific matters. The Board of Directors must ensure that the meeting is held within one month after the request has been submitted.

Board of Directors: composition and independence

The company's Articles of Association require that the Board of Directors consists of three to seven members. All members of the Board of Directors, including the chairman, are elected by the AGM for a period of two years.

As of 31 December 2014, the Board of Directors consisted of five members, all of whom have relevant and broad experience.

Four board members are independent of the company's main shareholders. There are two women on the board. The majority of board members are independent of the company's executive management and material business contacts.

The board members' shareholdings are specified in the notes to the annual accounts.

The board's work

The role of the Board of Directors is to supervise the company's executive management and strategic development in accordance with the long-term interests of its shareholders and other stakeholders.

The Board of Directors is subject to a set of procedural rules, which among other things, defines its responsibilities and the matters to be discussed at the board level. The Board of Directors also regularly establishes work directives for the managing director.

The board committees

AUDIT COMMITTEE

The audit committee consists of three board members: Mr. Gunnar Hirsti, Ms. Shelley Watson and Ms. Ellen K. Dyvik. Its mandate includes undertaking quality control of the company's financial reporting. The committee is also responsible for monitoring internal control and risk evaluation systems.

HSSE COMMITTEE

The Health, Safety, Security and Environment (HSSE) committee is chaired by Mr. Lars Arne Takla. Its mandate is to review the company's management of operational risks and HSSE performance.

REMUNERATION COMMITTEE

The remuneration committee consists of two board members: Mr. Bijan Mossavar-Rahmani and Mr. Gunnar Hirsti. Its mandate is to consider matters relating to compensation of executive management.

NOMINATION COMMITTEE

DNO's nomination committee consists of Mr. Bijan Mossavar-Rahmani, Mr. Gunnar Hirsti and an external member, Mr. Kåre Tjønneland. Its mandate is to propose candidates for the Board of Directors and its various committees to the AGM. It also proposes the level of the directors' remuneration.

REMUNERATION OF DIRECTORS

The remuneration of the Board of Directors and its committees is decided by the AGM based on a recommendation from the nomination committee. Fees reflect the Board of Directors' responsibility, competence, workload and the complexity of the business and are determined separately for the chairman, the deputy chairman and other board members. Additional fees are applied on a uniform basis for each director's participation in the committees.

Further information about the Board of Directors' remuneration is presented in the parent company financial statements, Note 3.

Remuneration of executive management

The remuneration of DNO's executive management, including the managing director, is subject to the evaluation and recommendation of the remuneration committee. The remuneration of the company's managing director is evaluated annually and approved by the Board of Directors.

The remuneration of executive management is presented in the notes to the consolidated financial statements for 2014, Note 5. The guidelines for remuneration of executive management are presented at the AGM in accordance with the provisions of the Public Limited Liability Companies Act.

Responsibility for risk management and internal control

Risk management is integral to all of the company's activities. Each member of executive management is responsible for continuously monitoring and managing risk within the relevant business areas. Every material decision is preceded by an evaluation of applicable business risks.

Reports on the company's risk exposure and reviews of its risk management are regularly undertaken and presented to the executive management and Board of Directors. The company has an internal audit function that undertakes annual audits of the main business units.

Information and communication

Our policy is to provide material information to all shareholders in a timely manner.

DNO's financial accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and industry standards applicable to the oil and gas sector. Interim reports and other relevant information are published on DNO's website and through the Oslo Stock Exchange.

We also publish an annual financial calendar setting out key dates and events, such as quarterly presentations. The DNO investor relations' policy encourages open communication with capital markets and shareholders. We also regularly hold presentations for investors and analysts in addition to scheduled quarterly presentations.

Takeover

The Board of Directors has a responsibility to ensure that, in the event of a takeover bid, business activities are not disrupted unnecessarily. The Board of Directors also has a responsibility to ensure that shareholders have sufficient information and time to assess any such bid. Should this situation arise, the Board of Directors would undertake an evaluation of the proposed bid terms and provide a recommendation to the shareholders as to whether or not to accept the proposal. The recommendation statement should clearly state whether the Board of Directors' evaluation is unanimous and the reasons for any dissent.

Auditor

DNO's external auditor is elected at the AGM, which also approves the auditor's fees for the parent company. The auditor annually presents an audit plan to the audit committee and participates in audit committee meetings to review the company's internal control and risk management systems. The auditor also participates in board meetings when it is considered appropriate.

Information about the auditor's fees, including a breakdown of audit-related fees and fees for other services, is included in the notes to the financial statements in accordance with the Norwegian Accounting Act.

DNO's current external auditor is Ernst & Young AS.

Enterprise risk management

The objective of DNO's risk management is to identify potential exposures that may impact the company and to manage identified risks within strict guidelines while pursuing our business objectives. We review our risk profile on a quarterly basis, incorporating industry-recognized risk identification and quantification processes. The Board of Directors and its committees also regularly monitor the company's risk management systems and internal controls.

Financial risk

Risks related to oil and gas prices, interest rates and currency exchange rates constitute financial risks for the company. In order to minimize any potentially adverse effects on the group's financial performance, financial risk is managed by a central treasury function. For more information about how we manage financial risk, please refer to Note 9.

Entitlement risk

DNO has interests in three licenses in Kurdistan through Production Sharing Contracts (PSCs) and has based its entitlement calculations on the terms of these PSCs. Although DNO believes the company has good title to its oil and gas licenses, including the right to explore for and produce oil and gas from these licenses, the federal government of Iraq has historically challenged the validity of these PSCs.

As a result of continuing disagreements between the federal government of Iraq and the KRG, DNO is limited in its ability to monetize oil from Kurdistan. There is no guarantee that oil can be exported or delivered to the local market in sufficient quantities or at reasonable prices, or that DNO will promptly receive its full entitlement payment for the oil it delivers.

Operational risk

DNO is exposed to operational risks across its portfolio. Operational risk applies to all stages of upstream operations, including exploration, development and production. Failure to manage operations efficiently can manifest itself in project delays, cost overruns, higher-than-estimated operating costs and ultimately lower-than-expected oil and gas production and/or reserves. Exploration activities are capital intensive and involve a high degree of geological risk. Sustained exploration failure can affect the future growth and upside potential of the company.

Our ability to effectively manage and deliver value to our exploration and production activities is heavily dependent on the quality of our staff and contractors. Inefficiency, interruption to our supply chain or the unwillingness of service contractors to engage in our areas of operation may also negatively affect our operations.

Environmental risk

Oil and gas exploration and production, by its nature, involves exposure to potentially hazardous materials. The loss of containment of hydrocarbons or other dangerous substances could represent material risks. Through our operational controls, asset integrity protocols and management systems related to health, safety and the environment, we aim to mitigate hazards with a potentially adverse impact on people, the environment, our assets and our reputation.

Security risk

Although we operate in regions with security risks, we continuously work to manage these risks through clearly defined security protocols and practices. Nevertheless, we are often dependent on the quality of the security and protection provided by authorities in our host countries.

Compliance risk

DNO has a policy of zero tolerance for corruption, bribery and other illegal or inappropriate business conduct. Violations of compliance laws and contractual obligations can result in fines and a deterioration in the company's ability to effectively execute its business plans. DNO has in place a strict and comprehensive conflict of interest policy, which includes appropriate training and oversight.

Political risk

Our portfolio is located in countries where political, social and economic instability may adversely impact our business. For example, the political situation in Yemen was fragile and unpredictable in 2014 and continues to deteriorate. In Kurdistan, we continue to closely monitor security conditions although our operations have been largely unimpacted by turmoil in the region.

Stakeholder risk

In order to operate effectively, it is necessary for the company to maintain productive and proactive relationships with our stakeholders: host governments, partners and the communities in which we operate. Failure to do so can result in difficulties in progressing initiatives as well as delays to ongoing operations.

Organization and personnel

At the end of 2014, DNO had a workforce of 1,107, of which 10 percent were women. A total of 70 people were based at the company's headquarters in Oslo, Norway, while 1,037 were employed by our international operations. Our workforce is characterized by strong cultural, religious, gender and national diversity, with some 40 nationalities represented across the company.

We strive to foster and maintain a culture built on trust, respect, teamwork, communication and commitment in an environment that is free of discrimination in recruitment and in the workplace. We comply with applicable regulations in all jurisdictions in which we operate.

Lost time incident frequency in 2014 was 0.64 compared to 0.32 in 2013 and total recordable incident frequency in 2014 was 2.23 compared to 2.40 in 2013. Sickness abcence in 2014 was 2.28% percent compared to 3.30% percent in 2013.

Executive remuneration policy

The Board of Directors presents to the AGM guidelines regarding salary and other remuneration for the managing director and other executive management for the coming financial year in accordance with provisions of the Norwegian Public Limited Liability Companies Act, section 6-16 and section 5-6 third paragraph.

Remuneration policy for 2015

Any remuneration, bonuses or other incentive schemes must reflect the duties and responsibilities of the employees and add long-term value for shareholders.

Fixed remuneration

The Board of Directors has not set any upper or lower limit for the fixed salary of executive management for the coming financial year beyond the main principles set out above.

Variable remuneration

In addition to fixed salary, variable remuneration can be used to recruit, retain and reward employees. For management, such remuneration can include share-based compensation, including the allocation of options and cash bonuses. Annual bonuses, when awarded, are based on corporate results and/or individual performance.

Other types of variable remuneration include newspaper, mobile phone and broadband communication subscriptions paid in accordance with established rates. The Board of Directors can decide on the amount and specific criteria for such remuneration.

Employee share saving plan

DNO has established an employee share saving plan whereby employees can save a portion of their salary by purchasing synthetic shares at a discount to the company's share price. The purchase is matched by DNO if these shares are kept for a period of two years and the employee is still employed by the company. The Board of Directors may also allocate synthetic shares to key employees as remuneration in specific circumstances based on the general terms of the employee's share saving plan or on terms decided by the board.

Pension

DNO has a contribution-based pension system. All DNO employees are entitled to receive a pension contribution of 12.5 percent of their annual salary.

Share-based incentive scheme
The Board of Directors can implement a share-based incentive scheme involving the allocation of options to acquire shares. The principles of the program shall be (i) to align the interests of management and other employees with shareholders' interests, and (ii) to implement share-based rewards for value creation. The Board of Directors can decide whether to set allocation criteria, conditions or thresholds for the scheme.

Severance agreements
Severance payment agreements (up to two times annual salary) may be entered into selectively if the board finds this to be useful in recruitment.

Binding sections
Remuneration as it relates to the employee share saving plan or the share-based incentive scheme must be subject to a separate vote by the AGM and is binding once approved. Other sections of the remuneration policy are non-binding guidelines for the board and are therefore only subject to a consultative vote at the AGM.

Management remuneration for 2014
Executive management remuneration for 2014 was awarded in accordance with the guidelines approved by the AGM in 2014.

Executive management

BJØRN DALE
Managing Director
Mr. Dale joined DNO in 2011. Mr. Dale holds a Master of Law degree from the University of Oslo and an Executive Master of Business Administration degree in financial management from the Stockholm School of Economics.

JEROEN REGTIEN
Chief Operating Officer
Mr. Regtien joined DNO in 2015. During nearly 30 years with Royal Dutch Shell plc, Mr. Regtien held a number of managerial and executive positions in Egypt, the Netherlands, the United States, Brunei, Australia and Oman. He holds a degree in experimental physics from the Groningen State University.

HAAKON SANDBORG
Chief Financial Officer
Mr. Sandborg joined DNO in 2001. In addition to his oil and gas experience, Mr. Sandborg has a background in banking, including positions at DNB Bank ASA. He holds a Master of Business Administration degree from the Norwegian School of Business Administration.

CLAES ÅBYHOLM
General Counsel
Mr. Åbyholm joined DNO in 2014. With extensive legal experience in the oil and gas industry, Mr. Åbyholm previously served in senior legal management roles at Statoil ASA. He holds a Master of Law degree from the University of Oslo.

Parent Company

The parent company reported a net loss in 2014 of USD 154.6 million compared with a net loss of USD 157.5 million for 2013. The net loss in 2014 was highly influenced by write downs of shares and receivables on subsidiaries in the amount of USD 112.2 million. Total assets as of 31 December 2014 were USD 709.2 million. The long-term intercompany receivables were USD 116.3 million at year-end 2014. The company's cash balance at year-end 2014 was USD 108.5 million compared with USD 261.3 million for 2013, mainly due to investing activities in subsidiaries. Total shareholder's equity at year-end 2014 was USD 84.9 million compared with USD 239.5 million for 2013. The equity ratio decreased to 12 percent from 30 percent in 2013. No ordinary dividend is proposed for 2014 and the board of directors proposes that the annual loss of USD 154.6 is transferred from other equity.

Main events since year-end

On 10 March 2015, DNO announced the successful completion of an equity share offering, through which the company raised NOK 975 million in gross proceeds from the allocation of 73,584,906 shares at an offer price of NOK 13.25 per share. The offering comprises 60,534,906 new shares and all of DNO's 13,050,000 treasury shares, which were also sold as part of the offering.

Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for the period 1 January to 31 December 2014 have been prepared in accordance with IFRS and give a fair view of DNO ASA'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, 19 March 2015

Bijan Mossavar-Rahmani
Executive Chairman

Gunnar Hirsti
Director

Ellen K. Dyvik
Director

Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Bjørn Dale
Managing Director

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Consolidated statements of comprehensive income

USD mill	Note	1 January–31 December 2014	Restated* 2013
Sales	2, 3	452.0	503.0
Cost of goods sold	4	-316.5	-208.3
Gross profit		**135.5**	**294.7**
Other operating income		2.6	0.3
Tariffs and transportation		-4.2	-4.2
Administrative expense/Other operating expenses	5	-30.2	-30.2
Impairment oil and gas assets	10	-296.7	-182.3
Exploration cost expensed	6	-50.6	-10.3
Net gain/-loss from sale of PP&E	10	0.4	-0.1
Profit/-loss from operating activities		**-243.2**	**67.9**
Financial income	7	21.5	2.6
Financial expenses	7	-30.1	-12.3
Profit/-loss before income tax		**-251.8**	**58.2**
Income tax expenses	8	25.8	-31.3
Net profit/-loss		**-226.1**	**27.0**
Other comprehensive income			
Currency translation differences	14	0.4	10.6
Fair value changes available-for-sale financial assets	11	-	-
Other comprehensive income that may be reclassified to profit or loss in subsequent periods	8	**0.4**	**10.6**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**-**	**-**
Total comprehensive income, net of tax		**-225.7**	**37.6**
Net profit/-loss attributable to:			
Equity holders of the parent		**-226.1**	**27.0**
Total comprehensive income attributable to:			
Equity holders of the parent		**-225.7**	**37.6**
Earnings per share, basic	19	-0.23	0.03
Earnings per share, diluted	19	-0.23	0.03

* Restated due to change of presentation currency from NOK to USD see Note 1 for further information

Consolidated statements of financial position

USD mill	Note	As of 31 December 2014	As of 31 December Restated* 2013	As of 1 January Restated* 2013
ASSETS				
Non-current assets				
Goodwill	10	-	-	46.4
Deferred income tax assets	8	3.3	7.7	7.7
Other intangible assets	10	150.5	158.3	130.9
Property, plant and equipment	10	528.9	725.2	698.1
Available for sale investments	11	35.0	10.8	0.4
Other non-current assets		4.8	2.4	-
Total non-current assets		**722.5**	**904.4**	**883.6**
Current assets				
Inventories	4	77.7	50.8	40.9
Trade and other receivables	12	187.3	114.0	123.7
Cash and cash equivalents, restricted	13	3.5	2.5	1.8
Cash and cash equivalents, unrestricted	13	110.3	263.5	269.1
Total current assets		**378.8**	**430.7**	**435.6**
TOTAL ASSETS		**1,101.3**	**1,335.1**	**1,319.2**
EQUITY AND LIABILITIES				
Equity				
Share capital	14	33.6	33.6	33.6
Other reserves	14	175.1	174.7	164.2
Retained earnings	14	324.1	550.2	523.2
Total equity		**532.8**	**758.5**	**721.0**
Non-current liabilities				
Interest-bearing liabilities	15	214.7	230.4	238.0
Deferred income tax liabilities	8	34.4	101.5	140.4
Retirement benefit obligations		1.0	0.5	0.5
Provisions for other liabilities and charges	16	99.1	92.5	33.1
Total non-current liabilities		**349.2**	**424.9**	**412.0**
Current liabilities				
Trade and other payables	18	139.7	56.5	40.0
Income taxes payable	8	1.9	15.5	7.4
Provisions for other liabilities and charges	16	77.6	79.7	138.7
Total current liabilities		**219.2**	**151.7**	**186.2**
TOTAL EQUITY AND LIABILITIES		**1,101.3**	**1,335.1**	**1,319.2**

* Restated due to change of presentation currency from NOK to USD see Note 1 for further information

Oslo 19, March 2015

Bijan Mossavar-Rahmani
Executive Chairman

Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Ellen K. Dyvik
Director

Gunnar Hirsti
Director

Bjørn Dale
Managing Director

Consolidated cash flow statements

USD mill	Note	Years ended 31 December 2014	Restated* 2013
OPERATING ACTIVITIES			
Profit/-loss from operating activities before income tax		-251.8	58.2
Adjustments to add (deduct) non-cash items:			
+/- Net interest expense (-income)		12.6	7.2
Previously capitalized exploration and evaluation expenses	6	5.9	-
Depreciation of PPE	4	198.5	97.8
Impairment loss on oil and gas assets	10	296.7	182.3
Loss/-gain on PPE	10	-0.4	0.1
Impairment/Reversal impairment of financial assets	11	14.8	-
Other **		-4.2	52.3
Changes in working capital and provisions:			
- Inventories	4	-26.9	-9.9
- Trade and other receivables	12	-75.7	7.4
- Trade and other payables	18	83.1	16.5
- Provisions for other liabilities and charges		-2.0	-59.1
Cash generated from operations		250.5	352.8
Income taxes paid		-50.5	-62.1
Interest paid	7	-18.6	-20.3
Net cash from/-used in operating activities		**181.4**	**270.4**
INVESTING ACTIVITIES			
Purchases of intangible assets	10	-6.6	-35.9
Proceeds from sale of intangible assets	9	0.3	-
Purchases of tangible assets	10	-290.7	-252.5
Proceeds from sale of tangible assets	9	0.9	-
Purchases of available-for-sale financial assets	11	-38.9	-10.8
Proceeds from sale of available-for-sale financial assets	11	-	0.5
Interest received		0.4	0.6
Net cash from/-used in investing activities		**-334.5**	**-298.1**
FINANCING ACTIVITIES			
Proceeds from borrowings	15	-	-
Repayment of borrowings	15	-	-
Purchase of treasury shares, including options	15	-	-
Net cash from/-used in financing activities		**-**	**-**
Net increase/-decrease in cash and cash equivalents		**-153.1**	**-27.7**
Cash and cash equivalents at beginning of the period		265.9	270.9
Exchange gain/-losses on cash and cash equivalents		1.0	22.7
Cash and cash equivalents at end of the period	13	**113.8**	**265.9**
Hereof restricted cash	13	3.5	2.5

* Restated due to change of presentation currency from NOK to USD see Note 1 for further information

** Included in the line Other under Operating activities are foreign currency effects related to interest-bearing loans and equity, acquisition/disposals of PP&E with non-cash effect, change in accruals of long-term liabilities with non-cash effect and other non-cash items from investing and financing activities.

Consolidated statements of changes in equity

USD mill	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2014 (Restated)		**33.6**	**174.7**	**550.2**	**758.5**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	6.6	-	6.6
Reclassification of available-for-sale fair value change		-	-6.6	-	-6.6
Currency translation differences		-	0.4	-	0.4
Other comprehensive income/-loss		-	0.4	-	0.4
Loss for the period		-	-	-226.1	-226.1
Total comprehensive income		**-**	**0.4**	**-226.1**	**-225.7**
Purchase of treasury shares		-	-	-	-
Consideration shares merger		-	-	-	-
		-	**-**	**-**	**-**
Balance at 31 December 2014	14	**33.6**	**175.1**	**324.1**	**532.8**

USD mill	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013 (Restated)		**33.6**	**164.2**	**523.2**	**721.0**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-	-	-
Currency translation differences		-	10.6	-	10.6
Other comprehensive income/-loss		-	10.6	-	10.6
Profit for the period		-	-	27.0	27.0
Total comprehensive income		**-**	**10.6**	**27.0**	**37.6**
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		-	-	-	-
		-	**-**	**-**	**-**
Balance at 31 December 2013 (Restated)	14	**33.6**	**174.7**	**550.2**	**758.5**

Note 01

Summary of IFRS accounting principles applicable for 2014

Principal activities and corporate information

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

DNO is a public limited company incorporated and located in Norway at Dokkveien 1, Aker Brygge, 0113 Oslo. DNO is the ultimate parent of the DNO group (DNO and its subsidiaries) and the company's shares are listed on the Oslo Stock Exchange. DNO has its registered office in Oslo. The group's operating activities are mainly undertaken in the Middle East and North Africa.

Statement of compliance

The consolidated financial statements of the DNO group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for preparation

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

- Liabilities related to share-based payments, financial assets that are classified as available-for-sale, and inventories as a result of the net entitlement method, are recognized at fair value.

As permitted by IAS 1, the statement of comprehensive income 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.

The consolidated financial statements have been prepared based on a going concern assumption and are presented in US Dollars (USD) from 2014. Please refer to the section below for further details on the change in presentation currency. The functional currency of the parent company DNO ASA was changed from NOK to USD effective from 1 January 2014 due to changes in the nature of the operations and the way the company is financed. The change has been implemented with prospective effect.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following implementation of new or amended standards with effect from 1 January 2014:

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

The implementation of these standards have had no impact on the group's financial position or performance, however, additional disclosures are provided in these notes as a result.

Change of presentation currency

The group changed its presentation currency from NOK to USD with effect from 1 January 2014. A change of presentation currency is considered a change of accounting policy and is applied retrospectively. The following main procedures have been applied:

- Assets and liabilities of foreign operations where the functional currency is other than USD were translated into USD at the relevant closing rates of exchanges. Non-USD trading results were translated into USD at the relevant average exchange rates. Differences arising from the translation of the opening net assets and the results for the year have been recognized in the currency translation reserve.
- The foreign currency translation reserve was set to zero at the date of IFRS implementation (1 January 2005).
- Share capital, share premium and other reserves were translated at the historic rates prevailing at the dates of the transactions.

Significant accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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 revenue recognition, 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 recognized when new estimates are available and at least on every balance sheet date.

Estimates

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

- estimates of proven and probable reserves;
- timing of export payments for production from the Tawke field and payments related to the Water Purification Project (WPP);
- underlift related to local sales in the Kurdistan region of Iraq;
- operating costs, including asset retirement obligations, and other expenses;
- impairment assumptions such as future oil prices, weighted average cost of capital, timing of cash flows and future investments not enhancing or improving the assets performance.

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

Reserves and resources estimates are critical for the Group's impairment testing and also for depreciation – Oil and gas production properties are depreciated on a unit of production basis at a rate calculated by reference to total proved and probable developed plus proved and probable undeveloped reserves determined in accordance with the rules and guidelines of the Society of Petroleum Engineers (SPE) and incorporating the estimated future cost of developing those reserves.

All estimates of oil and gas reserves and resources involve uncertainty. In its estimation, the DNO group has applied determin-

Note 01
Summary of IFRS accounting principles applicable for 2014 continued

istic or scenario-based methods. The figures represent the 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 (see Note 24), calculated as the DNO group's entitlement to reserves under the applicable production sharing contracts (PSCs).

Important factors that could cause actual results to differ from the estimates include, but are not limited to: 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 highlight 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 contractors' entitlement to annual production is determined based on the PSCs and is subject to audit and confirmation by the relevant government authority in each country of operation.

The estimates for reserves and resources are made in accordance with the rules and guidelines of the SPE and are in conformity with requirements from the Oslo Stock Exchange for the reporting of reserves. The DNO group uses external petroleum consultants to evaluate the major reserves and resources.

Future development costs (both committed and uncommitted) are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs.

Underlift from local sales in Kurdistan – At the Tawke field in Kurdistan there is a temporary arrangement related to local sales, where the PSC terms as they relate to contractor entitlement currently are not followed. The imbalance is recorded as an underlift in the financial statements until the imbalance is settled. See note 12.

Contingencies, provisions and litigations – By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events. Management must use its judgment to evaluate certain provisions and litigations in order to ensure the correct accounting treatment. This includes the evaluation of future asset retirement obligations, contingent payments, payments related to the Water Purification Project (WPP) (see Note 16) and the timing of export payments in the Kurdistan region of Iraq.

Impairment of oil and gas assets – DNO has significant investments in property, plant and equipment and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, requiring the carrying amount to be written down to its recoverable amount. Management must determine whether there are circumstances indicating a possible impairment of the DNO group's oil and gas assets. The estimation of the recoverable amount for the oil and gas assets include evaluations related to expected future cash flows and future market conditions, including entitlement production and future oil prices and risk factors (discount rate). Several of DNO's licenses are expiring in the near future, which also affects the impairment calculations especially relating to the assumption on oil prices. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgment and may to a larger extent depend upon the selection of key assumptions about the future.

Risks associated with operating in the Kurdistan region of Iraq
As a result of the historical and legal position of the Kurdistan region of Iraq, and the relationships of the Kurdistan Regional Government (KRG) with the Federal Government of Iraq (FGI) and with neighboring countries such as Turkey, the DNO group and other international Exploration & Production (E&P) companies operating in the Kurdistan region of Iraq face a number of risks specific to Kurdistan as set forth below.

The DNO group holds interests in three license areas in the Kurdistan region of Iraq, pursuant to PSCs with the KRG. The FGI has historically disputed the validity of PSCs entered into with the KRG and this dispute has not been resolved. Article 112 of the Iraqi Constitution of 15 October 2005 provides for joint management of oil and gas extracted from present fields by the FGI and regional governments. Article 141 of the Iraqi Constitution provides that contracts entered into by the KRG prior to the adoption of the Iraqi Constitution in 2005 shall be considered valid unless they are amended or annulled pursuant to the laws of and by the competent entity in the Kurdistan region of Iraq, provided that they do not contradict the Iraqi Constitution. What is required under Article 112, particularly in respect of PSCs entered into prior to the adoption of the Iraqi Constitution, is unclear. All of the DNO group's PSCs were entered into by the KRG prior to the adoption of the Iraqi Constitution and the fields were not producing at the time of adoption. However there can be no assurance that the DNO group's PSCs are protected by the express grandfathering provisions of Article 141 read in light of Article 112. Further development of its assets in Kurdistan is a long-term strategic priority for the DNO group. An attempt by the FGI to revoke or materially alter the PSCs held by the DNO group in the Kurdistan region of Iraq could disrupt or halt the DNO group's operations in Kurdistan, lead to administrative fines or penalties, subject the DNO group to contractual damages, or delay or prevent the DNO group's execution of its strategy, any of which could have a material adverse effect on the DNO group's business, results of operations, financial condition and prospects. There can be no assurance that the DNO group will receive payments for its hydrocarbon exports.

Export sales from the Kurdistan region of Iraq have been conducted by the State Oil Marketing Organization of Iraq (SOMO), and the proceeds of hydrocarbon exports are collected, held and

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Summary of IFRS accounting principles applicable for 2014 continued

administered by the FGI Ministry of Finance. Export sales have also been conducted by the KRG itself. Payments held by the FGI are supposed to be remitted to regional authorities for onward remittance to international contractors. To date, the FGI has not passed on the oil contractors' full entitlements to the proceeds of export sales in the Kurdistan region of Iraq to the KRG, including proceeds to which the company believes the DNO group is entitled under its PSCs, and has at times withheld payments to the KRG in respect of hydrocarbon exports entirely.

In 2009, the DNO group and other international E&P companies halted exports from the Kurdistan region of Iraq after not receiving payment for any of the oil they exported in 2009. In total, 3.74 MMbbl of oil was exported from the Tawke field between June and September 2009, but no payment has been made to the DNO group in respect of its share in these volumes. The DNO group and other international E&P companies recommenced exports from the Kurdistan region of Iraq in February 2011 after the FGI and the KRG agreed to a protocol regarding payment to oil contractors under PSCs and the DNO group received partial payment for the oil it exported beginning in February 2011. The DNO group received a payment of USD 103.7 million from the KRG in June 2011 and a further USD 60 million in September 2011. One partial payment of USD 116 million was received in 2012. There were no exports or payments for past exports in 2013. In December 2014, DNO received a payment of USD 21 million from the KRG for past exports. The DNO group does not believe that the payments received to date provide a basis for assessing or estimating future trends in relation to whether future payments will be reconcilable to what the DNO group believes should be paid for oil exports.

There remains substantial uncertainty relating to the receipt of proceeds from oil that is exported from the Kurdistan region of Iraq, and there can be no assurance that: the FGI will not withhold further payments from the KRG in the future; payments made to the DNO group will correspond to the revenue to which the DNO group is entitled under its PSCs; or the DNO group will be able to export and/or that it will be paid its entire entitlement for exports from the Tawke field or any future producing fields. Any of these risks could result in a loss of production revenue to the DNO group and materially adversely affect the DNO group's business, results of operations, recoverability of capitalized intangible assets and PP&E, financial condition and prospects.

Judgments

See below for further details on important areas affected by judgments, including revenue recognition and deferred tax liabilities in Kurdistan.

Deferred tax liability in Kurdistan – Currently, deferred tax is not calculated for the activities in the Kurdistan region of Iraq, as there is uncertainty related to Kurdistan's tax laws and no well-established tax regime for the region. As such, it has not been possible to measure the corporate tax paid on behalf of the group, and it is the judgment of management that until a well established tax regime is in place, the group will not record a deferred tax liability. For further details on the potential liability, see Note 8.

Revenue recognition – The payment mechanism for oil export sales in the Kurdistan region of Iraq is still developing and currently does not follow the Production Sharing Contract (PSC) terms. As a result, there is uncertainty related to both timing and level of payments. Until a payment mechanism is well established, the recognition of export revenues is therefore done upon receipt of payment. Regarding payment mechanism for local sales in Kurdistan, DNO may not receive its full entitlement share in each period. Any imbalance between entitlement share and payments received is booked as under and/or overlift.

In addition to the above, there is general uncertainty related to seismic and geological models. Risk related to political issues in the countries the DNO group operates may also influence management decisions and estimates.

Group accounting and consolidation principles

Basis for consolidation

The consolidated financial statements comprise the financial statement of DNO and entities controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity and exposure or right to variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. DNO currently has 100 percent interest in all of its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Where necessary, the accounting policies of the subsidiaries have been adjusted to ensure consistency with the policies adopted by DNO.

All intercompany balances and transactions have been eliminated upon consolidation.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (NCI) in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree, either at fair value or at the proportionate share of the acquiree's identifiable net assets. The acquisition date is the date on which the acquirer obtains control of the acquiree. This is generally the date on which the consideration is legally transferred, the assets are acquired and liabilities are assumed (the closing date). However, the actual control might be obtained at an earlier or later stage than the closing date, for instance in the case of a written agreement that provides control at an earlier date. DNO considers all facts and circumstances when determining the acquisition date.

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The purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. These provisional estimates are finalized within 12 months of the acquisition date with any adjustments being recorded against goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate consideration transferred and the amount recognized for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. Technical goodwill will arise as a result of deferred tax on any excess values.

If the fair value attributable to DNO's share of the identifiable net assets exceeds the fair value of the consideration, DNO reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed. Any additional assets or liabilities that are identified in that review are recognized. If there is excess over fair value of the consideration that remains after reassessment, DNO recognizes the resulting gain in the profit or loss on the acquisition date.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the DNO cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Transaction costs related to business combinations are expensed and included in administrative expenses. Transaction costs include costs related to the transaction, such as corporate advisors' fees, legal fees, due diligence fees, stamp duties and accounting services.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date (being the date the acquirer gains control) through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability, will be recognized in accordance with IAS 39, either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured. Subsequent settlement is accounted for within equity. In instances, where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Acquisitions made by the DNO group that do not qualify as a business combination under *IFRS 3 Business Combinations*, are accounted for as asset acquisitions.

Interest in jointly controlled operations (assets)

IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The group's activities in the exploration and production segment are conducted through joint operations. Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint venture partners.

The group accounts for 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 operations 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 recognize its share of profits or losses from the joint operation that result from the group's purchase of assets from the joint operation until it divests the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realizable value of current assets, or an impairment loss, the loss is recognized immediately.

Foreign currency translation and transactions

Functional currency

The consolidated financial statements are presented in US Dollars (USD), which also is the parent company's functional currency from 1 January 2014.

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. Monetary items 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 recognized in profit or loss. 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 recognized directly in other comprehensive income until the investment has been disposed.

Group companies

Income statements and cash flows of subsidiaries and joint operations that have a functional currency different to the presentation currency for the group are translated to the presentation currency at average exchange rates each month. Balance sheet items are translated using the exchange rate at year-end and the translation differences are taken directly to other comprehensive income. When a foreign entity is sold, such translation differences are recognized in profit or loss 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

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Summary of IFRS accounting principles applicable for 2014 continued

operating cycle, if longer. The current portion of long-term debt is included under current liabilities. Investments in shares held for trading are classified as current assets, while strategic investments are classified as non-current assets. Other assets and other liabilities are classified as non-current assets and non-current liabilities.

Property, plant and equipment

General

Property, plant and equipment (PP&E) acquired by group companies are recognized at historical cost and adjusted for depreciation, depletion and amortization (DD&A) and impairment charges, if any. The carrying value of the PP&E in the statement of financial position represents the cost less accumulated DD&A and any impairment charges. Other fixed assets in use (excluding oil and gas properties) are generally depreciated on a straight-line basis, at rates varying from three to five years. Expected useful lives are reviewed at each balance sheet date and, where there are changes in estimates, depreciation periods are changed accordingly. Any change is accounted for prospectively. For oil and gas properties, expected useful life is the period of estimated production.

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to profit or loss during the financial period in which they are incurred. The cost of any major workover is included in the asset's carrying amount when it is probable that the group will derive future economic benefits exceeding the originally assessed standard of performance of the existing asset. 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.

Borrowing costs

Interest costs directly attributable to financing construction of PP&E 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. Borrowing costs consist of interest and other costs that the group incurs in connection with the borrowing of funds. Other borrowing costs are expensed when incurred. The capitalization of borrowing costs is recorded monthly based on the 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

The DNO group uses the successful efforts method to account for exploration, appraisal and development costs, where exploration costs are charged to expense as incurred.

However, drilling costs of exploration wells are temporarily capitalized pending the determination of oil and gas reserves. These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments made to contractors. 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. Geological and geophysical costs are recognized in profit or loss as incurred.

Costs of acquiring licenses are capitalized within intangible assets and amortized over the period of the license using the unit-of-production method. An assessment for impairment is made at each reporting date. This assessment involves confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine, that the discovery is economically viable. If no future activity is planned, the carrying value of the license acquisition costs is written off through profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

3D seismic acquisition over a discovery area is capitalized if it relates to drilling a well, 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 management appraise the reserves as commercially viable. All costs of developing commercial oil and/or gas fields are capitalized, including direct costs. Pre-operating costs are expensed in the period in which they are 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 reserves are calculated as the DNO group's entitlement to reserves under the contracts. The future development expenditures necessary to bring those reserves into production are included in the basis for depreciation, and are estimated by the management based on current period-end un-escalated price levels. Any changes in the reserves and cost estimates that affect unit-of-production rates, are dealt with prospectively.

Component cost accounting/decomposition

The group allocates the amount initially recognized in respect of an item of PP&E to its significant parts, and depreciates separately each such part over its useful life. For oil and gas assets (except exploration assets), the group uses field as the level of aggregation, as this represents the lowest level where separate cash flows can be identified. Exploration assets are assessed at well by well basis, and reclassified to cost if the well is dry. This means that there is no decomposition beyond field level. A plan for development is usually defined for each field, taking into consideration exploration wells, production wells and infill wells. The field reserves are evaluated according to the chosen production plan.

Intangible assets

The useful lives of intangible assets are assessed as either finite

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or infinite. Amortization of intangible assets is based on the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible asset might be impaired. The impairment review of intangible assets with infinite lives is undertaken annually.

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 decided upon, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets that are classified as intangible are assessed for impairment before reclassification. No amortization is charged during the exploration and evaluation phase.

Other intangible assets

Payments related to acquisition of licenses and subsequent payments are capitalized as license acquisition cost and depreciated using the unit-of-production method.

Impairment of non-current assets

PP&E and other non-current assets are reviewed for 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 include: decline in oil price, changes in future investments, or changes in reserve estimates. For the purpose 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. 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. Technical goodwill as a result of deferred tax on excess values is tested as part of the belonging cash generating unit.

A previously recognized impairment loss is reversed through profit or loss only if there has been a change in the estimates used to determine the recoverable amount. It is not reversed to an amount that would be higher than if no impairment loss had been recognized. 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 is when 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 cash consideration, the carrying of costs and/or the farmee's performance of some agreed upon action. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal. The farmee capitalizes or expenses the exploration, drilling and development costs as incurred according to the accounting method it is using. The farmor does not record any well and equipment costs. There are no accruals for future commitments in farm-in/farm-out agreements in the exploration and evaluation phase, and no profit or loss is recognized by the farmor. In the development or production phase, a farm-in/farm-out agreement will be treated as a transaction recorded at fair value as represented by the costs carried by the farmee. Any gain or loss arising on the farm-in/farm-out is recognized in the statement of comprehensive income.

License swaps/asset swaps

A situation where one or more items of PP&E are exchanged for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, should be measured at fair value, unless the transaction lacks commercial substance, or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident.

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 recognized 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 in the statement of financial position.

Investments and other financial assets

All purchases and sales of financial assets are recognized at the transaction date.

- Investments classified as available-for-sale (AFS) are measured at fair value. For listed investments, the market price is considered fair value. For un-listed investments, a valuation model is used to estimate fair value. Adjustments to fair value are recognized as other comprehensive income (OCI) until

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Summary of IFRS accounting principles applicable for 2014 continued

the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously reported in other comprehensive income is included as part of net result in the statement of comprehensive income. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss – is removed from OCI and recognized in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

- Investments classified at fair value through profit or loss are measured at fair value, with adjustments to fair value recognized immediately in profit or loss.
- 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 recognized when the loans and receivables are derecognized 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 intention and ability to hold to maturity. These assets are subsequently measured at amortized cost. 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 recognized in the statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

Impairment of financial assets

The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets needs to be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that these events have an impact on the estimated future cash flows from the asset that can be reliably estimated. If there is objective evidence of impairment for financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying value and the present value of future cash flows. The present value of the future cash flows are discounted using the asset's original effective interest rate. If a loan has a variable interest rate (floating interest rate), the discount rate for measuring any impairment loss is the current effective interest rate.

Derecognition of financial assets and liabilities

A financial asset is derecognized when:

- 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 derecognized when the obligation under the liability is discharged, cancelled or expires. A bond loan is derecognized when it is repurchased.

Derivative financial instruments and hedging

As of 31 December 2014, the group has no hedging instruments for accounting purposes.

Other long-term receivables

Other long-term receivables are measured at net present value when the payments are expected later than 12 months from the transaction date and are not interest bearing.

Trade receivables

Trade receivables are recognized and carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance for any uncollectible amounts or for extended payment terms. A provision is made when there is objective evidence that the group will not be able to collect the recoverable amount. Bad debts are written off when identified and recognized in the income statement.

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.

Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand, and short-term deposits with an original maturity of three months or less.

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Share capital

Ordinary shares

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

Repurchase of share capital (treasury shares)

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

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; and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized 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.

Financial expenses comprise: interest expense on borrowings; unwinding of the discount on provisions; changes in the fair value of financial assets measured at fair value through profit or loss; impairment losses recognized on financial assets; and losses on financial assets that are recognized in profit or loss.

Foreign exchange gains and losses are reported as financial income or financial expenses.

Inventories

Inventories, other than inventories of oil, are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realizable 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 overlift/underlift of crude oil are recorded at net realizable 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.

Interest-bearing liabilities

All loans and borrowings are initially recognized 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 recognized in profit or loss 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 recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Revenue recognition

Revenues from the production of oil and gas properties are recognized 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. The entitlement method assumes observable market prices and the risk for the seller to be minimal related to sale and distribution. To the extent that the entitlement method cannot be applied, the sales criteria from IAS 18 must be fulfilled in order to recognize revenues. Using the sales method, a liability (overlift) arises when the group sells more than its share of the production, and an asset (underlift) when the sale is less than the group's share of the production.

Local sales – the Kurdistan region of Iraq

The significant risks and rewards of ownership (title) are deemed to have passed on delivery of the crude oil to the customer at loading point. Revenue is recognized at this point.

Export sales – the Kurdistan region of Iraq

For the export sales, the significant risks and rewards of ownership (title) are considered to have passed on delivery of crude oil to the export pipeline. However, since no payment mechanism is yet in place for the export sale, DNO does not consider it possible to measure the revenue reliably at the delivery point. DNO therefore recognizes the revenue at the point of cash receipt.

Overlift and underlift of oil and gas using the entitlement method are valued at their net realizable 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. Under the sales method, overlift and underlift are recorded to cost.

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

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Summary of IFRS accounting principles applicable for 2014 continued

Production Sharing Agreements/Contracts (PSAs/PSCs)
In many countries ownership of unexploited petroleum resources remains with the state, whereas exploration, development and production is carried out by private contractors under a specific production sharing agreement/contract (PSA/PSC). The PSA/PSC 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 at a block. In particular it governs how the revenues from oil produced are to be shared between the government and the contracting oil producers. The DNO group operates currently under PSAs/PSCs in Yemen, Oman and the Kurdistan region of Iraq.

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

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

Under a PSA/PSC the government typically receives portions of oil produced in several steps. For instance a fraction of gross oil production (a royalty) might be payable to the government before any attribution to cost oil and profit oil. As described above, the government will also be entitled to a specified share of profit oil and in some instances a governmentally controlled enterprise can be entitled to a share as well. The sum of royalties and governmental share of profit oil, including that of a government controlled enterprise, represents the 'government take' of oil produced under a PSA/PSC.

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

PSAs/PSCs typically state that the ownership of the property, plant and equipment be transferred back to the government when the costs of the property, plant and equipment are fully recovered. The contractors are granted a free right of use for the remaining duration of the contract.

Income taxes

The tax expense consists of taxes payable and changes in 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; and
- It is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets related to tax losses carried forward are recognized when it is probable that the group will have a sufficient profit for tax purposes to utilize 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 recognized. The group recognizes previously unrecognized deferred tax assets to the extent that it has become probable that the group will be able to utilize the deferred tax asset. Similarly, the group will reduce its deferred tax assets to the extent that it can no longer utilize these.

Deferred tax and deferred tax assets are measured on the basis of the tax rates enacted at the balance sheet date, 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 recognized irrespective of when the differences will be reversed. They are recognized at their nominal value and classified as non-current assets (long-term liabilities) in the statement of financial position.

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

Production Sharing Agreements/Contracts (PSAs/PSCs)
The DNO group presents its operations governed by PSAs/PSCs according to the net entitlement method. For more information see section above regarding revenue recognition.

A PSA/PSC may also affect payment of corporate taxes. Normally, the contractor is liable for national corporate tax on taxable profits, which 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/PSCs 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 the DNO group's corporate tax eligible for classification as tax according to the IAS 12 definition, the group presents this element as an income tax expense with a corresponding increase in revenue. Currently, this only applies to the activities in Yemen and Oman, as there is no sufficiently well established tax regime in place yet in the Kurdistan region of Iraq. See also the section above on significant accounting estimates and assumptions and Note 8.

Note 01

Summary of IFRS accounting principles applicable for 2014 continued

Employee benefits

Pension obligations

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

Incentive program

An employee share-saving plan was introduced in 2013, through which employees can save parts of their salary in company synthetic shares. DNO will match the number of synthetic shares after a certain period conditional upon certain conditions. The arrangement is considered a cash-settled share-based payment arrangement since the settlement is made in cash instead of equity instruments (shares). DNO records a liability related to the matching of the synthetic shares and an accompanying cost element.

Provisions and contingent liabilities

A provision is recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is probable 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. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense related to any provision is presented in profit or loss net of any reimbursement. 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 the provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as interest expense.

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

Asset retirement obligations (decommissioning)

Provisions for decommissioning liabilities for oil and natural gas production facilities are recognized in full. The amount recognized 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 recognized. 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 classified as interest expense.

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 profit or loss in the period in which the estimate is revised.

Segment reporting

The group identifies and reports its segments based on reports to the corporate management and the board, who are considered the chief decision makers. Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss, and other key performance indicators. For the DNO group, the operating segments equal the reportable segments. The reportable segments provide products or services within a particular economic environment that is subject to risks and returns different from those of components operating in other economic environments. The group has identified its reportable segments based on the nature of the risk and return within its business, and by the geographical location of the group's assets and operations.

Transfer prices between the segments and companies are set using the arm's length principle in a manner similar to transactions with third parties.

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.

Related parties

Parties are related if one party has the ability - directly, jointly, or indirectly - to control the other party, or exercise significant influence over the party in making financial and operating decisions. Key management is also considered to be a related party. Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged. All transactions between the related parties are recorded at market value.

For more information about related parties, see Note 21.

Note 01

Summary of IFRS accounting principles applicable for 2014 continued

IFRS and IFRIC interpretations not yet effective

The standards and interpretations which could have an impact for DNO that are issued but not yet effective up to the date of issuance are listed below. The group intends to adopt these standards when they become effective.

- *IFRS 15 Revenues from contracts with customers*
  IFRS 15 was issued in May 2014 and the objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The standard introduces a new five-step model that will apply to revenue arising from contracts with customers.

Application of the standard is mandatory for annual reporting periods starting from 1 January 2017 onwards. Earlier application is permitted. The group is currently assessing the impact of IFRS 15 and plans to adopt the standard on the required effective date.

- *IFRS 9 Financial Instruments*
  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The standard is effective for annual periods beginning on or after 1 January 2018, though early adoption is permitted. The group is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the financial statements.

In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the group's financial assets, but will not have an impact on classification and measurement of financial liabilities. The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Note 02
Segment information

The DNO group identifies and reports its segments based on the information given to the chief decision makers, defined as the management and board of directors. Resources are allocated and decisions are made based on this information. The reportable 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 has identified its reportable segments based on the nature of the risks and returns within its business and by the location of the group's assets and operations. The DNO group primarily produces and sells crude oil and gas.

Inter-segment sales are based on the "arm's length" principle and are eliminated on consolidation. Segment profit does include profit from inter-segment sales.

The DNO group is reporting five operating segments: Kurdistan (KUR), Oman (OMAN), Yemen (YEM), Ras Al Khaimah (UAE) and Tunisia (TUN). The operating segments equal the reportable segments.

All oil in Yemen is sold to one customer, which is responsible for the further distribution. During 2014, the oil from Kurdistan has been sold locally to several customers.

In Oman, gas and LPG was sold to one customer, with the oil sold to multiple buyers on a bidding basis. The sale of gas and LPG constitutes 5 percent of the total sales from Oman.

From 1 January 2014, new rules for country-by-country reporting by companies in the extractive industries were introduced. DNO's report is available on the company's web site www.dno.no.

USD mill

Twelve months ended 31 December 2014	Note	KUR	OMAN	YEM	UAE	TUN	Total report. segment	Unalloc.	Elimin.	GROUP
INCOME STATEMENT INFORMATION										
External sales	3	306.6	87.2	58.2	-	-	452.0	-	-	452.0
Inter-segment sales		2.7	8.1	1.2	0.4	0.4	12.8	0.4	-13.1	-
Cost of goods sold	4	-179.6	-81.6	-53.9	-0.2	-0.1	-315.4	-0.1	-1.1	-316.5
Gross profit		**129.7**	**13.6**	**5.5**	**0.2**	**0.3**	**149.4**	**0.3**	**-14.2**	**135.5**
Other operating income		0.2	-	-	2.3	-	2.5	-	0.1	2.6
Tariffs and transportation		-0.3	-	-3.9	-	-	-4.2	-	-	-4.2
Administrative expenses	5	-0.3	-9.2	-0.1	-0.9	-	-10.5	-0.9	-13.7	-25.0
Other operating expenses	5	-2.5	-	-2.3	-0.4	-	-5.2	-	-0.1	-5.3
Impairment of oil and gas assets		-140.0	-55.1	-57.0	-44.5	-	-296.7	-	-	-296.7
Exploration cost expensed	6	-0.2	-14.6	-6.4	-0.7	-28.0	-50.0	-1.2	0.6	-50.6
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	0.4	-	0.4
Finance costs - net (excl. interest, gain/-loss on sale of shares)		-3.1	-1.1	-2.9	-0.2	-0.6	-7.8	-0.8	12.6	4.0
Segment operating result		**-16.5**	**-66.4**	**-67.1**	**-44.1**	**-28.3**	**-222.4**	**-2.3**	**-14.6**	**-239.2**
Interest - net										-12.6
Gain/-loss on sale of shares		-	-	-	-	-	-	-	-	-
Income tax expense		-	27.6	-1.8	-	-	25.8	-	-	25.8
Net loss										**-226.1**
BALANCE SHEET INFORMATION										
Capital expenditures this period		253.4	18.6	7.8	-0.3	7.0	286.5	0.2	9.5	296.1
Property, plant and equipment		454.1	53.1	10.6	-	0.9	518.8	0.1	10.1	528.9
Inventories		60.6	8.9	1.3	3.3	3.6	77.7	-	-	77.7
Other assets		262.9	114.8	24.1	0.4	78.0	480.1	1.0	13.5	494.7
Total segment assets		**777.5**	**176.8**	**36.0**	**3.7**	**82.5**	**1,076.6**	**1.1**	**23.6**	**1,101.3**
Unallocated corporate assets										-
Consolidated total assets										**1,101.3**
Total segment liabilities		**246.2**	**54.1**	**41.7**	**111.2**	**79.5**	**532.7**	**-37.6**	**-141.3**	**353.7**
Unallocated corporate liabilities										251.0
Consolidated total liabilities										**568.4**
OTHER SEGMENT INFORMATION										
Sale of petroleum products		309.3	95.3	59.4	0.4	0.4	464.8	0.4	-13.1	**452.0**
Lifting cost		-66.5	-14.2	-37.2	-	-0.0	-117.9	-	-	**-117.9**
Lifting cost (USD/boe) *		-7.3	-5.5	-42.0	-	-	-9.4	-	-	**-9.4**
Amortization and depreciation		-113.1	-67.5	-16.6	-	-0.1	-197.3	-0.1	-1.1	**-198.5**
Netback, including asset sale proceeds **		239.8	8.1	2.8	1.3	-27.6	224.4	-1.7	-19.1	**203.6**

Note 02
Segment information continued

USD mill

Twelve months ended 31 December 2013	Note	KUR	OMAN	YEM	UAE	TUN	Total report. segment	Unalloc.	Elimin.	GROUP
INCOME STATEMENT INFORMATION										
External sales	3	274.8	134.7	93.5	-	-	503.0	-	-	503.0
Inter-segment sales		3.6	5.6	1.8	2.5	1.5	15.0	0.4	-15.4	-
Cost of goods sold	4	-82.8	-60.0	-64.9	-	-	-207.7	-0.1	-0.5	-208.3
Gross profit		**195.7**	**80.2**	**30.4**	**2.5**	**1.5**	**310.3**	**0.3**	**-15.9**	**294.7**
Other operating income		0.3	-	-	-	-	0.3	-	-	0.3
Tariffs and transportation		-	-	-4.2	-	-	-4.2	-	-	-4.2
Administrative expenses	5	-0.2	-5.3	-0.1	-	-	-5.7	-1.1	-7.3	-14.0
Other operating expenses	5	-9.9	-	-3.8	-2.6	-	-16.3	-	-	-16.3
Impairment of oil and gas assets		-	-87.1	-	-95.2	-	-182.3	-	-	-182.3
Exploration cost expensed	6	-0.4	-1.6	-0.6	-0.4	-6.3	-9.4	-0.4	-0.5	-10.3
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	-	-0.1	-0.1
Finance costs - net (excl. interest, gain/-loss on sale of shares)		-2.1	-0.5	-2.7	-0.5	-0.4	-6.2	0.8	2.8	-2.5
Segment operating result		**183.4**	**-14.3**	**19.0**	**-96.3**	**-5.1**	**86.6**	**-0.4**	**-20.9**	**65.4**
Interest - net										-7.2
Gain/-loss on sale of shares		-	-	-	-	-	-	-	-	-
Income tax expense		-	-22.4	-8.8	-	-	-31.3	-	-	-31.3
Net profit										**27.0**
BALANCE SHEET INFORMATION										
Capital expenditures this period		167.8	32.0	26.7	60.0	-	286.5	3.6	-	290.1
Property, plant and equipment		446.6	156.0	76.0	44.8	-	723.5	1.7	-	725.2
Inventories		35.6	10.6	1.2	3.3	-	50.8	-	-	50.8
Other assets		203.8	99.6	41.2	1.2	9.9	355.6	203.5	-	559.1
Total segment assets		**686.0**	**266.2**	**118.4**	**49.3**	**9.9**	**1,129.9**	**205.3**	**-**	**1,335.1**
Unallocated corporate assets										-
Consolidated total assets										**1,335.1**
Total segment liabilities		**198.9**	**19.1**	**6.8**	**104.4**	**4.9**	**334.1**	**-104.9**	**-**	**229.2**
Unallocated corporate liabilities										347.4
Consolidated total liabilities										**576.6**
OTHER SEGMENT INFORMATION										
Sale of petroleum products		278.4	140.2	95.4	2.5	1.5	518.0	0.4	-15.4	**503.0**
Lifting cost		-46.9	-19.0	-44.7	-	-	-110.6	-	-	**-110.6**
Lifting cost (USD/boe) *		-5.3	-5.2	-33.7	-	-	-8.0	-	-	**-8.0**
Amortization and depreciation		-35.9	-41.0	-20.3	-	-	-97.2	-0.1	-0.5	**-97.8**
Netback, including asset sale proceeds **		221.4	62.4	27.2	-0.5	-6.3	304.2	-1.1	-17.1	**285.9**

* Excluding exported volumes from Kurdistan
** Netback is defined as EBITDA adjusted for taxes paid

Note 03
Sales

DNO presents its operations governed by PSAs according to the net entitlement method, except for the export sales for Kurdistan (see below). For more information see accounting principles on revenue recognition.

USD mill	Years ended 31 December 2014	2013
Sale of petroleum products	452.0	503.0
Other income	-	-
Total sales	**452.0**	**503.0**

There has been a combination of export and local sales from the Tawke field in the Kurdistan region of Iraq in 2014. The share of exported volumes has increased during the year. Local sales were delivered against short-term contracts. The payment mechanism for local sales has resulted in an underlift to contractors of USD 150.6 million from local sales only. The payment mechanism for the export sales is not in place yet, and export revenues in 2014 were only recognized based on the payment of USD 21 million received from the KRG in December 2014. The payment received was not related to any spesific period or volume and was considered an ad-hoc payment for exported volumes. As the conditions for using the net entitlement method are not fulfilled, the method is not applied for the Kurdistan revenues, and according to DNO's accounting principle, revenues from export sales will only be recognized based on cash received.

Gross exported volumes were 3.7 MMbbls in 2009, 15.2 MMbbls in 2011, 7.5 MMBbls in 2012 and 18.6 MMbbls in 2014. The first payment in 2011 of USD 103.7 million was related to export volumes for February and March 2011, a total of 2.1 MMbbls. There was no confirmation of price or volumes for the second payment in 2011 of USD 60 million, third payment of USD 116 million received in December 2012 or the fourth payment of USD 21 million in December 2014. DNO's entitlement of historical export will be based on PSC terms regarding allocation of profit oil and cost oil.

Note 04
Cost of goods sold/inventory

USD mill	Years ended 31 December 2014	2013
Lifting costs*	-117.9	-110.6
Depreciation, depletion and amortization	-198.5	-97.8
Other cost of goods sold	-0.2	-
Total cost of goods sold	**-316.5**	**-208.3**

* 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 internal costs.

USD mill	Years ended 31 December 2014	2013
Spare parts and drilling equipment	77.7	50.8
Total inventory	**77.7**	**50.8**

USD 60.6 million is related to the fields in Kurdistan, USD 1.3 million is related to Yemen, USD 3.6 million is related to Tunisia while USD 12.2 million relates to drilling and equipment for the offshore blocks in Oman and Ras Al Khaimah. The inventory is not pledged.

Note 05
Administrative/other expenses

This note should be read in conjunction with Note 21 on related parties.

USD mill	Years ended 31 December 2014	2013
Salaries and social expenses *	-0.7	9.1
General and administration expenses	-21.7	-23.2
Other operating expenses **	-7.8	-16.2
Total administrative/other expenses	**-30.2**	**-30.2**

* Salaries and social expenses directly attributable to operations are reclassified to lifting cost and exploration cost in profit or loss.
** Other operating expenses are general and administration costs related to fields in development, which are not capitalized.

Specification of salaries and social expenses

USD mill	Years ended 31 December 2014	2013
Salaries, bonuses, etc.	-38.8	-29.8
Employer's payroll tax expenses	-3.5	-1.9
Pensions	-1.3	-0.8
Other personnel costs	-5.3	-3.0
Reclassification of salaries and social expenses to lifting costs and exploration costs	48.2	44.6
Salaries and social expenses	**-0.7**	**9.1**
Average man-year labour	67	47

An employee share-saving plan was introduced in 2013, through which employees can save parts of their salary in synthetic company shares.

Pensions

DNO has a defined contribution scheme for employees in DNO ASA (parent company). In 2014, a total of USD 1.2 million was expensed under the scheme, compared with USD 0.6 million for 2013. 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 Managing Director, executive management and board of directors:

USD mill	Years ended 31 December 2014	2013
Managing Director:		
Remuneration	0.65	0.46
Pension	0.02	0.01
Bonus	0.22	0.18
Other remuneration	0.01	0.02
Total compensation paid to Managing Director	**0.90**	**0.67**
Other executive management:		
Remuneration	0.50	3.23
Pension	0.03	0.07
Bonus	0.03	0.30
Other remuneration	0.01	0.21
Total compensation paid to executive management	**0.56**	**3.82**
Number of managers included	2	8
Board of directors	**1.29**	**0.93**
Total director and executive remuneration	**2.75**	**5.41**

For further specifications of remuneration to executive management, see Note 3 in the parent company accounts.

Severance payment agreements (equal to one or two times annual salary depending on the circumstances) apply to the following executives in DNO ASA: Bjørn Dale, Haakon Sandborg and Claes Åbyholm.

No loans have been granted and no guarantees have been issued for executive management, shareholders or members of the board of directors.

Note 05
Administrative/other expenses continued

Shares and options held by directors and executive management as at 31 December 2014

Directors and executive management	Shares	Options
Bijan Mossavar-Rahmani, Executive Chairman *	-	-
Lars Arne Takla, Deputy Chairman (Takla Energy AS)	10,000	-
Gunnar Hirsti, Director (Hirsti Invest AS)	250,000	-
Ellen K Dyvik, Director	-	-
Shelley Watson, Director	-	-
Bjørn Dale, Managing Director	-	-
Haakon Sandborg, Chief Financial Officer	-	-
Claes Åbyholm, General Counsel	-	-
Total	**260,000**	**-**

* Bijan Mossavar-Rahmani was nominated by RAK Petroleum plc, the largest shareholder which as of 31 December 2014 holds 43.39 percent of the shares in DNO ASA (adjusted for treasury shares, see Note 14).

Auditor's fee

USD mill (excluding VAT)	Years ended 31 December 2014	2013
Auditor's fee	0.58	0.62
Other financial auditing	0.01	0.05
Tax advisory services	0.01	0.16
Other advisory services	0.00	-
Total fees	**0.60**	**0.83**

Note 06
Exploration expenses

USD mill	Years ended 31 December 2014	2013
Exploration expenses (G&G and field surveys)	-12.9	-3.4
Seismic costs	-14.8	-0.4
Exploration costs capitalized in previous years carried to cost	-5.9	-
Exploration costs capitalized this year carried to cost	-10.3	-
Other exploration cost expensed	-6.7	-6.6
Total exploration cost expensed	**-50.6**	**-10.3**

Exploration costs capitalized in previous years carried to cost are related to dry well cost in Yemen (Block 47).
Exploration costs capitalized this year carried to cost are related to dry well cost in Tunisia (Sfax Offshore License).
In addition, there have been field studies and geology work in all business segments.

Note 07
Financial income and financial expenses

USD mill	Years ended 31 December 2014	2013
Interest received	0.5	1.4
Other financial income	-	-
Exchange rate gain, unrealized items	19.4	-
Exchange rate gain realized items	1.5	1.2
Financial income	21.5	2.6
Interest expense	-24.0	-20.7
Capitalized interest	1.0	12.2
Exchange rate loss unrealized items	-1.2	-2.4
Exchange rate loss realized items	-1.0	-0.5
Impairment of financial assets	-14.8	-
Other financial expenses	9.8	-0.8
Financial expenses	-30.1	-12.3
Net finance	**-8.6**	**-9.7**

Capitalized interest of USD 1 million relates to development projects in the Kurdistan region of Iraq.
Impairment of financial assets of USD 14.8 million relates to shares in RAK Petroleum plc, see Note 11.

Note 08
Taxes

Income tax expense

USD mill	Years ended 31 December 2014	2013
Changes in deferred taxes	62.6	39.0
Income taxes payable related to Production Sharing Agreements (PSAs) in Yemen and Oman	-36.8	-70.2
Total income tax expense	**25.8**	**-31.3**

Reconciliation of the year's income tax

USD mill	Years ended 31 December 2014	2013
Profit before income tax	**-251.8**	**58.2**
Expected income tax according to nominal tax rate (27 %)	68.0	-15.7
Expected petroleum tax	-	-
Effect of earned uplift	-	-
Taxes paid in kind under PSAs exceeding 27 %	-11.9	-27.4
Adjustment of previous years	-	-0.7
Adjustment of deferred tax assets not recorded	2.2	-8.9
Impairment financial assets (reversal of impairment), non deductible for tax purpose	-	-
Non-deductible expenses/non-taxable income	-	-
Other items	-32.6	24.0
Change in tax rate	-	-2.6
Total income taxes	**25.8**	**-31.3**
Effective income tax rate	**10.2 %**	**53.7 %**
Taxes charged to equity	**-**	**-**

Temporary differences relate to the following items:

USD mill	Years ended 31 December 2014	2013
Other current items	-	-
Tangible assets	-31.1	-93.7
Other fixed items (receivables, abandonment, etc.)	-3.5	-1.9
Losses carried forward	61.5	62.1
Total	26.9	-33.6
Deferred tax asset allowance	-58.0	-60.2
Total deferred taxes	**-31.1**	**-93.7**
Capitalized deferred tax assets	6.6	15.4
Capitalized deferred tax liabilities	-37.7	-109.2

Income taxes payable amounting to USD 1.9 million (compared to USD 15.5 million in 2013) relate entirely to the company tax element of the production sharing agreements in Yemen and Oman. The taxes payable will be settled in kind. Reference is made to Note 1 Accounting principles.

The tax losses carry forward of USD 62 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 approximately GBP 23 million where the main part of this can be carried forward indefinitely.

The group offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

There are no tax consequences attached to items recorded in other comprehensive income.

The deferred tax asset of USD 3.3 million at year-end 2014 (compared to USD 7.7 million in 2013) relates to unused cost oil position in Block 47 in Yemen.

In DNO's results for the period ended 31 December 2014, no presentation of taxation expense with an equivalent gross up for revenue has been accounted for the Kurdistan operations in the period, because it has not been possible to measure reliably the amount of taxation paid on behalf of DNO due to uncertainties over how the amount of taxation should be calculated. This is an accounting presentational issue and there is no taxation to be paid. Contingent on the fulfilment of the criterias in IAS 12 "Income Taxes", DNO's recorded revenues from Kurdistan will be grossed up with a corresponding income tax expense (corporate tax), and a deferred tax liability will be recorded. As at 31 December 2014, the deferred tax would amount to approximately USD 142 million.

Note 08
Taxes continued

There is an ongoing process to apply to the Norwegian Ministry of Finance for tax credit treatment for the results of operations in Oman and the UAE. For 2013 and beyond, the credit method will be eliminated due to changes in legislation, as profits from oil activities in these countries are no longer taxable to Norway. Further exploration expenses will no longer be deductible.

Note 09
Financial risk management objectives and policies

Overview

As an international oil company, the DNO group is exposed to a range of risks affecting its financial performance, including oil price risk, liquidity risk, currency risk, interest rate risk and credit risk. DNO seeks to minimize potential adverse effects of such risks through sound business practice, risk management programs and use of derivative financial instruments.

This note presents information about the DNO group's exposure to main financial risks, as well as its objectives, policies and processes for measuring and managing such risks. 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 mitigates financial risks in close cooperation with the group's operating units. The board also approves principles for overall risk management, as well as business procedures covering specific areas. The audit committee monitors compliance with the group's risk management policies and business procedures, including review of the risk management framework in relation to risk exposure faced by the group.

Oil price risk

Oil price fluctuations may have considerable impact on the DNO group's earnings. The group may from time to time enter into crude oil derivative contracts to reduce cash flow volatility from its oil sales. The group has not had any derivative contracts in 2014 or 2013.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash balances, marketable securities, credit facilities and other financial resources to maintain financial flexibility under dynamic market conditions.

The DNO group maintained a conservative capital spend throughout 2014 and had a free cash position of USD 113.8 million at year-end. The decrease in cash from last year was mainly due to lower revenues and higher costs. It is expected that planned future investments will be funded from operational cash flow, cash balances and credit facilities, and revenues from Kurdistan local sales and export will drive future capital programs.

On 10 March 2015, DNO announced the successful completion of an equity share offering, through which the company raised NOK 975 million in gross proceeds from the allocation of 73,584,906 shares at an offer price of NOK 13.25 per share. The offering comprises 60,534,906 new shares and all of DNO's 13,050,000 treasury shares, which were also sold as part of the offering.

The tables below summarize the maturity profile of the group's financial liabilities based on contractual undiscounted cash flows. Other liabilities also include interest on bonds up to maturity date.

USD mill At 31 December 2014	**Less than 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**	**Total**
Interest bearing loans and borrowings			214.7		214.7
Other liabilities			199.3	1.0	200.3
Taxes payable	1.9				1.9
Trade and other payables	139.7				139.7
					556.6

USD mill At 31 December 2013	**Less than 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**	**Total**
Interest bearing loans and borrowings			230.4		230.4
Other liabilities			218.0	0.5	218.5
Taxes payable	15.5				15.5
Trade and other payables	56.5				56.5
					520.9

Note 09

Financial risk management objectives and policies continued

Currency risk

From 1 January 2014, the functional currency for the parent company and the presentation currency for the group were changed from NOK to USD. DNO's commercial revenues are received in USD, and corporate operational costs are mostly in USD, NOK and EUR. Following the currency change, the company has lower exposure related to corporate currency risk. In addition, the company has financial expenses in both USD and NOK, from its interest-bearing debt funding in both currencies. There is still some exposure arising from conversion from functional currencies of subsidiaries to presentation currency in USD for the parent company.

The following table demonstrates the sensitivity to a reasonable possible decrease/increase in the NOK/GBP/EUR exchange rate, with all other variables held constant, of the group's profit before tax and equity.

	Decrease/increase in NOK/GBP/EUR	Effect on profit before tax (USD mill)	Effect on equity (USD mill)
31 December 2014	-/+ 10%	-/+ 11.5	-/+ 0.0
31 December 2013	-/+ 10%	-/+ 11.5	-/+ 0.0

Interest rate risk

DNO's interest rate risk arises from interest-bearing debt issued at floating rates.

As at 31 December 2014, DNO has two bond loans with floating rates, both of which mature in 2016.

Fixed interest rates are 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.

As at 31 December 2014, DNO has no interest rate hedging instruments.

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 (USD mill)	Effect on equity (USD mill)
2014	+/- 100	+/- 2.4	+/- 0.0
2013	+/- 100	+/- 2.3	+/- 0.0

Credit risk

DNO has no significant concentration of credit risk for its oil and gas sales contracts. It has policies in place to ensure that sales are only made to customers with adequate credit strength. The group has one customer in Yemen and several customers in the Kurdistan region of Iraq. In Kurdistan, the customers mainly pay in advance. In Oman, the oil and gas is sold to two customers. The group has no recent historical losses on trade receivables. See Note 12 for details on trade receivables. Based on past history of export sales in the Kurdistan region of Iraq, DNO only recognizes revenue when payment is received.

DNO has policies that limit the amount of credit exposure to any financial institution. Cash deposits and derivative contracts are primarily maintained with investment grade financial institutions. Maximal credit risk per 31 December 2014 is USD 187.3 million.

Market risk on investments

DNO is exposed to market risk on investments that are primarily classified as available-for-sale. Adjustments to fair value are recognized in other comprehensive income until the investment is sold. In case of impairment of available-for-sale investments, previously fair value changes recorded in other comprehensive income are reversed and taken through profit or loss. The group's financial investments are currently limited to shares in RAK Petroleum plc, DNO's largest shareholder (see Note 11).

Political risk

Our portfolio is located in countries where political, social and economic instability may adversely impact our business, which could have negative impact on book value of our assets and the underlift balance in Kurdistan. The political situation in Yemen was fragile and unpredictable in 2014, and this condition is expected to persist in the short term. At the same time, we continue to proactively monitor the political and security conditions in Kurdistan as a deteriorating situation may affect our ability to sustain operations in the region in the short to medium term. DNO expects to receive additional payments for past and ongoing exports, but timing remains uncertain.

Entitlement risk

DNO has interests in three licenses in Kurdistan through Production Sharing Contracts (PSCs) and sees its entitlement benefits as pursuant to the terms of these PSCs. Although DNO believes the company has valid legal entitlements to its oil and gas licenses, including the right to explore for and produce oil and gas from these licenses, the federal government of Iraq has historically challenged the validity of these PSCs. Because of continuing disagreements between the federal government of Iraq and the KRG, DNO is limited in its ability to monetize oil from Kurdistan. There is no guarantee that oil can be exported or delivered to the local market in sufficient quantities or at reasonable prices, or that DNO will promptly receive its full entitlement payment for the oil it delivers.

Note 09

Financial risk management objectives and policies continued

The payment mechanism for oil export sales in the Kurdistan region of Iraq is under development, and the DNO group currently does not follow the Production Sharing Contract (PSC) terms. As a result of this, there is uncertainty related to both timing of export revenue and receipt of payments. The recognition of export revenues are therefore done upon receipt of payment until a payment mechanism is well established. The payment mechanism for local sales in Kurdistan is such that each participant may not receive its full entitlement share in each period. The imbalance between entitlement share and actually received payments is booked as under-/overlift.

Capital management

DNO manages and adjusts its capital structure in light of actual and anticipated developments for its operations.
The capital structure may be adjusted through equity or debt transactions, asset restructuring and several other measures.

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 should be 30 percent or higher. As of 31 December 2014, the book equity ratio was 48.4 percent, (compared to 56.5 percent in 2013).

	31 December	
USD mill	**2014**	**2013**
Total equity	532.8	758.5
Total assets	1,101.3	1,335.1
Book equity ratio	**48.4 %**	**56.5 %**

Financial instruments by category

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 is 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 2014		31 December 2013	
USD mill	**Notes**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets					
Bank deposits	13	113.8	113.8	265.9	265.9
Derivative financial instruments (current)		-	-	-	-
Derivative financial instruments (non-current)		-	-	-	-
Other financial assets at fair value through P&L		-	-	-	-
Available-for-sale investments	11	35.0	35.0	10.8	10.8
Other financial assets (current)	12	187.3	187.3	114.0	114.0
		336.1	**336.1**	**390.7**	**390.7**
Financial liabilities					
Current interest-bearing liabilities	15	-	-	-	-
Derivative financial instruments		-	-	-	-
Interest-bearing liabilities (non-current)	15	214.7	213.1	230.4	242.4
		214.7	**213.1**	**230.4**	**242.4**

Set out below are carrying values of the group's financial assets and liabilities sorted by category according to IAS 39.

2014 – USD mill	**Notes**	**Assets at fair value through profit or loss**	**Held to maturity invest-ments**	**Loans and recei-vables**	**Available for sale invest-ments**	**Total**
Financial assets						
Bank deposits	13	-	-	113.8	-	113.8
Derivative financial instruments (current)		-	-	-	-	-
Derivative financial instruments (non-current)		-	-	-	-	-
Other financial assets at fair value through P&L		-	-	-	-	-
Available-for-sale investments	11	-	-	-	35.0	35.0
Trade and other receivables	12	-	-	187.3	-	187.3
		-	**-**	**301.1**	**35.0**	**336.1**

Note 09

Financial risk management objectives and policies continued

2014 – USD mill	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortized cost	Non-financial liabilities	Total
Financial liabilities					
Current interest-bearing liabilities	15	-	-	-	-
Derivative financial instruments		-	-	-	-
Interest-bearing liabilities (non-current)	15	-	214.7	-	214.7
Provision for other liabilities and charges (current)	16	-	-	77.6	77.6
Provision for other liabilities and charges (non-current)	16	-	-	100.1	100.1
Trade and other payables	18	-	-	139.7	139.7
		-	**214.7**	**317.4**	**532.1**

2013 – USD mill	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
Financial assets						
Bank deposits	13	-	-	265.9	-	265.9
Derivative financial instruments (current)		-	-	-	-	-
Derivative financial instruments (non-current)		-	-	-	-	-
Other financial assets at fair value through P&L		-	-	-	-	-
Available-for-sale investments	11	-	-	-	10.8	10.8
Trade and other receivables	12	-	-	114.0	-	114.0
			-	**379.9**	**10.8**	**390.7**

2013 – USD mill	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortized cost	Non-financial liabilities	Total
Financial liabilities					
Current interest-bearing liabilities	15	-	-	-	-
Derivative financial instruments		-	-	-	-
Interest-bearing liabilities (non-current)	15	-	230.4	-	230.4
Provision for other liabilities and charges (current)	16	-	-	79.7	79.7
Provision for other liabilities and charges (non-current)	16	-	-	93.0	93.0
Trade and other payables	18	-	-	56.5	56.5
		-	**230.4**	**229.2**	**459.6**

Note 09
Financial risk management objectives and policies continued

Fair value hierarchy

As at 31 December 2014, the group held the following financial instruments measured at fair value:

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

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value, that are not based on observable market data

Assets measured at fair value (USD mill)

	31 December 2014	Level 1	Level 2	Level 3
Available for sale investments	35.0	35.0	-	-

Assets measured at fair value (USD mill)

	31 December 2013	Level 1	Level 2	Level 3
Available for sale investments	10.8	-	10.8	-

The available for sale investments are shares in RAK Petroleum plc, which has been reclassified from level 2 to level 1 following the listing of the shares on the Oslo Stock Exchange in November 2014. See Note 11 for further details on the investment.

Liabilities measured at fair value (USD mill)

	31 December 2014	Level 1	Level 2	Level 3
WPP liability	129.0	-	-	129.0
Production bonuses	30.8	-	-	30.8
Bond loans	213.1	213.1	-	-

Liabilities measured at fair value (USD mill)

	31 December 2013	Level 1	Level 2	Level 3
WPP liability	129.7	-	-	129.7
Production bonuses	25.3	-	-	25.3
Bond loans	242.4	242.4	-	-

The WPP liability and production bonuses are included in provision for other liabilities and charges (see Note 16).

Note 10

Property, plant and equipment/intangible assets

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

PROPERTY, PLANT AND EQUIPMENT

2014 – USD mill	Develop-ment assets	Assets in operation	Total oil & gas properties	Other PP&E	Total
At 1 January 2014					
Cost	358.6	1,158.4	1,517.0	8.0	1,525.0
Accumulated impairment	-100.5	-35.6	-130.8	-	-136.0
Accumulated depreciation	-	-659.0	-659.0	-4.8	-663.8
Net book amount	**258.1**	**463.9**	**722.0**	**3.2**	**725.2**
Period ended 31 December 2014					
Opening net book amount	258.1	463.9	722.0	3.2	725.2
Exchange differences	-	-	-	-	-
Additions	69.2	210.5	279.7	11.0	290.6
Transfers	-246.1	246.1	-	-0.1	-0.1
Disposals	-	-	-	0.1	0.1
Impairment	-77.4	-216.9	-294.3	-	-294.3
Depreciation charge	-	-190.7	-190.7	-1.9	-192.6
Closing net book amount	**3.8**	**512.9**	**516.7**	**12.2**	**528.9**
At 31 December 2014					
Cost	181.7	1,615.0	1,796.7	18.9	1,815.6
Accumulated impairment	-177.9	-252.4	-430.3	-	-430.3
Accumulated depreciation	-	-849.7	-849.7	-6.7	-856.4
Net book amount	**3.9**	**512.9**	**516.8**	**12.2**	**528.9**
Depreciation method	UoP	UoP		3-5 years linear	

INTANGIBLE ASSETS

2014 – USD mill	License interest	Explo-ration assets	Goodwill	Total
At 1 January 2014				
Cost	95.6	97.4	46.4	239.4
Accumulated impairment	-5.9	-	-46.4	-52.3
Accumulated depreciation	-28.9	-	-	-28.9
Net book amount	**60.8**	**97.4**	**-**	**158.3**
Period ended 31 December 2014				
Opening net book amount	60.8	97.4	-	158.3
Exchange differences	-	-	-	-
Additions	7.2	-0.6	-	6.6
Transfers	-	-	-	-
Disposals	-0.3	-	-	-0.3
Impairment	-2.2	-5.9	-	-8.1
Depreciation charge	-6.0	-	-	-6.0
Closing net book amount	**59.5**	**90.9**	**-**	**150.5**
At 31 December 2014				
Cost	102.5	96.8	46.4	245.7
Accumulated impairment	-8.1	-5.9	-46.4	-60.3
Accumulated depreciation	-34.9	-	-	-34.9
Net book amount	**59.5**	**90.9**	**-**	**150.5**
Depreciation method	UoP	UoP		

The transfer from Development assets to Assets in operations in 2014 is related to the Summail field in the Dohuk license and the Benenan and Bastora fields in the Erbil license.

There is no pledge over the oil and gas assets.

Note 10

Property, plant and equipment/intangible assets continued

PROPERTY, PLANT AND EQUIPMENT

2013 – USD mill	Develop-ment assets	Assets in operation	Total oil & gas properties	Other PP&E	Total
At 1 January 2013					
Cost	216.7	1,051.2	1,268.0	5.2	1,273.2
Accumulated impairment	-5.2	-	-5.2	-	-5.2
Accumulated depreciation	-	-566.1	-566.1	-3.8	-569.9
Net book amount	**211.5**	**485.1**	**696.6**	**1.5**	**698.1**
Period ended 31 December 2013					
Opening net book amount	211.5	485.1	696.6	1.5	698.1
Exchange differences	-	-	-	-	-
Additions	142.4	107.1	249.6	2.9	252.5
Additions through business combinations	-	-	-	-	-
Transfers	-0.5	-	-0.5	-	-0.5
Disposals	-	-	-	-0.1	-0.1
Impairment	-95.2	-35.6	-130.8	-	-130.8
Depreciation charge	-	-92.9	-92.9	-1.0	-93.9
Closing net book amount	**258.1**	**463.9**	**722.0**	**3.2**	**725.2**
At 31 December 2013					
Cost	358.6	1,158.4	1,517.0	8.0	1,525.0
Accumulated impairment	-100.5	-35.6	-136.0	-	-136.0
Accumulated depreciation	-	-659.0	-659.0	-4.8	-663.8
Net book amount	**258.1**	**463.9**	**722.0**	**3.2**	**725.2**
Depreciation method	UoP	UoP		3-5 years linear	

INTANGIBLE ASSETS

2013 – USD mill	License interest	Explo-ration assets	Goodwill	Total
At 1 January 2013				
Cost	92.2	64.5	46.4	203.0
Accumulated impairment	-0.7	-	-	-0.7
Accumulated depreciation	-25.0	-	-	-25.0
Net book amount	**66.5**	**64.5**	**46.4**	**177.3**
Period ended 31 December 2013				
Opening net book amount	66.5	64.5	46.4	177.3
Exchange differences	-	-	-	-
Additions	3.4	32.4	-	35.9
Additions through business combinations	-	-	-	-
Transfers	-	0.5	-	0.5
Disposals	-	-	-	-
Impairment	-5.1	-	-46.4	-51.5
Depreciation charge	-3.9	-	-	-3.9
Closing net book amount	**60.9**	**97.4**	**-**	**158.3**
At 31 December 2013				
Cost	95.6	97.4	46.4	239.4
Accumulated impairment	-5.8	-	-46.4	-52.2
Accumulated depreciation	-28.9	-	-	-28.9
Net book amount	**60.9**	**97.4**	**-**	**158.3**
Depreciation method	UoP	UoP		

Note 10
Property, plant and equipment/intangible assets continued

Impairment testing

Due to the decline in oil prices DNO performed an impairment test per year-end 2014, 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 exist, the recoverable amount of the asset shall be estimated. Booked values of the oil and gas assets have been compared with expected cash flows from the assets (values in use), calculated as the net present value (before tax) of the assets. DNO has defined field level as the lowest level at which 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: cash flow based on best estimate production profiles (P50 estimates) and the oil price based on the forward curve for BRENT as of 31 December 2014, as published by the Intercontinental Exchange (ICE), adjusted for any discounts in oil quality applicable to each field. As the monthly price goes forward only to December 2021, 2% yearly inflation capped at USD 90 per barrel is assumed thereafter. The pre-tax discount rate used is based on DNO's WACC (Weighted Average Cost of Capital) where 14.2 percent (compared to 12.4 percent in 2013) has been used for the assets in Yemen, 13.3 percent (compared to 12.7 percent in 2013) has been used for the Kurdistan assets, 9.6 percent for the Oman assets (compared to 8.9 percent in 2013) and 9.5 percent has been used for the assets in UAE (compared to 8.6 percent in 2013). However in 2014, agreed gas prices are used instead of oil price for the Dohuk license in Kurdistan. Agreed prices for LPG and gas have also been used for Block 8 in Oman, and a BRENT Blend approach for oil. The material decline in global oil prices has had a negative impact on the net present value of the assets, especially for licenses with a short time to expiry.

Based on the calculations, an impairment charge of USD 140 million has been recorded for the Summail field (Dohuk license) in the Kurdistan region of Iraq. In addition, an impairment charge of USD 34.5 million has been recorded for Block 8 in Oman. The remaining excess values of USD 18.3 million related to Block 8 and USD 2.2 million related to Block 30 in the consolidated accounts has also been impaired. The Yemen blocks have been impaired by USD 57.2 million and an impairment charge of USD 44.5 million has been recorded for the Saleh field. Remaining book value for the Summail field is USD 14.4 million. For Block 8 in Oman the remaining book value is USD 26.2 million and for Yemen USD 17.2 million. For Block 30 in Oman and for the Saleh field the book values are zero.

A sensitivity analysis shows that a decrease in oil price of 10 percent would result in an impairment charge of USD 8 million for the producing assets. If expectations with regard to timing of cash flows are not met, this could also result in an impairment charge.

Capitalized interest

Interest costs on borrowings to finance the construction of property, plant and equipment in the development phase are capitalized. In 2014, USD 1 million has been capitalized related to the development projects in Erbil and Dohuk PSCs in Kurdistan (2013: USD 12.2 million). The capitalization rate for 2014 was an average of 8.2 percent.

License expiry

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. The producing licenses in Yemen expire in the period 2015 to 2025. Block 53 expires in 2015, Block 32 expires in 2020 and Block 43 expires in 2025, all with the option to apply for a five-year extension. The Tawke license in Kurdistan expires in 2031 with the option to apply for a five-year extension. Block 8 in Oman expires in 2019 with an option to apply for a ten-year extension on terms not to be less favourable than those under which other oil companies are then operating in Oman.

Note 11
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. Changes in fair value are included in other comprehensive income and are presented as valuation reserve under equity. Impairment will be charged to profit or loss, while reversal of impairment will be taken through other comprehensive income.

USD mill	Years ended 31 December 2014	2013
Beginning of the period	10.8	0.5
Additions *	38.9	10.9
Sales/Reclassifications **	-	-0.5
Revaluation surplus/deficit transfer to other comprehensive income	-	-
Impairment	-14.8	-
Exchange differences	-	-0.1
End of the period	**35.0**	**10.8**
Non-current portion	35.0	10.8
Current portion	-	-

* Additions in 2014 and 2013 relate to purchase of shares in RAK Petroleum plc.
** Sales in 2013 were related to sale of shares in Calvalley Petroleum Inc.

DNO has a total of 15,849,737 shares (4.86 percent of outstanding shares) in RAK Petroleum plc. All shares have been acquired in open market transactions in the period December 2013 to early August 2014. RAK Petroleum plc was listed on the Oslo Stock Exchange on 7 November 2014, and when listed the shares were converted 10:1 from 158,497,373 shares to 15,849,737 shares. Applicable to all existing shareholders in RAK Petroleum plc at the time of listing, 90 percent of the shares are subject to a lock up period of six months from the day of listing. With some certain exceptions, no sale or other form of disposal can take place in this period.

An impairment charge of USD 14.8 million has been recorded in 2014 due to lower market value of the shares.

RAK Petroleum plc is the largest shareholder in DNO ASA with a 42.9 percent shareholding as at 31 December 2014.

Note 12
Trade and other receivables

USD mill	Years ended 31 December 2014	2013
Trade receivables	15.2	57.0
Less: provisions for impairment of receivables	-	-
Trade receivables - net	15.2	57.0
Prepayments	1.3	7.9
Underlift, entitlement method	119.6	29.4
VAT receivable	0.7	0.7
Other short-term receivables	47.7	19.1
Total trade and other receivables	**184.4**	**114.0**

The underlift mainly relates to the Tawke field in Kurdistan, where there is a temporary arrangement related to the local sales, currently not following the PSC entitlement terms. See also Note 1.

Other short-term receivables included a receivable related to the farm down in Tunisia (Sfax Offshore Permit) and working capital related to the participation in oil and gas licenses.

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

As at 31 December, all trade receivables are less than 30 days past due date.

Note 13
Cash and cash equivalents

USD mill	Years ended 31 December 2014	2013
Cash and cash equivalents, restricted	3.5	2.5
Cash and cash equivalents, non-restricted	110.3	263.5
Total cash and cash equivalents	**113.8**	**265.9**

Restricted cash relates to employees' tax deduction and deposit for rent.

Cash held in currency

USD mill	31 December 2014 Amount in currency	Amount in USD	31 December 2013 Amount in currency	Amount in USD
NOK	82.1	11.0	-48.8	-8.0
EUR	-	-0.1	-0.6	-0.8
USD	103.0	103.0	274.5	274.5
GBP	-	-0.2	0.1	0.2
Total cash and cash equivalents		**113.8**		**265.9**

The DNO group has a group account system in the bank, which allows negative balances in some currencies if the total balance is positive.

Note 14
Equity

SHARE CAPITAL

2013 - USD mill	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
At 1 January 2013	**1,023,279**	**34.1**	**-0.6**	**33.6**
Treasury shares purchased/sold	-	-	-	-
Share issues	-	-	-	-
At 31 December 2013	**1,023,279**	**34.1**	**-0.6**	**33.6**

2014 - USD mill	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
At 1 January 2014	**1,023,279**	**34.1**	**-0.6**	**33.6**
Treasury shares purchased/sold	-	-	-	-
Share issues	-	-	-	-
At 31 December 2014	**1,023,279**	**34.1**	**-0.6**	**33.6**

The total number of ordinary shares at 31 December 2014 is 1,023,279,255 with a par value of NOK 0.25 per share. All issued shares are fully paid. All shares carry equal voting and dividend rights.

At the annual general meeting (AGM) in 2014, the board of directors was also authorized to increase the share capital by up to NOK 38,372,972. The authorization is valid until 30 June 2015 or the AGM in 2015 (whichever is earlier) and replaced the authorization granted to the board of directors at the AGM in 2013. The shareholders' preferential right to the new shares pursuant to section 10-4 in the Norwegian Public Limited Companies Act, may be waived.

At the AGM in 2014, the board of directors was also authorized to buy treasury shares with a total nominal value of up to NOK 25,000,000. The maximum amount to be paid per share is NOK 100 and the minimum amount is NOK 1. Purchases of treasury shares are made on Oslo Børs. The authorization is valid until 30 June 2015 or the AGM in 2015 (whichever is earlier).
At 31 December 2014, the company held 13,050,000 treasury shares.

Purchases and sales of treasury shares are made when the board of directors regard the transaction to be favourable for the shareholders.

At the AGM in 2014, the board of directors was also authorized to raise convertible bonds with an aggregate principal amount of up to USD 350,000,000. Upon conversion of bonds issued pursuant to this authorization, the company's share capital may be increased by up to NOK 35,000,000. The authorization is valid until 30 June 2015 or the AGM in 2015 (whichever is earlier).

Note 14
Equity continued

Other reserves

USD mill	Share premium	Other paid-in capital	Available-for-sale investm.	Other reserves	Currency trans-lation	Total
Balance at 1 January 2013	**152.8**	**48.6**	**-**	**9.2**	**-46.3**	**164.2**
Available-for-sale fair value, net of tax	-	-	-	-	-	-
Treasury shares:						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Currency translation differences:						
- Group	-	-	-	-	10.6	10.6
Balance at 31 December 2013	**152.8**	**48.6**	**-**	**9.2**	**-35.7**	**174.7**
Balance at 1 January 2014	**152.8**	**48.6**	**-**	**9.2**	**-35.7**	**174.7**
Available-for-sale fair value, net of tax	-	-	6.6	-	-	6.6
Reclassification of available-for-sale fair value change	-	-	-6.6	-	-	-6.6
Treasury shares:						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Currency translation differences:						
- Group	-	-	-	-	0.4	0.4
Balance at 31 December 2014	**152.8**	**48.6**	**-**	**9.2**	**-35.3**	**175.1**

The company's shareholders at 31 December 2014	Shares	% interest
RAK Petroleum Holdings B.V.	438,379,418	43.39 %
Clearstream Banking S.A.	18,416,992	1.82 %
State Street Bank and Trust Co.	12,116,432	1.20 %
Vanguard Energy Fund WMC	12,033,414	1.19 %
Verdipapirfondet DNB Norge (IV)	11,864,958	1.17 %
JP Morgan Fund ICVC	10,587,276	1.05 %
Verdipapirfondet DNB Norge Selektiv	10,317,955	1.02 %
Nordnet Bank AB	10,287,765	1.02 %
JP Morgan Clearing Corp.	9,824,491	0.97 %
Avanza Bank AB	7,193,896	0.71 %
Statoil Pensjon	7,141,218	0.71 %
J.P. Morgan Luxembourg S.A.	6,957,848	0.69 %
Morgan Stanley & Co. LLC	5,888,883	0.58 %
KLP Aksje Norge Indeks VPF	5,546,008	0.55 %
Storebrand Norge I	5,478,219	0.54 %
J.P. Morgan Chase Bank N.A.	5,172,703	0.51 %
The Northern Trust Co.	5,047,673	0.50 %
Nordea Bank Danmark A/S	4,703,821	0.47 %
VPF Nordea Kapital	4,630,522	0.46 %
JP Morgan Chase Bank, NA	4,593,200	0.45 %
Other shareholders	414,046,563	40.99 %
Total number of shares excluding treasury shares	**1,010,229,255**	100.0 %
Treasury shares at 31 December 2014	13,050,000	
Total number of shares including treasury shares	**1,023,279,255**	

No ordinary or extraordinary dividend has been distributed in 2014. No dividend has been proposed for 2014.

Note 15
Interest-bearing liabilities

USD mill	Ticker OSE	Currency	Amount	Interest	Maturity	Effective interest rate 2014	Fair value 2014	Fair value 2013	Carrying amount 2014	Carrying amount 2013
Non-current interest-bearing bonds:										
Bond loan (ISIN NO0010606197)	DNO14	NOK	560.0	NIBOR + 7.5%	11.04.16	9.19 %	76.5	96.2	75.3	92.0
Bond loan (ISIN NO0010606189)	DNO13	USD	140.0	LIBOR + 7.5%	11.04.16	7.73 %	136.7	146.2	140.0	140.0
Borrowing issue costs									-0.6	-1.7
Total interest-bearing bonds							**213.1**	**242.4**	**214.7**	**230.4**
of which classified as current liabilities									-	-

There are two covenants related to the two bond loans (DNO14 and DNO13) which require DNO has a minimum equity ratio of 30 percent. At 31 December 2014, DNO satisfies all loan agreement requirements.
The two bond loans mature on 11 April 2016. Until maturity there are no installments to be paid.

Note 16
Provisions for other liabilities and charges

USD mill	31 December 2014	31 December 2013
Non-current		
Asset retirement obligations *	3.7	3.6
Other long-term obligations **	96.3	89.5
Total non-current provisions for other liabilities and charges	**100.1**	**93.0**
Current		
Other provisions and charges **	77.6	79.7
Total current provisions for other liabilities and charges	**77.6**	**79.7**
Total provisions for other liabilities and charges	**177.7**	**172.7**

* Asset retirement obligations (AROs) are related to future well closure, decommissioning and removal expenditures for oil installations in the Kurdistan region of Iraq. The obligations are imposed and defined by national and international legal requirements. No significant removal costs are expected in connection with the on shore activity in Yemen or Oman. In accordance with the production sharing agreements in these countries, the production facilities and the operating equipment will be transferred to the authorities when the fields are no longer commercial or at license expiry.

** Included in other long-term obligations is provision for Water Purification Project (WPP) in the Kurdistan region of Iraq. The WPP is capitalized and depreciated over field life. The WPP liability will not be payable until a payment mechanism is in place and proceeds from export sale are received on a regular basis. The monthly installments are contingent on defined gross revenue levels and will be fully recovered through cost oil. The WPP liability is recorded at net present value, where the unwinding of interest is charged to profit or loss. USD 45 million of the WPP liability of USD 129 million is classified as short-term and included in other provisions and charges at year-end 2014. There is uncertainty related to when the monthly installments will be payable, and the first payment is by DNO's calculations estimated to be paid during 2015. Changes in the timing of the payments may change the net present value of the liability and the calculated interest. Instead of the WPP, DNO may on similar terms alternatively support a different capacity building project, as determined by the KRG.

Provision for production bonus for the Tawke license of USD 19.7 million is included in other provisions and charges. Provision for production bonus for the Erbil license is USD 9.9 million, of which USD 1 million is classified as current and the remaining part is classified as non-current. Provision for production bonus for the Dohuk license is USD 1.3 million, of which USD 1 million is classified as current.

USD mill	Asset retirem. oblig.	Other non-current	Other current	Total
Balance at 1 January 2013	**3.6**	**33.1**	**138.7**	**175.4**
Charged to consolidated statement of comprehensive income:				
- Additional provisions	-	62.6	7.7	70.3
- Unused amounts reversed or reclassified	-	-	-	-
Incurred and charged against the provision during the period	-	-6.2	-66.7	-72.9
Balance at 31 December 2013	**3.6**	**89.5**	**79.7**	**172.7**
Charged to consolidated statement of comprehensive income:				
- Additional provisions	0.1	6.5	-	6.6
- Unused amounts reversed or reclassified	-	-	-	-
Incurred and charged against the provision during the period	-	-	-2.1	-2.1
Balance at 31 December 2014	**3.7**	**96.3**	**77.6**	**177.7**

Note 17

Commitments and contingencies

a) Lease obligations

DNO rents premises in Dokkveien 1 at Aker Brygge. The annual rent is USD 1.3 million and the agreement is for 10 years starting in February 2015.

DNO also rents offices in Dubai, Kurdistan, Yemen, Oman and Tunis. See the table below for annual rent and expiry.

Office	Annual rent (USD mill)	Expiry
Dubai, UAE	0.7	2017
Erbil, the Kurdistan region of Iraq	1.1	2015
Sana'a, Yemen	0.3	2017
Muscat, Oman	0.1	2015
Tunis, Tunisia	0.4	2019

b) Legal disputes

As of 31 December 2014, DNO is not involved in any material legal cases and disputes.

c) Contractual obligations/license commitments

USD mill	2015
Drilling and exploration	43.4
Field development	96.4
Total contractual obligations/license commitments related to future investments	**139.8**

In addition, the company has obligations related to the WPP in the Kurdistan region of Iraq, see Note 16.

d) Guarantees at 31 December 2014

Parent company guarantees have been issued to the Kurdistan Regional Government and the Ministry of Oil and Minerals Yemen for PSA/PSC obligations. The parent company guarantees that it shall make available to the subsidiaries DNO Iraq AS and DNO Yemen AS, the financial and technical resources necessary for them to fulfill their obligations according to the PSAs/PSCs. In addition, parent company guarantees have been issued to the Tunisian government for the contractor obligations in relation to the Sfax Offshore Exploration Permit and the Ras El Besh Concession.

e) Liability for damages/insurance

The group's operations involve risk of damages, including pollution. Installations and operations are covered by an operations insurance policy.

Note 18
Trade and other payables

USD mill	Years ended 31 December 2014	2013
Trade creditors	6.4	5.6
Public duties payable	2.4	2.0
Prepayment from customers	-	0.1
Debt to employees and shareholders	3.0	1.8
Other accrued expenses	127.9	47.0
Total trade and other payables	**139.7**	**56.5**

Other accrued expenses include 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 19
Earnings per share

USD mill	Years ended 31 December 2014	2013
Net profit attributable to ordinary equity holders of the parent	-226.1	27.0
Weighted average number of ordinary shares (excluding treasury shares)	1,010.2	1,010.2
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,010.2	1,010.2
Earnings per share, basic	**-0.23**	**0.03**
Earnings per share, diluted	**-0.23**	**0.03**

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 theperiod, 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. DNO does not have any potential dilutive shares per year end.

Note 20
Group companies

USD mill	Business address	Ownership and voting interest (in %)	Company's equity
DNO Yemen AS	Oslo	100.0	246.3
DNO UK Ltd	London	100.0	-7.5
DNO Invest AS	Oslo	100.0	0.4
DNO Tunisia AS	Oslo	100.0	15.3
DNO Iraq AS	Oslo	100.0	490.3
DNO Mena AS	Oslo	100.0	115.7
DNO Oman AS	Oslo	100.0	-13.2
DNO Somaliland AS	Oslo	100.0	-1.1
DNO Technical Services AS	Oslo	100.0	-3.7

The subsidiaries DNO Yemen AS, DNO Tunisia AS, DNO Iraq AS, DNO Oman AS and DNO Somaliland AS all have operations in the respective countries. DNO Mena AS is the parent company for the operating companies acquired in the merger with RAK Petroleum PCL's MENA subsidiaries in January 2012. These companies have operations in Ras Al Khaimah (UAE), Oman and Tunisia.

DNO Invest AS is an investment company, while DNO UK Ltd is a company currently with no operations. The corporate administrative office in London was closed down in 2014. DNO Technical Services AS provides technical support and services to the different companies in the group.

Note 21
Related party disclosure

The following table provides details of the group's related party transactions in 2014. See also Note 5 on remuneration.

Related party (USD mill)	Transaction	Years ended 31 December 2014	2013
RAK Petroleum plc	Service agreement	1.0	1.4
		1.0	**1.4**

Description of transactions with related parties:

RAK Petroleum plc
DNO ASA entered into an agreement with RAK Petroleum plc for services including administrative, commercial and legal support and certain expenses. RAK Petroleum plc succeeded to substantially all the assets, liabilities and business of its former parent company RAK Petroleum PCL in November 2014.

The annual service fee is USD 1 million. In 2013, costs incurred were higher than the annual service fee due to additional work being requested by DNO for development project support.

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

Overhead expenses in the parent company DNO ASA are charged to the subsidiaries based on allocation of hours provided by the parent company.

Note 22
Events after the balance sheet date

Block 53 in Yemen
Following notice of withdrawal dated 30 November 2014 by the operator of block 53 in Yemen, Dove Energy Limited, the remaining partners chose to withdraw under the JOA with effective date 31 January 2015. The Ministry of Oil and Minerals of the Republic of Yemen is disputing the withdrawal of the operator and the subsequent withdrawal of the other partners and has filed a request for arbitration against the contractor under the PSA.

Private Placement of Treasury Shares and New Shares
On 10 March 2015, DNO announced the successful completion of an equity share offering, through which the company raised NOK 975 million in gross proceeds from the allocation of 73,584,906 shares at an offer price of NOK 13.25 per share. The offering comprises 60,534,906 new shares and all of DNO's 13,050,000 treasury shares, which were also sold as part of the offering.

Note 23

Working interest proven and probable reserves and resources after royalty (unaudited)

Million boe	YEMEN		KURDISTAN		OMAN		UAE		AFRICA		DNO GROUP		
	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Total
1 January 2013	**8.4**	**2.2**	**467.3**	**59.5**	**24.4**	**15.2**	**20.3**	**-**	**-**	**5.8**	**520.3**	**82.6**	**603.0**
Discoveries, additions and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestment of reserves/resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-	1.4	16.6	56.2	-10.0	0.3	-20.3	8.2	-	-	49.3	-49.3	-
New developments	-	-	49.3	-49.3	-	-	-	-	-	-	-13.7	66.1	52.4
Year 2013 production	-1.4	-	-9.0	-	-3.7	-	-	-	-	-	-14.1	-	-14.1
31 December 2013	**7.0**	**3.6**	**524.3**	**66.3**	**10.7**	**15.4**	**-**	**8.2**	**-**	**5.8**	**541.9**	**99.4**	**641.3**
Discoveries, additions and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	7.6	-	7.6	7.6
Divestment of reserves/resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-3.0	-1.0	-28.7	0.7	-1.7	-	-	-	-	-	-33.4	-0.3	-33.7
New developments	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2014 production	-1.0	-	-21.3	-	-2.6	-	-	-	-	-	-24.9	-	-24.9
Total reserves and resources 31 Dec 2014	**3.0**	**2.6**	**474.2**	**67.0**	**6.4**	**15.4**	**-**	**8.2**	**-**	**13.4**	**483.6**	**106.7**	**590.3**

1) Reserves according to Annual Statement of Reserves released 12 March 2015, classification as in Norwegian Petroleum Directorate class 1-3. Resources corresponds to class 4-7 in NPD definitions. The figures represent best estimate (P50 base case). The majority of the company's assets have been reviewed and audited independently by international petroleum consultants DeGolyer and MacNaughton. Assets with no or minor changes in reserves or resources since 31 December 2013 have been assessed by the company.

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 the most likely quantity of economically recoverable oil and gas estimated at year-end 2014, given the information at the time of reporting. 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 appraisal. In addition, for fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a significant impact on the profitability and hence the economic cut-off time for production from the fields.

DNO's year-end 2014 proven and probable (2P) reserves are estimated at 483.6 MMboe on a CWI basis, which comprised of 480.5 millon barrels (MMbls) of oil (including condensate and other liquids) and 17.5 billion cubic feet (Bcf) of natural gas.

DNO holds a total of 106.7 Mboe in NPD class 4-7 on a CWI basis. The contingent resources are well distributed across the DNO portfolio, with the most significant contributors being located in the Kurdistan region of Iraq. This includes Peshkabir, Tawke Euphrates, Bastora, Benenan and heavy oil at Summail. After an acquisition in 2014, DNO today holds a 52.5 percent interest in the Sfax Offshore Exploration Permit with 7.6 mmboe i contingent resources.

ICE forward curve for Brent Blend at 31 December 2014, adjusted for quality differences has been used as the basis for calculation of the economical remaining reserves.

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

The production figures include crude consumed in operation at the fields.

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

Million boe	YEMEN Reserves	KURDISTAN Reserves	OMAN Reserves	UAE Reserves	DNO GROUP Reserves
31 December 2013	4.4	160.3	5.5	-	170.3
31 December 2014	**2.1**	**150.5**	**3.5**	**-**	**156.1**

*Reserves according to NPD class 1-3 only.

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

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Income statements

USD 1,000	Note	1 January–31 December 2014	2013*
OPERATING REVENUES			
Other operating revenues	2	30,713	44,718
Total operating revenues		**30,713**	**44,718**
OPERATING EXPENSES			
Ordinary depreciation	7	978	518
Payroll and payroll-related expenses	3	39,361	39,937
Other operating expenses	4	18,312	28,131
Total operating expenses		**58,651**	**68,586**
OPERATING PROFIT/-LOSS		**-27,938**	**-23,868**
Net other financial items	5	-126,661	-133,674
PROFIT/-LOSS BEFORE TAXES		**-154,600**	**-157,542**
Income taxes	6	-	-
ANNUAL PROFIT/-LOSS		**-154,600**	**-157,542**
Transferred from/to other equity		-154,600	-157,542
Total allocations		**-154,600**	**-157,542**
Earnings per share, basic	18	-0.15	-0.16
Earnings per share, diluted	18	-0.15	-0.16

*restated due to change of presentation currency

Balance sheets

USD 1,000	Note	Years ended 31 December 2014	2013*
FIXED ASSETS			
Tangible fixed assets			
Other tangible assets	7	7,384	1,603
Total tangible fixed assets		**7,384**	**1,603**
Financial fixed assets			
Shares in subsidiaries	8	438,449	288,304
Intercompany receivables	19	116,346	234,223
Other investments	8	34,970	10,839
Total financial fixed assets		**589,764**	**533,366**
Total fixed assets		**597,148**	**534,969**
CURRENT ASSETS			
Trade and other receivables	9	3,604	2,782
Cash and cash equivalents, restricted	10	3,489	1,605
Cash and cash equivalents, non-restricted	10	104,967	259,655
Total current assets		**112,060**	**264,042**
TOTAL ASSETS		**709,208**	**799,011**

* Restated due to change of presentation currency

Shareholders' equity and liabilities

USD 1,000	Note	Years ended 31 December 2014	2013*
SHAREHOLDERS' EQUITY			
Paid-in capital			
Share capital		34,121	34,121
Treasury shares		-550	-550
Share premium account		152,755	152,755
Other paid-in capital		30,049	30,049
Total paid-in capital	11	**216,375**	**216,375**
Retained earnings			
Retained earnings		-131,509	23,090
Total retained earnings	11	**-131,509**	**23,090**
Total shareholders' equity		**84,866**	**239,465**
LIABILITIES			
Provisions for liabilities and charges			
Other liabilities and charges		-	617
Total provision for liabilities and charges		**-**	**617**
Other long-term liabilities			
Long-term intercompany debt	19	387,254	309,821
Bond loans	13	214,702	230,378
Total other long-term liabilities		**601,956**	**540,199**
Current liabilities			
Provision for other liabilities and charges	14	22,387	18,730
Total current liabilities		**22,387**	**18,730**
Total liabilities		**624,342**	**559,546**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**709,208**	**799,011**

*restated due to change of presentation currency

Oslo, 19 March 2015

Bijan Mossavar-Rahmani
Executive Chairman

Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Ellen K. Dyvik
Director

Gunnar Hirsti
Director

Bjørn Dale
Managing Director

Cash flow statements

USD 1,000	Note	2014	2013*
Operating activities			
Profit/-loss before tax		-154,600	-157,542
Taxes paid	6	-	-
Depreciation and impairment of tangible and intangible assets	7	978	518
Impairment of financial assets	5	112,190	136,777
Gain-/loss on sale of operating assets and securities	8	-	46
Changes in net current assets and other accruals		-13,927	-32,253
Net cash flow from operating activities		**-55,358**	**-52,455**
Investing activities			
Payments made for investments in oil and gas properties	7	-7,338	-1,622
Payments received on disposal of tangible fixed assets		0	-
Payments made for acquisitions of bonds, securities, stocks and shares		-38,887	-10,839
Payments received on disposal of shares	8	-	459
Net cash flow from investing activities in subsidiaries		-52,269	60,061
Net cash flow from investing activities		**-98,494**	**48,060**
Financing activities			
Repayment of interest-bearing debt	13	-	-
Issue of share capital	11	-	-
Purchase of treasury shares and options	11	-	-
Net cash flow -used in/from financing activities		**-**	**-**
Effects of change in currency (cash and cash equivalents)		**1,048**	**22,733**
Cash and cash equivalents 1 January		261,260	242,922
Net change in cash and cash equivalents		-152,804	18,338
Cash and cash equivalents 31 December	10	**108,456**	**261,260**
Hereof restricted cash and cash equivalents		3,489	1,605

* Restated due to change of presentation currency

Note 01

Accounting principles

General

The financial statements of DNO ASA 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 and presentation currency

The financial statements are presented in US Dollars (USD), which is the functional currency of the company from 1 January 2014. The change in functional currency was due to change in the nature of the operations and the way the company is financed. The change has been implemented with prospective effect. The change of presentation currency is considered a change of accounting policy and is applied retrospectively. 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.

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 separate from the parent company accounts.

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are recorded at historical cost. If the market value of the investment is lower than the carrying value, an impairment charge is recorded and a new cost basis of the investment is established.

Valuation and classification of balance sheet items

Current assets and short-term liabilities include items due less than one year from draw-down and items related to the operating cycle. Other assets/liabilities are classified as fixed assets/long-term liabilities. Shares and investments not intended for permanent ownership are classified as current assets.

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 impaired 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 & 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 properties 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 straight-line method based on estimated useful life. Estimated useful life varies between three and five years for these assets.

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.

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 probable.

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

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

Note 01
Accounting principles continued

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.

Employee share saving plan
DNO has established an employee share saving plan whereby employees can save a portion of their salary by purchasing synthetic shares at a discount to the company's share price. The purchase is matched by DNO if these shares are kept for a period of two years and the employee is still employed by the company. The arrangement is considered a cash- settled share-based payment arrangement since the settlement is made in cash instead of equity instruments (shares). DNO records a liability related to the matching of the synthetic shares and an accompanying cost element.

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.

Note 02
Other operating revenues

USD 1,000	2014	2013
Other operating revenues	30,713	44,718
Total other operating revenues	**30,713**	**44,718**

Other operating revenues relate to sale of hours to subsidiaries at arm's length.

Note 03
Salaries, pensions, remuneration, shares, options and severance

USD 1,000	2014	2013
Payroll expenses		
Salaries, bonuses, options etc.	36,411	34,361
Employer's payroll tax expense incl. payroll tax on options in relation to share saving plan	3,160	2,337
Pensions	1,184	619
Other personnel costs	4,660	4,098
Reclassification of payroll and payroll-related expenses to the charged subsidiary	-6,052	-1,478
Payroll and payroll-related expenses	**39,361**	**39,937**
Average number of man-labour years	67	47

The increase in other personnel costs and payroll tax expenses is mainly related to an increased number of employees during the year.

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

Pensions
DNO has a defined contribution scheme for employees in the company. The pension costs in the 2014 accounts are related only to premiums for the employees of the company. DNO meets the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon").

Note 03
Salaries, pensions, remuneration, shares, options and severance cont.

Director, executive and key management remuneration

Remuneration paid to the directors of the board	2014	2013
Bijan Mossavar-Rahmani, Executive Chairman	986,732	591,459
Lars Arne Takla, Deputy Chairman	82,922	76,592
Gunnar Hirsti, Director	74,392	80,847
Shelley Watson, Director	70,424	70,209
Ellen K. Dyvik, Director (from June 2013)	70,424	36,168
Karen Sund, Director (until June 2013)	-	34,041
Marit Instanes, Director (until June 2013)	-	34,041
Total	**1,284,895**	**923,357**

Included in the 2014 figures is USD 51,578 which has been paid as fees for work related to the audit committee, the remuneration committee, the HSSE committee and nomination committee to Bijan Mossavar-Rahmani, Gunnar Hirsti, Ellen K. Dyvik, Shelley Watson, Lars Arne Takla and Kåre Tjønneland.

Remuneration to Managing Director and executive management in 2014 (USD mill)	Salary	Bonus	Pension	Other	Total
Bjørn Dale, Managing Director	0.65	0.22	0.02	0.01	0.90
Haakon Sandborg, Chief Financial Officer	0.41	0.02	0.02	0.01	0.47
Claes Åbyholm, General Councel (joined DNO in October 2014)	0.09	-	0.01	0.00	0.09

Remuneration to Managing Director and executive management in 2013 (USD mill)	Salary	Bonus	Pension	Other	Total
Bjørn Dale, Managing Director	0.46	0.18	0.01	0.02	0.67
Haakon Sandborg, Chief Financial Officer	0.39	0.03	0.01	0.02	0.44
Claes Åbyholm, General Counsel	-	-	-	-	-
Trond Myrseth, VP Operations	0.47	0.05	0.01	0.02	0.55
Tore Lilloe-Olsen, VP Exploration	0.44	0.05	0.01	0.03	0.52
Magne Normann, SVP Development	0.81	0.09	0.01	0.10	1.01
Anita Hjerkinn Aarnæs, Director Human Resources	0.41	0.04	0.01	0.02	0.48
Ståle Monstad, Director Subsurface	0.37	0.04	0.01	0.01	0.44

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

Shares and options held by directors and executive management as of 31 December 2014

Directors of the Board and key management	Shares	Options
Bijan Mossavar-Rahmani, Executive Chairman*	-	-
Lars Arne Takla, Deputy Chairman (Takla Energy AS)	10,000	-
Gunnar Hirsti, Director (Hirsti Invest AS)	250,000	-
Ellen K Dyvik, Director	-	-
Shelley Watson, Director	-	-
Bjørn Dale, Managing Director	-	-
Haakon Sandborg, Chief Financial Officer	-	-
Claes Åbyholm, General Counsel	-	-
Total	**260,000**	**-**

* Bijan Mossavar-Rahmani was nominated by RAK Petroleum plc, the largest shareholder which as of 31 December 2014 holds 43.39 percent of the shares in DNO (adjusted for treasury shares, see Note 14 in the consolidated financial statements).

Severance payment agreements
Severance payment agreements (equal to one or two times annual salary depending on the circumstance) also exist with the following executives in DNO ASA: Bjørn Dale, Haakon Sandborg and Claes Åbyholm.

Auditor's fees

All figures are exclusive of VAT (USD 1,000)	2014	2013
Auditor's fee	299	284
Other financial auditing	13	46
Total auditing fees	**312**	**330**
Other assistance	-	-
Tax assistance	10	145
Total auditor's fees	**312**	**475**

Note 03
Salaries, pensions, remuneration, shares, options and severance cont.

Declaration regarding determination of salary and other remuneration to the Managing Director and other senior employees

The board of director's declaration for 2015
According to the Norwegian public limited liability companies act section 6-16a cf. section 5-6 third paragraph, the board of directors shall present a declaration regarding determination of salary and other remuneration to the managing director and senior employees for the coming financial year to the general meeting.

Renumeration policy for 2015
Any remuneration, bonuses or other incentive schemes must reflect the duties and responsibilities of the employees and add long-term value for shareholders.

Fixed remuneration
The Board of Directors has not set any upper or lower limit for the fixed salary of executive management for the coming financial year beyond the main principles set out above.

Variable remuneration
In addition to fixed salary, variable remuneration can be used to recruit, retain and reward employees. For management, such remuneration can include share-based compensation, including the allocation of options and cash bonuses. Annual bonuses, when awarded, are based on corporate results and/or individual performance. Other types of variable remuneration include newspaper, mobile phone and broadband communication subscriptions paid in accordance with established rates. The Board of Directors can decide on the amount and specific criteria for such remuneration.

Employee share saving plan
DNO has established an employee share saving plan whereby employees can save a portion of their salary by purchasing synthetic shares at a discount to the company's share price. The purchase is matched by DNO if these shares are kept for a period of two years and the employee is still employed by the company. The Board of Directors may also allocate synthetic shares to key employees as remuneration in specific circumstances based on the general terms of the employee's share saving plan or on terms decided by the board.

Pension
DNO has a contribution-based pension system. All DNO employees are entitled to receive a pension contribution of 12.5 percent of their annual salary.

Share-based incentive scheme
The Board of Directors can implement a share-based incentive scheme involving the allocation of options to acquire shares. The principles of the program shall be (i) to align the interests of management and other employees with shareholders' interests, and (ii) to implement share-based rewards for value creation. The Board of Directors can decide whether to set allocation criteria, conditions or thresholds for the scheme.

Severance agreements
Severance payment agreements (up to two times annual salary) may be entered into selectively if the board finds this to be useful in recruitment.

Binding sections
Remuneration as it relates to the employee share saving plan or the share-based incentive scheme must be subject to a separate vote by the AGM and is binding once approved. Other sections of the remuneration policy are non-binding guidelines for the board and are therefore only subject to a consultative vote at the AGM.

Management remuneration for 2014
Executive management remuneration for 2014 was awarded in accordance with the guidelines approved by the AGM in 2014.

Remuneration committee
The board of directors has a compensation committee that considers issues related to the compensation to the managing director and key management and for presentation to the board.

Note 04
Exploration expenses/other operating expenses

Other operating expenses (USD 1,000)	2014	2013
Exploration expenses	-582	457
Lease expense - buildings and equipment	3,499	3,379
Other office costs	4,841	5,286
Travel expenses	1,863	2,811
Legal expenses	822	3,927
Consultant fees	6,097	7,603
Other general and administrative costs	1,773	4,668
Total other operating expenses	**18,312**	**28,131**

Note 05
Net other financial items

USD 1,000	2014	2013
Interest received	460	352
Interest received from group companies	-	20,140
Gain on foreign exchange	21,467	533,960
Other financial revenues	-	-
Net gain/-loss on sale of securities	-	46
Total financial income	**21,927**	**554,498**
Interest expense	-35,004	-21,026
Interest expense group companies	-462	-
Loss on foreign exchange	-931	-535,956
Impairment/Reversal of impairment financial assets	-112,190	-136,777
Other financial expenses	-	5,587
Total financial expenses	**-148,588**	**-688,172**
Net other financial items	**-126,661**	**-133,674**

Impairment of financial assets in 2014 relates to the receivable on DNO Al Khaleej Limited, impaired by USD 54.7 million, and DNO Mena AS, impaired by USD 9.7 million. In addition, there was a debt conversion in DNO Tunisia AS by USD 13.5 million and a group contribution from DNO ASA to DNO MENA AS in the amount of USD 34.3 million.

In 2013 the receivables on DNO Mena AS and DNO Al Khaleej Ltd have been impaired by USD 80.2 million and USD 57.0 million respectively. USD 0.5 million of a previous impairment related to DNO Invest AS has been reversed in 2013 in connection with a capital reduction.

Note 06
Taxes

USD 1,000	2014	2013
Taxes payable	-	-
Change in deferred taxes	-	-
Income taxes	**-**	**-**

Effective tax rates

USD 1,000	2014	2013
Profit/-loss before taxes	**-154,600**	**-157,542**
Expected income tax according to nominal tax rate (27%)	41,742	42,536
Adjustment of deferred tax assets not capitalized	-4,667	-3,603
Impairment financial assets	-30,291	-36,986
Tax-free gain/loss on sale of shares	-	-
Change in previous years	-13,041	-691
Other items	6,258	573
Change in tax rate	-	-1,829
Total income taxes	**-**	**-**
Effective tax rate (including change in deferred taxes)	**0 %**	**0 %**

The tax effect of temporary differences and losses carried forward:

USD 1,000	2014	2013
Other current items	-	-
Property, plant & equipment	-	-61
Other fixed items (receivables, abandonment, etc.)	3,480	-21,457
Losses carried forward	-41,504	-49,879
Total, basis for deferred taxes/(tax assets)	**-38,024**	**-71,396**
Deferred tax asset allowance	38,024	71,396
Total deferred taxes/(tax assets)	**-**	**-**
Capitalized deferred tax assets	**-**	**-**
Capitalized deferred tax liabilities	**-**	**-**

Tax rates effective 31 December 2014 have been used to calculate deferred taxes. The tax rate is 27% for revenues in Norway.

The tax loss carry forward is USD 42 million (27% of USD 154 million) as of year-end 2014. The carrying forward period for the unused losses in Norway is indefinite.

Note 07
Property, plant and equipment

USD 1,000	Other tangible assets	Total PP&E
Cost 1 January 2014	3,365	3,365
Additions 2014	7,338	7,338
Disposals 2014	-901	-901
Transfers 2014	-	-
Cost 31 December 2014	**9,802**	**9,802**
Accumulated depreciation 1 January 2014	-1,762	-1,762
Depreciation 2014	-978	-978
Impairments 2014	-	-
Accumulated depreciation disposals	321	321
Disposals and transfers 2014	-	-
Accumulated depreciation & impairments 31 December 2014	**-2,419**	**-2,419**
Book value 31 December 2014	**7,384**	**7,384**
Book value 31 December 2013	1,603	1,603

Additions in 2014 are mainly related to capitalization of costs related to a new ERP system and new offices.

Other tangible assets (office equipment and IT system) are depreciated using a linear method based on estimated useful life of three to five years.

Note 08
Subsidiaries and other investments

Subsidiaries owned by DNO ASA	Company's business adress	Owner-ship and voting interest (in %)	Company's share capital in 1,000	Company's equity in USD 1,000	Company's profit/ -loss in USD 1,000	Book value in USD 1,000
DNO Yemen AS	Oslo	100 %	NOK 291,000	257,325	-49,179	79,064
DNO UK Ltd	London	100 %	GBP 0	-7,493	-2,110	-
DNO Iraq AS	Oslo	100 %	NOK 600	490,255	-10,358	205,864
DNO Tunisia AS	Oslo	100 %	NOK 2,000	15,260	-27,820	3,163
DNO Invest AS	Oslo	100 %	NOK 2,075	360	-12	341
DNO Mena AS	Oslo	100 %	NOK 1,000	149,960	-36,788	149,960
DNO Oman AS	Oslo	100 %	NOK 101	-13,195	-13,112	20
DNO Somaliland AS	Oslo	100 %	NOK 101	-1,109	-733	20
DNO Technical Services AS	Oslo	100 %	NOK 100	-3,664	-3,515	16
Total				**887,699**	**-143,627**	**438,449**

Other investments

DNO has a total of 15,849,737 shares (4.86 percent of outstanding shares) in RAK Petroleum plc. All shares have been acquired in open market transactions in the period December 2013 to early August 2014. RAK Petroleum plc was listed on the Oslo Stock Exchange on 7 November, 2014, and when listed the shares were converted 10:1 from 158,497,373 shares to 15,849,737 shares. Applicable to all existing shareholders in RAK Petroelum plc at the time of listing, 90 percent of the shares are subject to a lock up period of six months from the day of listing. No sale or other form of disposal can take place in this period. Only a smaller part of the RAK shares is currently listed on the Oslo Stock Exchange, however a larger part will be listed shares following the end of the lock up period.

An impairment charge of USD 14.8 million has been recorded in 2014 due to lower market value of the shares.

Note 09
Trade and other receivables

USD 1,000	2014	2013
Trade receivables	1,305	152
Prepayments and accrued income	1,582	1,976
Other current receivables	717	654
Trade and other receivables	**3,604**	**2,782**

Note 10
Cash and cash equivalents

USD 1,000	2014	2013
Cash and cash equivalents, non-restricted	104,967	259,655
Cash and cash equivalents, restricted	3,489	1,605
Total cash and cash equivalents	**108,456**	**261,260**

The cash is mainly in USD and NOK.

Restricted cash relates to employees' tax deduction and deposits for rent.

Note 11
Shareholders equity

USD 1,000	Share capital	Treasury shares, number (1,000)	Treasury shares, amount	Share premium account	Other paid-in capital	Other equity	Total
Shareholders' equity on 1 January 2013	34,121	13,050	-550	152,755	30,049	180,632	397,007
Purchase of treasury shares including options	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-157,542	-157,542
Shareholders' equity on 31 December 2013	**34,121**	**13,050**	**-550**	**152,755**	**30,049**	**23,090**	**239,465**
Shareholders' equity on 1 January 2014	34,121	13,050	-550	152,755	30,049	23,090	239,465
Purchase of treasury shares including options	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Transferred to share premium account	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-154,600	-154,600
Shareholders' equity on 31 December 2014	**34,121**	**13,050**	**-550**	**152,755**	**30,049**	**-131,509**	**84,865**

For other information regarding the company's equity and shareholders, see Note 14 in the consolidated accounts.

Note 12
Guarantees and commitments

For information regarding guarantees and commitments, see Note 17 in the consolidated accounts.

Note 13
Interest-bearing liabilities

See Note 15 in the consolidated accounts for information on other interest-bearing liabilities as all boand loans are issued by DNO ASA.

Note 14
Current liabilites

USD 1,000	2014	2013
Accounts payable	4,885	1,986
Public duties payable	1,378	899
Accrued expenses and other current liabilities	16,124	15,845
Total non-interest-bearing current liabilities	**22,387**	**18,730**

Included in accrued expenses and other current liabilities are provisions for incurred costs.

Note 15
Financial instruments and risk management

See Note 9 in the consolidated accounts for further information on financial instruments and risk management.

Note 16
Related party disclosure

Overhead expenses in the parent company DNO ASA are allocated to the subsidiaries based on how much they have used the services provided by the parent company.

The parent company has loan facilities with all subsidiaries. The loans are interest bearing with DNO's average interest rate on borrowings and a commission fee.

See Note 21 in the consolidated accounts for further description of transactions with related parties.

Note 17
Contingencies and events after the balance sheet date

For information on contingencies and events after the balance sheet date, see Note 17 and Note 22 in the consolidated accounts.

Note 18
Earnings per share

USD 1,000	2014	2013
Net loss attributable to ordinary equity holders of the parent	-154,600	-157,542
Weighted average number of ordinary shares (excluding treasury shares)	1,010.2	1,010.2
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,010.2	1,010.2
Earnings per share, basic	-0.15	-0.16
Earnings per share, diluted	-0.15	-0.16

Note 19
Intercompany

Long-term intercompany receivables

USD 1,000	Currency	2014	2013
DNO UK Ltd	GBP	2,035	354
DNO Iraq AS	USD	43,434	-
DNO Tunisia AS	USD	29,672	13,696
DNO Invest AS	NOK	-	999
DNO Mena AS	USD	-	156,762
DNO Al Khaleej Ltd	USD	-	46,311
DNO Oman Block 30 Limited	USD	2,013	1,150
DNO Oman Limited	NOK	5,906	8,505
DNO Oman AS	USD	17,322	900
DNO Somaliland AS	USD	2,131	2,061
DNO Tunisia Limited	USD	3,948	3,484
DNO Technical Services AS	USD	9,884	-
Total long-term intercompany receivables		**116,346**	**234,223**

Long-term intercompany debt

USD 1,000	Currency	2014	2013
DNO Yemen AS	USD	252,962	234,139
DNO Iraq AS	USD	-	7,365
DNO Mena AS	USD	24,040	-
DNO Oman Block 8 Limited	USD	97,745	66,529
DNO Technical Services Limited	USD	12,507	1,789
Total long-term intercompany debt		**387,254**	**309,821**

Intercompany receivables and debt are interest bearing with an average interest rate of 8.3 percent charged for 2014 and 8.5 percent for 2013.

In 2014, the receivables on DNO Al Khaleej Limited has been impaired by USD 54,665,000.

Auditor's report 2014

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To the Annual Shareholders' Meeting of
DNO ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of DNO ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2014, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2014, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Managing Director's responsibility for the financial statements

The Board of Directors and Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as the Board of Directors and Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's report 2014

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of DNO ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Managing Director have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 19 March 2015
ERNST & YOUNG AS

Asbjørn Rødal
State Authorised Public Accountant (Norway)

A member firm of Ernst & Young Global Limited

Glossary and definitions

2D seismic
A group of 2D seismic lines acquired individually

3D seismic
Multiple and closely spaced seismic lines acquired together in a grid formation

AGM
Annual General Meeting

API gravity
An American Petroleum Institute measure of how heavy or light petroleum is compared to water. The lighter the liquid, the higher the degree API

Appraisal well
A well drilled to follow up a discovery and evaluate its commercial potential

Basement
The rock underlying the typical oil-bearing or oil-generating formations

bbls
Barrels of oil

Bcf
Billion cubic feet

boe
Barrels of oil equivalent

bopd/boepd
Barrels of oil per day / barrels of oil equivalent per day

Capital employed
Equity plus interest-bearing debt

CET
Central European Time

Company
DNO ASA

Company working interest (CWI)
The percentage interest ownership DNO has in a joint venture, partnership or consortium after deducting the royalty from gross revenues and including DNO's share of cost oil resulting from carried interests

Company working interest reserves
Reserves based on company working interest production

Condensate
Low-density mixture of hydrocarbon liquids that are present as gaseous components in the raw natural gas produced from many natural gas fields. It condenses out of the raw gas if the temperature is reduced to below the hydrocarbon dew point temperature of the raw gas.

Contingent resources
Quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies.

Contractor
An oil company operating in a country under a PSA/PSC on behalf of the host government, for which it receives either a share of production or a fee

Corporate Governance Code
The Norwegian Code of Practice for corporate governance published by the Norwegian Corporate Governance Board on 21 October 2010, as amended

Cost oil
Share of oil produced which is applied to the recovery of costs under a Production Sharing Contract.

Crude oil
Crude oil is the portion of petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature

D&M
DeGolyer and MacNaughton Corporation

DD&A
Depreciation, depletion and amortization

DNO
DNO ASA

DNO group
The company and its consolidated subsidiaries

EBITDA
Earnings before interest, tax, depreciation and amortization

Farm-in
To acquire an interest in a license from another party

Farm-out
To assign an interest in a license to another party

FDA cost
Finding, developing and acquisition cost

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

Government take
The total amount of revenue that a host government receives from production. This amount can include taxes, royalties and government participation.

HSSE
Health, safety, security and environment

Hydrocarbons
Compounds containing only the elements of hydrogen and carbon, which may exist as solid, liquid or gas

IAS
International Accounting Standards

IRS
Internal Revenue Service

KRG
Kurdistan Regional Government

LIBOR
London inter-bank offered rate

License or permit
Area of specified size, which is licensed to a company by the government for production of oil or gas

MENA
Middle East and North Africa

MMbbl, MMbbls
Million barrels

MMboe
Million barrels of oil equivalent

MMcfd
Million cubic feet of gas per day

MMscf
Million standard cubic feet

Natural gas
Natural gas is the portion of petroleum that exists either in the gaseous phase or is in solution in crude oil in natural underground reservoirs, and which is gaseous at atmospheric conditions of pressure and temperature

Net entitlement
That portion of future production (and thus resources) legally accruing to a lessee or contractor under the terms of the development and production contract with a lessor.

Net entitlement reserves
Reserves based on net entitlement production

Netback
EBITDA adjusted for taxes paid

NIBOR
Norwegian inter-bank offered rate

Operator
The company or individual responsible for managing an exploration, development, or production operation.

Oslo Stock Exchange
Oslo Børs ASA

PP&E
Property, plant and equipment

Production Sharing Agreement/Production Sharing Contract (PSA/PSC)
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

Profit oil
Production remaining after royalty and cost oil, which is split between the government and the contractors according to the prevailing contract terms (PSA/PSC)

Prospective resources
Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Reserves
Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: They must be discovered, recoverable, commercial, and remaining (as of a given date) based on the development project(s) applied.

Royalty
Royalty refers to payments that are due to the host government or mineral owner (lessor) in return for depletion of the reservoirs and the producer (lessee/contractor) for having access to the petroleum resources.

Seismic data
A principal source of information used to aid exploration for new hydrocarbon deposits and manage or enhance production from known reservoirs by utilizing acoustic measuring technology to generate an image of the subsurface

Share(s)
Ordinary shares in DNO with a nominal value of NOK 0.25

Shareholder(s)
Shareholder(s) of the Company

SOMO
State Oil Marketing Organization of Iraq

SPE
Society of Petroleum Engineers

Spud or Spudding
Initiation of drilling operations

STOIIP
Stock tank oil initially in place

Tcf
Trillion cubic feet of gas

Upstream
The upstream oil and gas sector is also commonly referred to as the exploration and production (E&P) sector. Upstream activities include the search for potential crude oil and natural gas deposits, drilling of exploratory wells, and subsequently drilling and operating the wells and associated infrastructure that recover and bring the crude oil and/or natural gas to the surface

DNO ASA
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