

5
COUNTRIES

2
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— **28 LICENSES** —

The Kurdistan Region of Iraq, the Kingdom of Norway, the Sultanate of Oman, the United Kingdom and the Republic of Yemen

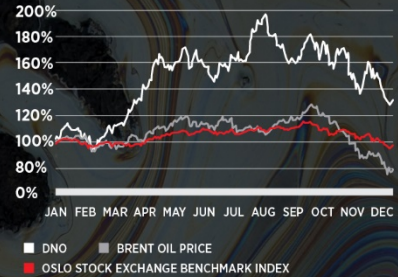


WORKFORCE



1,073

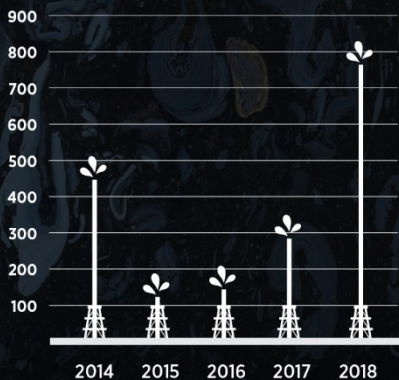
SHARE PRICE DEVELOPMENT



DNO ASA
ANNUAL REPORT AND ACCOUNTS
— 2018 —

REVENUES (USD million)

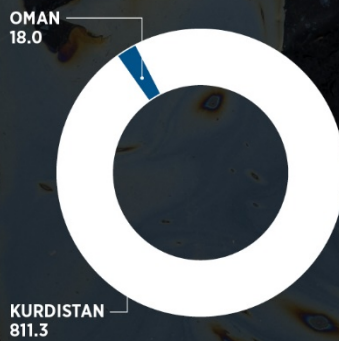
829.3



OPERATING PROFIT (USD million)

376.8

REVENUES (USD million)

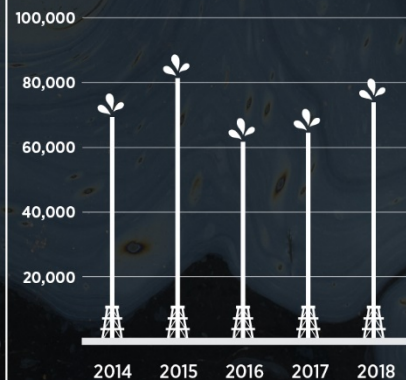


“We are agile. We are flexible. We are stubbornly resilient. We are DNO.”

Bijan Mossavar-Rahmani,
DNO's Executive Chairman

CWI PRODUCTION (boepd)

81,712



CWI 2P RESERVES (MMboe)

376.1

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Highlights

DNO recorded a 2018 net profit of USD 354 million on revenues of USD 829 million, the highest annual revenues in the Company's 47-year history. Cash flow from operations increased 40 percent to USD 472 million in 2018, of which USD 334 million represented free cash flow.

Operated production in 2018 averaged 117,600 barrels of oil equivalent per day (boepd) including 81,700 boepd on a Company Working Interest (CWI) basis, up from 113,500 boepd and 73,700 boepd, respectively, during 2017.

DNO stepped up its operational spend in 2018 to nearly USD 300 million to support the fast-track development of the Peshkabir field in the Kurdistan region of Iraq (Kurdistan) and the ongoing drilling program at the Tawke field within the same license.

Already the leading international oil company in Kurdistan, with a 75 percent operating interest in fields contributing a third of the region's total exports, DNO is now firmly establishing itself in Norway as it completes the takeover of Faroe Petroleum plc (Faroe). The combination places DNO among the top three European-listed independent oil and gas companies in production and reserves. With 90 licenses, of which 22 are operated, the Group will leapfrog to the ranks of the top five companies in total licenses held in Norway.

Looking ahead to 2019, DNO plans to drill or participate in up to 30 wells across its portfolio in Kurdistan and the North Sea. The Company projects 2019 capital and exploration expenditure in the range of USD 650 million for the combined entity, of which USD 330 million is on the DNO assets, up from USD 193 million in 2018, and USD 315 million is on the Faroe assets, up from USD 269 million in 2018.

Key figures

USD million	2018	2017
Key financials		
Revenues	829.3	347.4
Gross profit	478.7	145.2
Profit/-loss from operating activities	376.8	521.1
Net profit/-loss	354.3	495.0
EBITDA	638.8	735.6
Netback	489.1	231.8
Acquisition and development costs	138.0	130.4
Exploration costs expensed	64.7	33.0
Reserves and production		
Gross production (boepd)	117,607	113,533
Company Working Interest production (boepd)	81,712	73,680
Company Working Interest 2P reserves (MMboe)	376.1	384.1
Key performance indicators		
Lifting costs (USD/boe)	3.0	3.6
Netback (USD/boe)	16.4	8.6

For more information about key figures, see section about alternative performance measures.

Board of Directors

Bijan Mossavar-Rahmani

Executive Chairman



Bijan Mossavar-Rahmani is an experienced oil and gas executive and has served as the Company's Executive Chairman of the Board of Directors since 2011.

Mr. Mossavar-Rahmani serves concurrently as Executive Chairman of Oslo-listed RAK Petroleum plc, the Company's largest shareholder. He is a Trustee of the New York Metropolitan Museum of Art and a member of Harvard University's Global Advisory Council. He has published more than ten books 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 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.

Mr. Takla has held various managerial positions with ConocoPhillips, including Managing Director and President of the Scandinavian Division. He was Executive Chairman of the Norwegian Energy Company ASA between 2005 and 2011. Mr. Takla was appointed Commander of the Royal Norwegian Order of St. Olav for his strong contribution to the Norwegian petroleum industry. He holds a Master of Science degree in chemical engineering from the Norwegian University of Science and Technology. He was elected to the Company's Board of Directors in 2012 and is a member of the HSSE committee.

Elin Karfjell

Director



Elin Karfjell is Managing Partner of Atelika AS and has held various management positions across a broad range of industries.

Ms. Karfjell has served as Chief Executive Officer of Fabi Group, Director of Finance and Administration at Atea AS and partner of Ernst & Young AS and Arthur Andersen. Other board directorships include Aker Philadelphia Shipyard, North Energy ASA and Contesto AS. Ms. Karfjell is a state authorized public accountant. She has a Bachelor of Science in Accounting from Oslo and Akershus University College of Applied Sciences and a Higher Auditing degree from the Norwegian School of Economics and Business Administration. Ms. Karfjell was elected to the Company's Board of Directors in 2015 and is a member of the audit committee.



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 for eight years. Mr. Hirsti holds a degree in drilling engineering from Tønsberg Maritime Høyskole in Norway. He was elected to the Company's Board of Directors in 2007 and is a member of the audit and remuneration 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 management positions with Novus Petroleum, Indago Petroleum and RAK Petroleum PCL where she served as General Manager until 2014. She was appointed as Chief Operating Officer of RAK Petroleum plc in February 2017 and Chief Financial Officer in May 2017. 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 the Company's Board of Directors since 2010 and is a member of the audit committee.

Board of Directors' report

Introduction

2018 full-year results highlights

- Operated production in 2018 of 117,607 boepd, up from 113,533 boepd in 2017;
- Gross output at the Tawke license in Kurdistan, containing the Tawke and Peshkabir fields, averaged 113,041 barrels of oil per day (bopd);
- CWI production of 81,712 boepd, up from 73,680 boepd in 2017;
- Revenues of USD 829 million in 2018, up from USD 347 million in 2017;
- Kurdistan revenues totaled USD 811 million and Oman revenues totaled USD 18 million;
- Operating profit of USD 377 million in 2018, down from USD 521 million in 2017 reflecting the recognition of USD 556 million of historical receivables (under a 2017 settlement agreement with the Kurdistan Regional Government (KRG));
- Operational spend of USD 293 million, up from USD 259 million in 2017;
- Yearend cash balance of USD 729 million, up from USD 430 million at yearend 2017; and
- CWI proven and probable (2P) reserves of 376 million barrels of oil equivalent (MMboe), compared to 384 MMboe at yearend 2017.

Our vision and strategic priorities

DNO's vision is to be a leading independent exploration and production (E&P) company with a focus on the Middle East and the North Sea, with the aim of delivering attractive returns to shareholders by finding and producing oil and gas at low cost and at an acceptable level of risk. DNO's strategic priorities to deliver sustainable growth in a responsible manner are:

- Increasing production through the development of our existing reserves base;
- Creating reserves and contingent resource growth through focused exploration and appraisal drilling;
- 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 commitments and managing risks to the business; and
- Being a safety leader in our areas of operation.

Production strength and capacity

DNO reported operated production in 2018 of 117,607 boepd, up from 113,533 boepd in 2017. DNO's CWI production stood at 81,712 boepd in 2018, up from 73,680 boepd in 2017.

With CWI 2P reserves totaling 376 MMboe across its portfolio, DNO has the asset base to sustain long-term production growth.

Organic reserves and resource growth

Done in a structured manner, successful exploration 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. We also benchmark each prospect 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 Middle East and the North Sea, with the goal of transforming resources into reserves at a low unit cost.

Operational control and financial flexibility

We operate a significant number of our oil and gas assets and have the necessary operational and financial management processes in place to efficiently deliver our work programs. To maintain the financial strength and flexibility to fund growth opportunities, we will look to internally generated funds and, when necessary, capital market transactions to strengthen the Company's balance sheet.

During 2018, DNO achieved an average lifting cost of USD 3.0 per boe.

Encouraging an entrepreneurial culture

DNO's growth and success revolve 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. 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 acquisitions.

Corporate governance and managing risk

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 Corporate Social Responsibility Highlights 2018 and Country-by-Country Report 2018 for more information on activities in the areas in which we operate. Both reports are available on our website at <http://www.dno.no>.

Operations review

Annual Statement of Reserves and Resources

The Company's Annual Statement of Reserves and Resources (ASRR) has been prepared in accordance with the Oslo Stock Exchange listing and disclosure requirements Circular No. 1/2013. International petroleum consultants DeGolyer and MacNaughton (D&M) have carried out the annual independent assessment of the Tawke and Peshkabar fields in Kurdistan. The Company has internally assessed the remaining assets.

At yearend 2018, DNO's CWI proven (1P) reserves stood at 239.7 million barrels of oil (MMbbls), unchanged from 239.8 MMbbls at yearend 2017, after adjusting for production during the year and technical revisions. On a 2P reserves basis, DNO's CWI reserves stood at 376.1 MMbbls, down 8.0 MMbbls from 384.1 MMbbls at yearend 2017. On a proven, probable and possible (3P) reserves basis, DNO's CWI reserves were 538.9 MMbbls, compared to 665.7 MMbbls at yearend 2017. DNO's CWI contingent (2C) resources were 76.8 MMboe, compared to 98.9 MMboe at yearend 2017.

DNO's CWI production in 2018 was 29.9 MMboe (of which 29.1 MMbbls in Kurdistan and the balance in Oman), up from 26.9 MMboe in 2017 (of which 26.1 MMbbls in Kurdistan and the balance in Oman).

DNO's yearend 2018 Reserve Life Index (R/P) stood at 8.2 years on a 1P reserves basis, 12.9 years on a 2P reserves basis and 18.5 years on a 3P reserves basis.

The ASRR report for 2018 is available on the Company's website.

Kurdistan

Tawke license

Gross production from the Tawke license, containing the Tawke and Peshkabar fields, averaged 113,041 bopd during 2018.

DNO ramped up production from the Peshkabar field to more than 50,000 bopd less than 18 months after commencement of operations, beating its yearend 2018 target ahead of schedule and below budget. January 2019 Peshkabar production from six wells averaged around 54,000 bopd.

The Peshkabar-9 well has completed and recently commenced production. The Peshkabar-10 well spud in mid-February as part of the 2019 field drilling campaign of up to four wells.

At the Tawke field, three wells were completed in the fourth quarter and the Tawke-52 Cretaceous well came onstream in the first quarter of 2019. January 2019 Tawke production averaged around 74,000 bopd.

DNO has an active 2019 Tawke drilling campaign of up to 14 new wells in the Cretaceous and Jeribe reservoirs to stabilize production.

DNO holds a 75 percent operated interest in the Tawke and Peshkabar fields with partner Genel Energy plc (25 percent).

Erbil license

Testing is ongoing at the Hawler-1A well at the Benenan heavy oil field in the Erbil license.

DNO holds a 40 percent operated interest in the Erbil license with partner Gas Plus Erbil (40 percent) and the KRG (20 percent).

Baeshiq license

In October 2018, DNO spud the Baeshiq-1 exploration well to test the Cretaceous reservoir at the Baeshiq structure. The well was drilled to a depth of 1,488 meters and well testing recently commenced.

A second Baeshiq well targeting the deeper Jurassic and Triassic reservoirs on the same structure was spud in February 2019 and a third well also targeting the Jurassic and Triassic reservoirs, but on a separate structure, will spud later this year.

DNO acquired a 32 percent interest and operatorship of the Baeshiq license in 2017. Partners include ExxonMobil (32 percent), Turkish Energy Company (16 percent) and the KRG (20 percent).

RESERVES

On a CWI basis at yearend 2018, 1P reserves in the Company's three Kurdistan licenses totaled 239.7 MMbbls (239.8 MMbbls at yearend 2017), 2P reserves totaled 376.1 MMbbls (384.1 MMbbls at yearend 2017) and 3P reserves totaled 538.9 MMbbls (665.7 MMbbls at yearend 2017). The CWI 2C resources were 55.8 MMbbls, compared to 67.2 MMbbls at yearend 2017.

At the Tawke license containing the Tawke and Peshkabar fields, at yearend 2018 gross 1P reserves stood at 348.0 MMbbls (239.7 MMbbls on a CWI basis), unchanged from 348.3 MMbbls (239.8 MMbbls on a CWI basis) at yearend 2017. At yearend 2018 gross 2P reserves stood at 501.9 MMbbls (344.3 MMbbls on a CWI basis), compared to 512.6 MMbbls (352.3 MMbbls on a CWI basis) at yearend 2017. At yearend 2018 gross 3P reserves stood at 696.8 MMbbls (476.6 MMbbls on a CWI basis), compared to 880.0 MMbbls (602.9 MMbbls on a CWI basis) at yearend 2017.

Estimates of oil-in-place at the Erbil license containing the Benenan and Bastora fields stand at more than two billion barrels. At yearend 2018, gross 2P reserves at the Benenan and Bastora fields totaled 68.4 MMbbls (31.8 MMbbls on a CWI basis), gross 3P reserves totaled 134.1 MMbbls (62.3 MMbbls on a CWI basis) and gross 2C resources totaled 11.9 MMbbls (5.5 MMbbls on a CWI basis). No 1P reserves were recorded at either field.

Yemen

Operations in Yemen (Block 47) are currently suspended.

Norway

The Company announced in January 2019 that its wholly-owned subsidiary DNO Norge AS has been awarded participation in 18 exploration licenses, of which five are operatorships, under Norway's Awards in Predefined Areas (APA) 2018 licensing round. Of the 18 licenses, nine are in the North Sea, two in the Norwegian Sea and seven in the Barents Sea. Prior to the announcement, DNO held interests in 21 Norway licenses.

United Kingdom

DNO currently holds an interest in one offshore exploration license in the UK.

Business development

In 2017, DNO re-entered the North Sea by acquiring Origo Exploration Holding AS (Origo), with its highly experienced exploration team and an existing portfolio of offshore exploration licenses in Norway and the UK. Origo was subsequently renamed DNO Norge AS and the portfolio has since expanded through a combination of licensing rounds, license swaps and acquisitions.

This was further complemented in 2018 and early 2019 by the acquisition of Faroe, an oil and gas company with a primary focus on exploration, appraisal and production in Norway and the UK. Faroe's daily production for 2017 averaged 14,349 boepd.

The Faroe acquisition bolsters the Group's portfolio and operational capabilities in Norway, transforming DNO into a more diversified company with a strong, second leg. Through the transaction, DNO picks up attractive exploration, production and development projects and an experienced team with extensive knowledge of the North Sea. Faroe currently has stakes in nine producing fields, of which five are in Norway (Trym, Tambar, Ula, Brage and Ringhorne East) and four are in the UK or cross borders with the UK (Blane (UK/Norway), East Foinaven, Enoch (UK/Norway) and Orca (UK/Netherlands)).

DNO continues to develop a pipeline of new business opportunities with a focus on its core in the Middle East and the North Sea. It is actively pursuing opportunities across the E&P life-cycle, including exploration, development and production assets both directly as well as through possible corporate acquisitions.

DNO has exited Oman, Tunisia and Somaliland as part of the refocusing and high-grading of the Group's portfolio.

Financial performance in 2018

Revenues, profits and cash flow

Total revenues in 2018 stood at USD 829.3 million, up from USD 347.4 million in 2017. Kurdistan revenue stood at USD 811.3 million and Oman revenue at USD 18.0 million. Effective 1 October 2018, Kurdistan export revenue recognition changed from a cash to accrual basis, resulting in a one-off booking of an additional USD 182.8 million in revenues in 2018.

The Group reported an operating profit of USD 376.8 million in 2018, down from USD 521.1 million during 2017. The decrease in operating profit compared to last year is driven by the recognition of other income of USD 556.0 million in 2017 following the August 2017 Kurdistan Receivables Settlement Agreement (Kurdistan RSA).

The Group ended the year with USD 729.1 million in cash and an additional USD 281.3 million in treasury shares and marketable securities. This was up from USD 430.2 million in cash and USD 58.0 million in treasury shares and marketable securities at yearend 2017. Operational cash flow for the year was USD 472.0 million, compared to USD 338.8 million in 2017.

Cost of goods sold

In 2018, the total cost of goods sold was USD 350.6 million, compared to USD 202.2 million in 2017.

Lifting costs in 2018 totaled USD 90.4 million, compared to USD 96.1 million in 2017. Lifting costs in Kurdistan stood at USD 2.8 per barrel in 2018, unchanged from 2017. Lifting costs in Oman stood at USD 13.4 per boe, compared to USD 29.0 per boe in 2017.

Depreciation, depletion and amortization (DD&A) costs increased to USD 260.1 million in 2018 from USD 106.1 million a year earlier. The increase in DD&A is mainly driven by increased production and a higher cost base following the Kurdistan RSA.

Exploration costs expensed

Total expensed exploration costs during 2018 were USD 64.7 million, up from USD 33.0 million in 2017.

Acquisition and development costs

Total capital expenditure stood at USD 138.0 million, compared to USD 130.4 million during 2017. Most of the investments were related to drilling activities in Kurdistan.

Impairment charges

The Group's total impairment charges stood at USD 1.9 million in 2018, compared to USD 108.4 million during 2017.

Assets, liabilities and equity

At yearend 2018, total assets stood at USD 2,004.3 million, compared to USD 1,415.1 million at yearend 2017. *Property, plant and equipment* (PP&E) and *Other intangible assets* decreased from USD 894.6 million at year 2017 to USD 790.9 million at yearend 2018. The equity ratio was 60.8 percent at yearend 2018 (61.9 percent at yearend 2017).

Going concern

The Company's Board of Directors finds that the assumptions for future and continued operations have not changed. 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 Group regularly reports on its strategy and the status of its business activities through annual reports, half-year and full-year results and other market presentations and releases.

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 2018, this ratio was 60.8 percent. The Board of Directors considers this figure to be satisfactory given the Group'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.

In August 2018, the Company announced plans for its first dividend distribution to shareholders in 13 years. In September 2018, the Company held an Extraordinary General Meeting (EGM) at which 99.99 percent of the votes cast approved the resolution to distribute a dividend of NOK 0.20 per share to all shareholders holding shares as of 13 September 2018. By the same margin, shareholders also authorized the Board of Directors to approve an additional dividend payment of NOK 0.20 per share in the first half of 2019. In February 2019, the Company's Board of Directors approved a dividend payment of NOK 0.20 per share to be made on or about 27 March 2019 to all shareholders of record as of 18 March 2019.

AUTHORIZATIONS TO THE BOARD OF DIRECTORS

At the 2018 AGM, the Board of Directors was given the authority to buy treasury shares with a total nominal value of up to NOK 27,095,354. 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 2019, but not beyond 30 June 2019. As of 31 December 2018, DNO held 35,000,000 treasury shares.

The Board of Directors was further given the authority to increase the Company's share capital by up to NOK 40,643,031, which corresponds to 162,572,124 new shares. The authorization is valid until the AGM in 2019, but not beyond 30 June 2019.

Equal treatment of shareholders and transactions with close associates

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

All transactions between the Company and related parties shall 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, see Note 21 in the consolidated accounts.

Freely negotiable shares

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

General meetings

The AGM, held by the end of June each year, is the highest authority of the Company. 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 recommendations 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 DNO, 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, including the Executive Chairman, are elected by the AGM for a period of two years.

As of 31 December 2018, the Board of Directors consisted of five members, all of whom have relevant and broad experience. Three members are independent of the Company's main shareholders. There are two women on the board. The majority of the members are independent of the Company's executive management and material business contacts.

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

The Board of Directors' 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 that, 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 of Directors' committees

AUDIT COMMITTEE

The audit committee consists of three members: Mr. Gunnar Hirsti (chair), Ms. Shelley Watson and Ms. Elin Karfjell. Its mandate includes ensuring the quality and accuracy of the Company's financial reporting. The committee is also responsible for monitoring internal control and risk evaluation systems.

HSSE COMMITTEE

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

NOMINATION COMMITTEE

The Company's nomination committee consists of Mr. Bijan Mossavar-Rahmani and two external members, Ms. Anita Marie Hjerkin Aarnæs and 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 remuneration for the Board of Directors.

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 Executive Chairman, the Deputy Chairman and other 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 accounts (see Note 3).

Remuneration of executive management

The remuneration of the Company'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 parent company financial statements (see Note 3).

The guidelines for remuneration of executive management are presented at the AGM in accordance with the provisions of the Norwegian Public Limited Liability Companies Act.

Responsibility for risk management and internal control

Risk management is integral to all of the Group'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 Group's risk exposure and reviews of its risk management are regularly undertaken and presented to the executive management and the Board of Directors. The Company has an internal audit function that undertakes annual audits of the main business units and a compliance function whose role includes ensuring regulatory requirements and internal policies are followed.

Information and communication

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

DNO's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional disclosure requirements in the Norwegian Accounting Act. 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 regular market presentations. The DNO investor relations' policy encourages open communication with capital markets and shareholders. In addition to scheduled half-year and full-year presentations, we also regularly hold presentations for investors and analysts.

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 a takeover 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 would 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 Group's internal control and risk management systems. The auditor also participates in board meetings when considered appropriate, with and without executive management present.

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 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 Group 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 Group's risk management systems and internal controls.

Financial risk

Risks related to oil and gas prices, interest rates and currency exchange rates, liquidity risk, concentration risk and credit risk constitute financial risks for the Group. In order to minimize any potentially adverse effects from such risks, financial risk is managed by the Group finance function under policies approved by the Board of Directors. For more information about how we manage financial risk, see Note 9 in the consolidated accounts.

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 has good title to its licenses, including the right to explore for and produce oil and gas from these licenses, the Federal Government of Iraq (FGI) has in the past challenged the validity of certain PSCs signed by the KRG.

Historically, as a result of disagreements between the FGI and the KRG, economic conditions in Kurdistan and limited available export channels, DNO has faced constraints in fully monetizing the oil it produces in Kurdistan. There is no guarantee that oil and gas can be exported in sufficient quantities or at prices required to sustain its operations and investment plans or that the Group will promptly receive its full entitlement payments for the oil and gas it delivers for export. In the past, export sales have not followed the PSC terms and there has historically been uncertainty related to both timing of revenue and receipt of payments. However, DNO has received regular export monthly payments from the KRG since late 2015 and revenues from Tawke license production are now in line with the terms of the PSC.

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 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 DNO.

Our ability to effectively manage and deliver value from our exploration, development and production activities is dependent on the quality of our staff and contractors. Inefficiency or interruption to our supply chain or the unwillingness of service contractors to engage in our areas of operation may also negatively affect 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, environmental impact assessments, 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, our profitability 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 Group's ability to effectively execute its business plans. DNO adheres to a strict and comprehensive conflict of interest policy, trade sanctions and other policies focused around the Group's Code of Conduct to ensure regulatory and company expectations are met. A whistleblowing procedure is also in place.

Political risk

Our portfolio is located in some countries where political, social and economic instability may adversely impact our business. For example, the political and security situation in Yemen continued to deteriorate in 2018. In Kurdistan, we continue to closely monitor security conditions although our operations to date have seen minimal impact from regional developments.

Stakeholder risk

In order to operate effectively, it is necessary for the Company to maintain productive and proactive relationships with our stakeholders, host governments, business 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.

HSSE performance

Our HSSE standards, procedures and protocols are based on the following principles:

- Avoid harm to all personnel involved in, or affected by, our operations;
- Prevent pollution and minimize the impact of our operations on the environment;
- Comply with all applicable legal and regulatory requirements; and
- Achieve continuous improvement in HSSE performance.

During 2018:

- Only three Serious Vehicle Accidents took place despite distances driven of over three million kilometres. There were no recordable injuries as a result of these accidents;
- Greenhouse gas emissions stood at 417,000 tonnes of CO₂ equivalent, up from 178,000 tonnes in 2017 largely due to flaring at the Peshkabir field, which will be reduced in 2020 through a project to reinject Peshkabir gas into the Tawke field for enhanced oil recovery;
- Spills/leaks increased to five in 2018, up from two in 2017. The total volume spilled was 35 barrels of oil, all of which was removed and remediated at controlled sites; and
- Security incidents stood at four, equal to 2017.

We continue to actively maintain the integrity of our facilities through structured maintenance programs and a focus on safety critical equipment and robust assurance of design.

There were two lost time injuries during the year. Our Total Recordable Injury Frequency (TRIF) during 2018 was unchanged from last year at 1.0.

We continue to work with our employees and contracting partners on programs to improve safety performance with a focus in 2018 on safety leadership.

Sickness absence in 2018 was 1.4 percent, down from 1.7 percent in 2017.

Organization and personnel

At yearend 2018, DNO had a workforce of 1,073 employees, of which 10 percent were women. A total of 69 individuals were based at the Company's headquarters in Oslo and 1,004 were engaged in Stavanger and across our international operations. Our workforce is characterized by strong cultural, religious and national diversity, with some 42 nationalities represented across DNO.

We strive to foster and maintain a culture built on trust, respect, teamwork, communication and commitment in a work environment free of discrimination.

Executive remuneration policy

The Board of Directors presents guidelines to the AGM 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 2018

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 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 executive management, such remuneration can include cash bonuses and share-based compensation, including options and synthetic shares. 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.

Pensions

DNO has a contribution-based pension system under which Norway-based 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 executive 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 may be entered into selectively.

Binding sections

Remuneration as it relates to share-based incentive schemes is 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 of Directors and are therefore only subject to a consultative vote at the AGM.

Executive management



BJØRN DALE

Managing Director

Mr. Dale joined DNO in 2011 with extensive legal and cross-border transactions and corporate restructuring experience. Mr. Dale holds a Master of Law degree from the University of Oslo and an Executive MBA from the Stockholm School of Economics.



HAAKON SANDBORG

Chief Financial Officer

Mr. Sandborg joined DNO in 2001. In addition to his oil and gas experience, he has a background in banking, including positions at DNB Bank. Mr. Sandborg holds a Master of Business Administration from the Norwegian School of Business Administration.



AERNOU VAN DER GAAG

Deputy Chief Financial Officer

Mr. Van der Gaag joined DNO in 2017. Mr. Van der Gaag previously served in various finance and business services roles at Talisman Energy and Royal Dutch Shell. Mr. Van der Gaag holds a Master of Business Economics from the University of Groningen in The Netherlands.



UTE QUINN

General Counsel and Corporate Secretary

Ms. Quinn joined DNO in 2017. Ms. Quinn previously served in various legal executive roles at Royal Dutch Shell and Hess Corporation. She holds a Bachelor of Arts in Political Science from Vassar College and a law degree from Temple University School of Law.



CHRIS SPENCER

Commercial Director

Mr. Spencer joined DNO in 2017. Mr. Spencer previously served as CEO of Rocksource ASA and in various roles at Royal Dutch Shell and BP. Mr. Spencer is a Chartered Engineer with the Institution of Chemical Engineers in the United Kingdom.



NICHOLAS WHITELEY

Exploration Director

Dr. Whiteley joined DNO in 2015 from Cairn India, where he served as General Manager of Exploration. He started his career at BP and has a Master of Science degree in Earth Sciences from the University of Cambridge and a PhD from the University of Oxford.



JON SARGEANT

Managing Director, DNO Technical Services AS

Mr. Sargeant joined DNO in 2008. He previously served in various drilling and technical management roles at Norsk Hydro for more than 30 years. Mr. Sargeant holds a Bachelor's degree in Chemical Engineering from the University of Manchester.

Parent company

The parent company, DNO ASA, reported an annual profit of USD 428.2 million in 2018, up from USD 114.0 million in 2017. Total assets as of 31 December 2018 were USD 1,243.2 million, up from USD 786.3 million at yearend 2017. The long-term intercompany receivables were USD 56.1 million as of 31 December 2018, compared to USD 14.9 million at yearend 2017. The long-term intercompany liabilities were USD 19.6 million as of 31 December 2018, down from USD 178.3 million at yearend 2017. The Company's cash balance at yearend 2018 was USD 638.2 million, up from USD 388.5 million at yearend 2017. Total shareholder equity at yearend 2018 was USD 600.0 million, up from USD 221.7 million in 2017.

The equity ratio increased to 48.3 percent from 28.2 percent in 2017. An ordinary dividend of USD 25.8 million was distributed in 2018. The Board of Directors will recommend that shareholders approve the transfer of the annual profit of USD 428.2 million to other equity at the forthcoming AGM.

Main events since yearend

On 3 January 2019, the Company announced that its subsidiary DNO Oman Block 8 Limited had relinquished operatorship and participation in Oman Block 8 to the Oman's Ministry of Oil and Gas due to the expiration of the 30-year commercial term of the Exploration and Production Sharing Agreement (EPSA). Effective 4 January 2019, Block 8 has been operated by the Musandam Oil and Gas Company, fully-owned by the state-owned Oman Oil Company Exploration and Production LLC (OOCEP). DNO held a 50 percent interest in the license alongside LG International Corp., which held the remaining 50 percent interest. Both parties relinquished their interests upon the expiry of the EPSA.

On 8 January 2019, the Company announced the terms of a final cash offer for the entire issued and to be issued share capital of Faroe at a price of 160 pence in cash for each Faroe share. The price in the final offer valued Faroe's existing issued and to be issued share capital at approximately GBP 641.7 million.

On 4 February 2019, the Company announced that it had settled valid acceptances of the final offer in respect of a total of 128,595,577 Faroe shares representing approximately 32.48 percent of the issued share capital of Faroe. Combined with shares already held as a result of market purchases, the Company held 380,538,003 Faroe shares on that date, representing 96.11 percent of Faroe's issued share capital.

On 21 March 2019, the Company announced that it had completed the compulsory acquisition procedure for the remaining shares in Faroe that was announced on 4 February 2019. DNO now owns 100 percent of the entire issued share capital of Faroe (subject to stamping and registration).

On 6 February 2019, the Company announced that, pursuant to the authorization granted at the EGM held on 13 September 2018, the Board of Directors has approved a dividend payment of NOK 0.20 per share to be made on or about 27 March 2019 to all shareholders of record as of 18 March 2019.

Responsibility statement

DNO ASA's consolidated financial statements for the period 1 January to 31 December 2018 have been prepared and presented in accordance with IFRS as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act. The separate financial statements for DNO ASA for the period 1 January to 31 December 2018 have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards. We confirm to the best of our knowledge that the consolidated and separate financial statements for the period 1 January to 31 December 2018 have been prepared in accordance with applicable accounting standards and give a fair view of the 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 statements, any significant related parties' transactions and a description of the significant risks and uncertainties to which the Group and the parent company are exposed.

Oslo, 26 March 2019

Bijan Mossavar-Rahmani
Executive Chairman

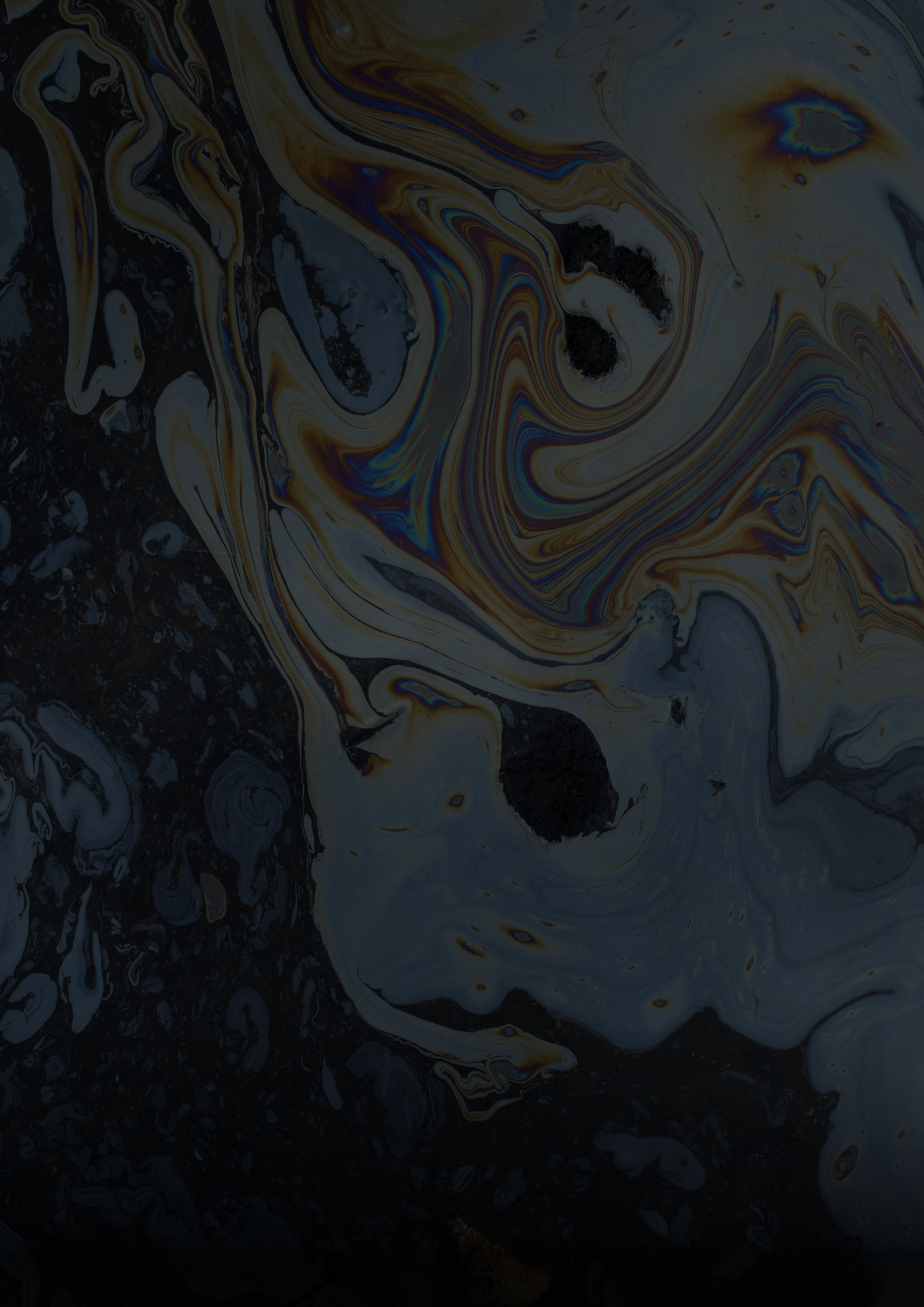
Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Elin Karfjell
Director

Gunnar Hirsti
Director

Bjørn Dale
Managing Director



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Parent company accounts

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Consolidated statements of comprehensive income

1 January - 31 December

USD million	Note	2018	2017
Revenues	2, 3	829.3	347.4
Cost of goods sold	4	-350.6	-202.2
Gross profit		478.7	145.2
Other income	3	4.8	1.5
Other income past oil sales	3	-	556.0
Administrative expenses	5	-36.7	-33.2
Other operating expenses	5	-3.4	-7.0
Impairment oil and gas assets	10	-1.9	-108.4
Exploration expenses	6	-64.7	-33.0
Profit/-loss from operating activities		376.8	521.1
Financial income	7	12.6	11.8
Financial expenses	7	-66.9	-57.9
Profit/-loss before income tax		322.5	475.1
Tax income/-expense	8	31.8	20.0
Net profit/-loss		354.3	495.0
Other comprehensive income			
Currency translation differences		1.4	-0.4
Items that may be reclassified to profit or loss in later periods		1.4	-0.4
Net fair value changes from financial instruments	11	12.1	3.4
Items that are not reclassified to profit or loss in later periods		12.1	3.4
Total other comprehensive income, net of tax		13.5	3.0
Total comprehensive income, net of tax		367.7	498.0
Net profit/-loss attributable to:			
Equity holders of the parent		354.3	495.0
Non-controlling interests		-	-
Total comprehensive income attributable to:			
Equity holders of the parent		367.7	498.0
Non-controlling interests		-	-
Earnings per share, basic	19	0.34	0.47
Earnings per share, diluted	19	0.34	0.47

Consolidated statements of financial position

Years ended 31 December

USD million	Note	2018	2017
ASSETS			
Non-current assets			
Deferred tax assets	8	7.0	3.5
Other intangible assets	10	32.8	31.4
Property, plant and equipment	10	758.1	863.3
Financial investments	11	230.8	17.4
Other non-current assets		0.1	0.5
Total non-current assets		1,028.8	916.0
Current assets			
Inventories	4	8.3	7.4
Trade and other receivables	12	209.8	27.8
Tax receivables	8	28.3	33.7
Cash and cash equivalents	13	729.1	430.2
Total current assets		975.5	499.1
TOTAL ASSETS		2,004.3	1,415.1
EQUITY AND LIABILITIES			
Equity			
Share capital	14	35.0	35.0
Other reserves	14	239.6	262.7
Retained earnings		943.2	578.2
Total equity		1,217.8	875.9
Non-current liabilities			
Interest-bearing liabilities	15	575.7	372.8
Provisions for other liabilities and charges	16	68.1	45.7
Total non-current liabilities		643.8	418.5
Current liabilities			
Trade and other payables	18	116.4	99.6
Income taxes payable	8	0.5	0.7
Current interest-bearing liabilities	15	18.4	17.6
Provisions for other liabilities and charges	16	7.4	2.7
Total current liabilities		142.7	120.7
Total liabilities		786.5	539.2
TOTAL EQUITY AND LIABILITIES		2,004.3	1,415.1

Oslo, 26 March 2019

Bijan Mossavar-Rahmani
Executive Chairman

Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Elin Karfjell
Director

Gunnar Hirsti
Director

Bjørn Dale
Managing Director

Consolidated cash flow statement

1 January - 31 December

USD million	Note	2018	2017
OPERATING ACTIVITIES			
Profit/-loss before income tax		322.5	475.1
Adjustments to add (deduct) non-cash items:		-	-
Depreciation, depletion and amortization	4	260.1	106.1
Impairment oil and gas assets	10	1.9	108.4
Other income past oil sales	3	-	-556.0
Other*		50.2	64.4
Changes in working capital and provisions:			
- Inventories		-2.4	5.9
- Trade and other receivables		-181.7	72.4
- Trade and other payables		16.8	54.1
- Provisions for other liabilities and charges		4.7	8.4
Cash generated from operations		472.0	338.8
Income taxes received/-paid		-	-2.4
Tax refund received		33.2	33.2
Net interests received/-paid	7	-34.1	-32.3
Net cash from/-used in operating activities		471.1	337.4
INVESTING ACTIVITIES			
Purchases of intangible assets	10	-7.8	-1.3
Purchases of tangible assets	10	-130.3	-129.1
Acquisition of subsidiary net of cash acquired		-	2.6
Acquisition of financial investments	11	-201.3	-
Net cash from/-used in investing activities		-339.4	-127.8
FINANCING ACTIVITIES			
Proceeds from interest-bearing liabilities net of issue costs	15	223.9	14.5
Repayment of interest-bearing liabilities	15	-31.0	-30.9
Purchase of treasury shares, including options	14	-	-24.1
Paid dividend	14	-25.8	-
Net cash from/-used in financing activities		167.1	-40.5
Net increase/-decrease in cash and cash equivalents		298.9	169.1
Cash and cash equivalents at beginning of the period		430.2	261.1
Cash and cash equivalents at end of the period	13	729.1	430.2
Of which restricted cash	13	3.2	3.9
Of which held on restricted account in relation to the Faroe offer	13	418.1	-

* Includes net interest income/-expense and amortization of bond issue costs.

Consolidated statements of changes in equity

USD million	Note	Share capital	Other reserves	Retained earnings	Total equity
Total equity as of 1 January 2017		35.8	286.4	79.8	401.9
Fair value changes from equity instruments		-	-	3.4	3.4
Currency translation differences		-	-0.4	-	-0.4
Other comprehensive income/-loss		-	-0.4	3.4	3.0
Profit/-loss for the period		-	-	495.0	495.0
Total comprehensive income		-	-0.4	498.4	498.0
Purchase of treasury shares		-0.8	-23.3	-	-24.1
		-0.8	-23.3	-	-24.1
Total equity as of 31 December 2017	14	35.0	262.7	578.2	875.9

USD million	Note	Share capital	Other reserves	Retained earnings	Total equity
Total equity as of 1 January 2018		35.0	262.7	578.2	875.9
Fair value changes from equity instruments		-	-	12.1	12.1
Currency translation differences		-	2.6	-1.2	1.4
Other comprehensive income/-loss		-	2.6	10.8	13.5
Profit/-loss for the period		-	-	354.3	354.3
Total comprehensive income		-	2.6	365.1	367.7
Purchase of treasury shares		-	-	-	-
Payment of dividend		-	-25.8	-	-25.8
		-	-25.8	-	-25.8
Total equity as of 31 December 2018	14	35.0	239.6	943.2	1,217.8

Note 1

Summary of IFRS accounting principles applicable for 2018

■ Principal activities and corporate information

DNO ASA is engaged in international oil and gas exploration, development and production.

The Company is a Norwegian public limited liability company organized and existing under the laws of Norway pursuant to the Norwegian Public Limited Liability Companies Act ("*allmennaksjeloven*"). The Company was incorporated on 6 August 1971 and its registration number in the Norwegian Register of Business Enterprises is 921 526 121. The shares in the Company have been listed on the Oslo Stock Exchange since 1981, currently under the ticker "DNO". The Company's registered office is located at Dokkveien 1, 0250 Oslo, Norway. DNO's activities are mainly undertaken in the Middle East and the North Sea. DNO is included in the consolidated accounts of RAK Petroleum plc (RAK Petroleum).

■ Statement of compliance

The consolidated financial statements of DNO have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and additional disclosure requirements in the Norwegian Accounting Act. The consolidated financial statements were approved by the Board of Directors on 26 March 2019.

■ Basis for preparation

The consolidated financial statements have been prepared on a historical cost basis, with the following exemptions: liabilities related to share-based payments and investments in equity instruments classified as financial investments at fair value through other comprehensive income are recognized at fair value. As permitted by International Accounting Standard (IAS) 1, the statements of comprehensive income are presented 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.

■ Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year with the exception of changes described below. The Group applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* effective 1 January 2018. Several other amendments and interpretations apply for the first time in 2018 but are considered to not have any material impact on the Group's financial statements.

■ 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, 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 at every balance sheet date.

Estimates

The key sources of estimation uncertainty for the Group are:

- Estimates of proven and probable reserves;
- Estimates of future oil, gas and field water production due to subsurface uncertainties;
- Timing of export payments for Tawke license production;
- Estimates of asset retirement obligations;
- Assumptions used in relation to calculation of fair values and recoverable amounts, such as future oil prices, weighted average cost of capital (WACC), timing of cash flows, operating costs and future investments; and
- Notional corporate income tax in the Kurdistan region of Iraq (Kurdistan).

Risks associated with operating in Kurdistan

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

Among DNO's three Kurdistan Production Sharing Contracts (PSCs), the Tawke and Erbil PSCs were entered into with the KRG prior to the adoption of the Iraqi Constitution and the fields were not producing at the time of adoption. A successful attempt by the FGI to revoke or materially alter all PSCs in Kurdistan, including those held by DNO, could disrupt or halt DNO's operations, subject DNO to contractual damages or prevent the execution of DNO's strategy, any of which could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

In the past, export sales have not followed the PSC terms and historically there has been uncertainty related to both timing of revenue and receipt of payments. However, DNO has received regular export monthly payments from the KRG since late 2015 and revenues from Tawke license production are now in line with the terms of the PSC. Considering the uncertainties related to payments, revenues in the period up to September 2018 were recognized upon receipt of cash payment.

Reserves and resources estimate

DNO's reserve and contingent resource volumes have been classified in accordance with the rules and guidelines of the Society of Petroleum Engineers (SPE). All estimates of oil and gas reserves and resources involve uncertainty. In its estimates, the Group has applied deterministic 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

Note 1

Summary of IFRS accounting principles applicable for 2018

available at the end of the year (see Note 23), calculated as the Group's entitlement to reserves under the applicable 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 and gas prices; changes in government regulations; interest rates; and 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; production decline rates; gas/oil ratios; and oil properties.

Analogy to similar fields and reservoirs has been applied when production history and information are limited and/or the field/reservoir has a complex structure. The uncertainty span is larger for fields/reservoirs with limited field information and production history compared to fields/reservoirs with longer production history. The contractor's 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. International petroleum consultants DeGolyer and MacNaughton (D&M) have carried out an independent assessment of the Tawke and Peshkibir fields. The Group has internally assessed the remaining assets.

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.

Contingencies, provisions and litigations

By their nature, contingencies will only be resolved when one or more uncertain future event occurs or fails 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 legal disputes in order to ensure the correct accounting treatment. This includes the assessment of future asset retirement obligations, any provisions or contingent payments.

Impairment/reversal of impairment of oil and gas assets

DNO has significant investments in property, plant & equipment (PP&E) and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset or a group of assets 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 Group's oil and gas assets. The estimation of the recoverable amount for the oil and gas assets includes assessments of expected future cash flows and future market conditions, including entitlement production, future oil and gas prices, country risk factors (i.e., discount rate) and the date of expiration of the licenses.

Impairments are reversed if the 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, including market expectations concerning future oil and gas prices.

Notional corporate income tax/deferred tax liability in Kurdistan

Under the terms of the PSCs in Kurdistan, DNO is not required to pay any corporate income taxes. The share of profit oil which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of the contractors. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to measure reliably such notional corporate income tax paid on behalf of DNO 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 (see Note 8).

Measurement of fair values

Quoted prices in active markets represent the best evidence of fair value and are used by DNO in determining the fair values of assets and liabilities to the extent possible. Where there is no active market, fair value is determined using other valuation techniques. These include using discounted cash flow analysis, pricing models and related internal assumptions. In the valuation techniques, DNO also takes into consideration the counterparty risk and its own cost of capital. This is either reflected in the discount rate used or through direct adjustments to the calculated cash flows.

■ Group accounting and consolidation principles

Basis for consolidation

The consolidated financial statements include the accounts of DNO ASA and its subsidiaries. The Company currently holds a 100 percent interest in all of its subsidiaries.

The results of subsidiaries acquired or sold during the year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of sale.

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.

Interest in jointly controlled operations (assets)

A joint arrangement is present when DNO holds a long-term interest which is jointly controlled by the Group and one or more other parties under a contractual arrangement in which decisions about the relevant activities require the unanimous consent of the parties sharing control. Such joint arrangements are classified as either joint operations or joint ventures.

Under IFRS 11 *Joint Arrangements*, a 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

Note 1

Summary of IFRS accounting principles applicable for 2018

liabilities. Oil and gas licenses held by the Group subsidiaries which are within the scope of IFRS 11 have been classified as joint operations. DNO recognizes its investments in joint operations by reporting its share of related revenues, expenses, assets, liabilities and cash flows under the respective items in the Group's financial statements.

For those licenses that are not deemed to be joint arrangements pursuant to the definition in IFRS 11, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity, DNO recognizes its share of related expenses, assets, liabilities and cash flows under the respective items in the Group's financial statements in accordance with applicable IFRS standards. In determining whether each separate arrangement related to DNO's joint operations is within or outside the scope of IFRS 11, DNO considers the terms of relevant license agreements, governmental concessions and other legal arrangements impacting how and by whom each arrangement is controlled. Currently there are no significant differences in DNO's accounting for license arrangements.

■ Foreign currency translation and transactions

Functional currency

The consolidated financial statements are presented in USD.

Items included in the financial statements of each subsidiary are initially recorded in the subsidiary's 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 DNO's functional currency using the exchange rates prevailing at the dates of the transaction. Financial assets and financial liabilities in foreign currencies are translated into functional currency at the balance sheet date exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are 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 non-monetary financial assets classified as equity instruments are recognized directly in other comprehensive income.

Subsidiaries

Statements of comprehensive income and statements of cash flows of subsidiaries and joint operations that have a functional currency different from the parent company are translated into the presentation currency at average exchange rates each month. Statements of financial position items are translated using the exchange rate at reporting date, with the translation differences 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.

■ Classification in the statements of financial position

Current assets and short-term liabilities include items due less than one year from the statements of financial position date, and if

longer, items related to the operating cycle. 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 liabilities are classified as non-current assets and non-current liabilities.

■ Fair value

Financial instruments such as investments in equity instruments are measured at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 — Quoted market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Investments in equity instruments, where available, are measured at quoted market prices at the measurement date.

■ Property, plant and equipment

General

PP&E acquired by the Group are recognized at historical cost and adjusted for depreciation, depletion and amortization (DD&A) and impairment charges. The carrying amount of the PP&E in the statements of financial position represents the cost less accumulated DD&A and accumulated impairment charges.

The unit-of-production (UoP) method is used in the depreciation of oil and gas assets. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proven developed reserves.

Other fixed assets in use (excluding oil and gas properties) are generally depreciated on a straight-line basis at rates varying from three to seven years. Expected useful lives are reviewed at each balance sheet date and, where there are changes in estimates, depreciation periods are changed accordingly.

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 major workovers is included in the asset's carrying amount when it is likely that the Group will derive future financial 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

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Summary of IFRS accounting principles applicable for 2018

operating profit. Assets held for sale are reported at the lower of the carrying amount and the fair value, less selling costs.

Borrowing costs

Interest costs directly attributable to the construction phase of PP&E assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. 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 based on the average interest rate for the Group in the period. The capitalized borrowing costs cannot exceed the actual borrowing costs in each period.

Exploration and development costs for oil and gas assets

The Group uses the successful efforts method to account for exploration, appraisal and development costs, where exploration costs are expensed 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 technically or commercially recoverable, the costs of exploration wells are expensed. Geological and geophysical costs are expensed as incurred.

Costs of acquiring licenses are capitalized within intangible assets and amortized over the period of the license using the UoP 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, alternatively, that it has been determined or that work is under way to determine that a discovery is economically viable. If no future activity is planned, the carrying amount of the license acquisition costs is written off through profit or loss. Upon recognition of proven reserves and internal approval for development, the relevant expenditure is transferred to the relevant oil and/or gas license development asset.

For accounting purposes, the field enters into the development phase when the partners in the license make the commercial decision to do so. All costs of developing commercial oil and/or gas fields are capitalized, including indirect costs. Capitalized development costs are classified as tangible assets.

Oil and gas assets

Capitalized costs for oil and gas assets are depreciated using the UoP method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proven developed (expected to be recovered during the concession or contract period) at the beginning of the period. The reserves are calculated as DNO'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 unescalated price levels.

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. DNO has defined the license level as the lowest level at which separate cash flows can be identified. This means that there is no decomposition beyond the license level.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment charges. Intangible assets include acquisition costs for oil and gas licenses, expenditures on the exploration for oil and gas resources, goodwill and other intangible assets.

The useful lives of intangible assets are assessed as either finite or infinite. Amortization of intangible assets is based on the expected useful economic life 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 (E&E) 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 confirmed, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets classified as intangible are assessed for impairment before reclassification. No amortization is charged during the exploration and evaluation phase.

Impairment/reversal of impairment

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 a decline in the price of oil and gas, changes in future investments or changes in reserve estimates. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash inflows. An oil and gas license is defined as a cash generating unit (CGU). An impairment loss is recognized when the carrying amount exceeds the recoverable amount of an asset. 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 CGU.

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Summary of IFRS accounting principles applicable for 2018

A previously recognized impairment loss is reversed through profit or loss if the circumstances that gave rise to the impairment no longer exists. 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 or farm-out of an oil and gas license takes place 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 an agreed upon consideration and/or action, such as conducting subsurface studies, drilling wells or developing the property. 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 its costs as incurred according to the accounting method it is using. 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.

■ Financial instruments

Effective 1 January 2018, the Group adopted IFRS 9 and applied the new standard retrospectively with no restatement of prior reporting periods as allowed by the standard. There have not been any material changes to statements of comprehensive income, statements of financial position or cash flow statement as a result of the adoption of IFRS 9.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are initially recognized at fair value. After initial recognition the measurement and accounting treatment depend on the type of instrument and classification.

Financial assets

Financial assets are classified at initial recognition, and subsequently measured at:

- Amortized cost;
- Fair value through other comprehensive income (FVTOCI); and
- Fair value through profit/loss (FVTPL).

Financial assets at amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Group's financial assets at amortized cost include trade and other receivables.

Financial assets designated at FVTOCI

Upon initial recognition, equity investments can be irrevocably classified as equity instruments designated at FVTOCI. Gains and losses on these financial assets are not recycled to profit or loss at later periods. Equity instruments designated at FVTOCI are not subject to an impairment assessment. The Group elected to classify irrevocably its listed equity investments under this category which is in line with the practice prior to 2018.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets at FVTPL are carried in the statements of financial position at fair value with net changes in fair value recognized in profit or loss. Dividends on listed equity investments are also recognized as other income in profit or loss when the right of payment has been established. The Group does not have significant assets designated at FVTPL.

Derecognition of financial assets

A financial asset is derecognized when:

- The Group no longer has the right to receive cash flows from the asset;
- 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 has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred the control of the asset.

Impairment of financial assets

An allowance is recognized for expected credit losses (ECLs) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that are expected to be received, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures with no significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months. For credit exposures with significant increase in credit risk since initial recognition, a loss allowance is provided for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

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For trade receivables, a simplified approach is applied in calculating ECLs. Changes in credit risk are not tracked but instead a loss allowance based on lifetime ECLs at each reporting date is recognized. Expected credit losses will be based on a multifactor and holistic analysis and will depend on historical experience with the customers adjusted for forward-looking factors specific to the customers and the economic environment.

Financial assets are assessed with regard to default when contractual payments are past the established payment due date and there is internal or external information indicating that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Further disclosures on impairment of financial assets are provided in Note 9.

Financial liabilities

Financial liabilities are classified at initial recognition as financial liabilities at FVTPL, loans and borrowings or payables.

All financial liabilities are recognized initially at fair value and, in the case of loans/borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans.

The subsequent measurement of financial liabilities depends on the classification. No financial liabilities have been designated at FVTPL. Interest-bearing loans are after initial recognition measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortization is included as finance expense in the statements of comprehensive income. This applies mainly to bond loans (see Note 15).

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such a modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the statements of comprehensive income.

Cash and cash equivalents

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

Equity

Ordinary shares

Ordinary shares are classified as equity. 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.

Dividend

Liability to pay a dividend is recognized when the distribution is authorized by the shareholders. A corresponding amount is recognized directly in equity.

Financial income and expenses

Financial income comprises interest income, dividend income, and gains on the disposal of financial investments and changes in the fair value of financial assets 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 expenses on loans; unwinding of the discount on provisions; changes in the fair value of financial assets measured at FVTPL; impairment losses recognized on financial assets and losses on financial assets recognized in profit or loss.

Foreign exchange gains or losses from financial instruments 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. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

An overlift or underlift on oil or refined products is recorded at net realizable values.

Revenue recognition

Effective 1 January 2018, the Group adopted IFRS 15 and applied the modified retrospective transition approach when implementing IFRS 15 with no restatement of prior reporting periods as allowed by the standard. There have not been any material changes to the statements of comprehensive income, statements of financial position and cash flow statement as a result of adoption of IFRS 15.

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Summary of IFRS accounting principles applicable for 2018

Revenues presented in the statements of comprehensive income consist of *Revenue from contracts with customers* and *Other revenues* (see Note 3).

Revenue from contracts with customers is recognized when the customer obtains control of the oil and gas, which normally will be when title passes at the point of delivery.

A liability (overlift) arises when the Group sells more than its share of the production. Similarly, an asset (underlift) arises when the sale is less than the Group's share of the production.

Over/underlift is in accordance with the entitlement method valued at net realizable value. Changes in over/underlift balances do not meet the definition of *Revenue from contracts with customers* from IFRS 15 and are thus presented as *Other revenues*.

The recognition of revenues related to changes in over/underlift balances is currently subject to discussions in the IFRS Interpretation Committee (IFRIC). Based on IFRIC discussions to date, DNO has voluntarily decided to apply the sales method effective 1 January 2019. The adjustment for over/underlift balances will be measured at production cost and presented as part of the *Cost of goods sold* with a corresponding entry on other short-term liabilities/other short-term receivables.

Revenues from the sale of services are recognized when the service has been performed.

Revenue recognition Kurdistan

DNO generates revenues in Kurdistan through the sale of oil produced from the Tawke license which is exported by pipeline through Turkey by the KRG. The title is considered to have passed on delivery of oil to the export pipeline at Fish Khabur. Considering the uncertainties related to timing of payments for oil deliveries, revenues were recognized upon receipt of cash payment until September 2018. Following an assessment of facts and circumstances, effective 1 October 2018, the Group now recognizes revenues in Kurdistan in line with invoiced oil sales following monthly deliveries to the KRG and not upon cash receipt (see Note 3).

The Group has applied the five-step model in IFRS 15 to determine when to recognize revenue and at what amount. Judgments that significantly affect this assessment are presented below.

The PSCs held by the Group are considered to be within the scope of the standard and sale of oil and gas to customers is recognized as *Revenue from contracts with customers*. Based on business practice, the KRG is responsible for exporting the oil and gas produced in Kurdistan and it is assessed that DNO has a customer relationship with the KRG. It is considered that the contracts with customers contain a single performance obligation which is considered to be delivery of produced oil and gas to the customer.

The transaction price for oil deliveries to the KRG is based on quoted Brent prices with deductions for oil quality and transportation fees.

Production Sharing Contracts/Agreements

A PSC/PSA is an agreement between a contractor and a host government, whereby the contractor bears all of the risks and costs for exploration, development and production in return for a stipulated share of production.

The contractor recovers the sum of its investment and operating costs from a percentage of production (cost oil). In addition, the contractor is entitled to receive a share of production in excess of cost oil (profit oil). The sum of cost oil attributable to the contractor's share of costs and the share of profit oil represents the contractor's entitlement under a PSC/PSA. The sum of royalties and the government's share of profit oil, including that of a government-controlled enterprise, represents the government take under a PSC/PSA.

Presenting its operations governed by PSCs/PSAs according to the net entitlement method, DNO only recognizes as revenue its working interest of oil and gas produced after deduction of government take.

Income taxes

Tax income/-expense consists of taxes receivable/-payable and changes in deferred tax. Taxes payable are calculated based on taxable profits and taxes receivable are calculated based on refundable exploration expenses on the Norwegian Continental Shelf (NCS) at the current tax rates. Deferred tax and deferred tax assets are calculated on all taxable temporary differences, provided 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 reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are recognized irrespective of when the differences are reversed. They are recognized at their nominal value and classified as non-current assets (non-current liabilities) in the statements of financial position. Taxes payable and deferred tax are recognized directly in the equity to the extent that they relate to items charged directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that the future taxable income will be available against which the asset can be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset in the statements of financial position if there is a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.

The PSCs provide that the corporate income tax to which the contractor is subject is deemed to have been paid to the

Note 1**Summary of IFRS accounting principles applicable for 2018**

government as part of the payment of profit oil to the government or its representatives. For accounting purposes, if such notional income tax is to be classified as income tax in accordance with IAS 12, the Group would present this as an income tax expense with a corresponding increase in revenues. Furthermore, it would be assessed whether any deferred tax asset or liability is required to be recognized equal to the difference between book values and the tax values of the qualifying assets and liabilities, multiplied by the applicable tax rate.

■ Business combinations

In order to consider an acquisition as a business combination, the acquired asset or groups of assets must constitute a business (i.e., an integrated set of operations and assets conducted and managed for the purpose of providing a return to the investors).

Acquired businesses are included in the financial statements from the transaction date. The transaction date is defined as the date on which the Group achieves control over the financial and operating assets. This date may differ from the actual date on which the assets are transferred.

For accounting purposes, the acquisition method is used in connection with the purchase of businesses. Acquisition cost equals the fair value of the assets used as consideration, including contingent consideration, equity instruments issued and liabilities assumed in connection with the transfer of control. Acquisition cost is measured against the fair value of the acquired assets and assumed liabilities. Identifiable intangible assets are included in connection with acquisitions if they can be separated from other assets or meet the legal contractual criteria. If the acquisition cost at the time of the acquisition exceeds the fair value of the acquired net assets (when the acquiring entity achieves control of the transferring entity), goodwill arises.

If the fair value of the net identifiable assets acquired exceeds the acquisition cost on the acquisition date, the excess amount is taken to profit or loss immediately.

The estimation of fair value may be adjusted up to 12 months after the acquisition date if new information has emerged about facts and circumstances that existed at the time of the takeover and which, had they been known, would have affected the calculation of the amounts that were included from that date. Acquisition-related costs, except costs to issue debt or equity securities, are expensed as incurred. Taxes payable and deferred tax are recognized directly in equity to the extent that they relate to items charged directly to equity.

■ Employee benefits**Pensions**

The Group's pension obligations in Norway are limited to certain defined contribution plans which are paid to pension insurance plans and charged to profit or loss in the period in which they are incurred. Once the contributions are paid there are no further obligations.

Share savings plan

An employee share savings plan was introduced in 2013 through which employees could save a portion of their salary by purchasing synthetic shares at a discount to the Company's share price. The purchase was matched by DNO if these shares were kept for a period of two years and the employee was still employed by DNO. The arrangement is considered a cash-settled, share-based payment since the settlement is made in cash. DNO records a liability related to the matching of the synthetic shares and an accompanying cost element. In early 2016, the Board of Directors decided to close the plan to new contributions. The plan will be kept open until 31 August 2019 for vesting of restricted synthetic shares and settlement of unrestricted synthetic shares.

■ 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 likely that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation amount. When 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 if the reimbursement is 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 and a credit premium as the discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as other financial expenses.

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

Asset retirement obligations (ARO)

Provisions for ARO for oil and gas production facilities are initially recognized at the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

A corresponding PP&E of an amount equivalent to the provision is also recognized initially. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.

The ARO and the discount rate are reviewed at each balance sheet date. According to IFRIC 1, changes in the measurement of the ARO resulting 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. Changes in estimated asset retirement obligations will impact the cost of the asset in the period in which the estimate is revised.

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Summary of IFRS accounting principles applicable for 2018

■ Segment reporting

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, as well as through other key performance indicators. For DNO, the operating segments equal the reportable segments. The reportable segments provide products or services within a particular economic environment that are 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 pricing 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 to directly, jointly or indirectly control the other party or exercise significant influence over the party in making financial and operating decisions. 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.

■ IFRS 16 Leases (standard issued not yet effective)

IFRS 16 *Leases* was issued in January 2016 and replaces IAS 17 *Leases*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term ("right-of-use asset"). The standard includes a number of optional practical expedients related to recognition and initial application. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group will implement IFRS 16 on 1 January 2019. Upon implementation of IFRS 16, the following implementation and application policy choices have been made by DNO:

IFRS 16 transition choices

- Follow the modified retrospective approach, which requires no restatement of comparative information.
- Apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 and therefore will not apply the standard to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4. For leases previously classified as operating leases under IAS 17, the lease liabilities at the date of initial application will be measured as the present value of the remaining lease payments. The discount rate is the lessee's incremental borrowing rate at that date. The right-of-use assets will be measured at an amount equal to the lease liability.
- Leases for which the lease term ends within 12 months of 1 January 2019 will not be reflected as leases under IFRS 16.
- Right-of-use assets will initially be reflected at an amount equal to the corresponding lease liability.

IFRS 16 policy application choices

- Short term leases (12 months or less) and leases of low value assets will not be reflected in the balance sheet but will be expensed or (if appropriate) capitalized as incurred, depending on the activity in which the leased asset is used.
- Non-lease components within lease contracts will be accounted for separately for all underlying classes of assets and reflected in the relevant cost category or (if appropriate) capitalized as incurred, depending on the activity involved.

During 2018, the Group performed an impact assessment of IFRS 16. DNO currently expects that the implementation of IFRS 16 on 1 January 2019 will increase the consolidated statements of financial position by adding lease liabilities estimated at USD 12.9 million and corresponding right-of-use assets on the asset side. Consequently, equity is not expected to be impacted from the implementation of IFRS 16. The figure is a preliminary estimate, based on DNO's current policy interpretations.

In the consolidated statements of comprehensive income, operating lease costs will be replaced by depreciation and interest expense.

In the consolidated cash flow statement, lease payments will be presented as a cash flow used in financing activities. Previously, operating lease costs were presented within cash generated from operations or cash from/-used in investing activities, respectively, depending on whether the leased asset was used in operating activity or activities that were capitalized.

Future minimum lease payments under non-cancellable operating leases as of 31 December 2018 were USD 17.3 million undiscounted (see Note 17). The difference of USD 4.4 million compared to the estimated lease liabilities of USD 12.9 million as of the date of initial application is due to:

- Practical expedient, short-term leases (USD -0.1 million);
- Practical expedient, low-value leases (USD -0.7 million); and
- Discounting effects (USD -3.7 million, at weighted average discount rate of 10 percent applied).

Note 2

Segment information

The Group identifies and reports its segments based on information provided to the executive management and the Board of Directors. The segment information is used as the basis for allocation of resources and decision taking. 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. Inter-segment sales are based on an arm's length principle and are eliminated at the consolidated level. Segment profit/-loss includes profit/-loss from inter-segment sales.

In 2018, DNO reported three operating segments: Kurdistan (KUR), Oman (OMAN) and Norway (NOR). The operating segments equal the reportable segments. Remaining operating segments are included in *Other* based on a materiality assessment.

During 2018, oil production from Kurdistan was sold to the KRG for export by pipeline through Turkey. In Oman, the oil was sold to multiple buyers through a bidding process. The Company sold its subsidiary operating in Tunisia, DNO Tunisia AS, to Panoro Energy AS, a subsidiary of Panoro Energy ASA (Panoro), in July 2018. Country-by-country reporting for companies in extractive industries in line with the Norwegian Accounting Act is available on the Company's website.

USD million

Twelve months ended at 31 December 2018	Note	KUR	OMAN	NOR	OTHER	Total reported segments	Un- allocated/ Eliminated	Total GROUP
COMPREHENSIVE INCOME INFORMATION								
Revenues	3	811.3	18.1	-	-	829.3	-	829.3
Inter-segment sales		-	-	0.1	0.9	1.0	-1.1	-
Cost of goods sold	4	-338.8	-9.7	-0.2	-0.1	-348.8	-1.7	-350.6
Gross profit		472.4	8.4	-0.1	0.8	481.6	-2.8	478.7
Other operating income	24	-	-	-1.4	-	-1.4	6.1	4.8
Administrative expenses	5	-0.2	-1.0	-2.4	-5.1	-8.7	-28.1	-36.7
Other operating expenses	5	-0.8	0.7	-	-3.2	-3.3	-	-3.4
Impairment of oil and gas assets	10	-	-	-	-1.9	-1.9	-	-1.9
Exploration cost expensed	6	-1.5	-0.1	-39.3	-23.9	-64.8	0.1	-64.7
Segment operating result		469.9	8.0	-43.1	-33.3	401.5	-24.7	376.8
Net finance costs (incl. interest)	7	-3.7	5.0	-2.0	0.1	-0.6	-53.7	-54.3
Tax income/-expense	8	-4.0	-1.5	32.8	-	27.2	4.6	31.8
Net profit/-loss		462.2	11.5	-12.2	-33.2	428.3	-74.0	354.3
FINANCIAL POSITION INFORMATION								
Capital expenditures*		154.6	-	1.3	-	156.0	1.2	157.2
Non-current assets		785.3	-	8.3	-	793.7	235.1	1,028.7
Current assets		280.5	7.4	39.4	3.2	330.5	645.0	975.5
Total segment assets		1,065.8	7.4	47.7	3.2	1,124.2	880.1	2,004.3
Total segment liabilities		121.5	7.4	43.4	13.7	185.9	600.5	786.5
OTHER SEGMENT INFORMATION								
Revenues		811.3	18.1	0.0	0.2	829.6	-1.0	829.3
Lifting costs		-80.6	-9.6	-	-0.2	-90.4	-	-90.4
Lifting costs (USD/boe)**		-2.8	-13.4	-	-	-3.0	-	-3.0
DD&A		-258.2	-	-	-	-258.2	-1.9	-260.1
Netback**		545.3	8.0	-9.9	-32.1	511.3	-22.2	489.1

* Capital expenditures include changes in estimated ARO.

** See section on alternative performance measures.

Note 2

Segment information

USD million

Twelve months ended
at 31 December 2017

	Note	KUR	OMAN	NOR	OTHER	Total reported segments	Un-allocated/ Eliminated	Total GROUP
COMPREHENSIVE INCOME INFORMATION								
Revenues	3	331.0	16.3	-	-	347.4	-	347.4
Inter-segment sales		0.0	-	-0.2	0.6	0.5	-0.5	-
Cost of goods sold	4	-175.4	-23.8	-	-0.2	-199.6	-2.6	-202.2
Gross profit		155.6	-7.5	-0.2	0.4	148.3	-3.1	145.2
Other operating income		556.0	-	1.5	-	557.5	-	557.5
Administrative expenses	5	-0.1	0.1	-4.7	-7.8	-12.6	-20.5	-33.2
Other operating expenses	5	-5.6	0.7	-	-2.1	-7.0	-	-7.0
Impairment of oil and gas assets	10	-59.1	-47.8	-	0.1	-108.4	-	-108.4
Exploration cost expensed	6	-	0.4	-22.9	-0.2	-32.9	-0.1	-33.0
Segment operating result		646.8	-54.1	-26.4	-21.4	545.0	-23.8	521.1
Net finance costs (incl. interest)	7	8.1	10.8	-	2.2	21.1	-67.2	-46.1
Tax income/-expense	8	-	-1.8	22.0	-	20.2	-0.2	20.0
Net profit/-loss		654.9	-45.1	-4.4	-19.2	586.3	-91.1	495.0
FINANCIAL POSITION INFORMATION								
Capital expenditures*		551.9	41.7	-	1.3	594.8	0.1	594.9
Non-current assets		888.9	0.4	3.8	0.8	893.8	22.2	916.0
Current assets		33.8	24.6	39.3	5.4	103.1	396.0	499.1
Total segment assets		922.7	24.9	43.1	6.2	996.9	418.2	1,415.1
Total segment liabilities		78.1	22.6	37.2	12.5	150.3	388.8	539.2
OTHER SEGMENT INFORMATION								
Revenues		331.0	16.3	-	-	347.4	-	347.4
Lifting costs		-72.6	-23.7	-	-	-96.3	0.2	-96.1
Lifting costs (USD/boe)**		2.8	29.0	-	-	3.6	-	3.6
DD&A		-102.9	-0.1	-0.1	-0.2	-103.3	-2.8	-106.1
Netback**		271.7	-4.5	9.1	-16.5	259.8	-28.0	231.8

* Capital expenditures include changes in estimated ARO and recognition of an asset following the Kurdistan RSA.

** See section on alternative performance measures.

Note 3

Revenues

USD million	1 January - 31 December	
	2018	2017
Sale of petroleum products	833.9	347.4
Revenue from contracts with customers	833.9	347.4
Other revenues	-4.6	-
Total revenues	829.3	347.4

During 2018, DNO received a total of USD 817.0 million from the KRG as payment for oil deliveries to the export market from the Tawke license, of which USD 628.5 million was net to DNO. Net revenue to DNO from Oman Block 8 stood at USD 18.0 million during 2018.

The Group recognized an additional USD 182.8 million in revenue in 2018 following a change in Kurdistan revenue recognition criteria from 1 October 2018 (see Note 1). For comparison purposes, assuming that DNO had recognized its revenues from Kurdistan based on cash receipt, the full-year 2017 and full-year 2018 Group revenues would have been USD 347.4 million (unchanged) and USD 646.5 million, respectively. Assuming that DNO had recognized its Kurdistan revenues based on the changed revenue recognition criteria (see Note 1), the full-year 2017 and full-year 2018 Group revenues would have been USD 413.3 million and USD 691.6 million, respectively.

Other revenues reflect revenue adjustments for imbalances between oil and gas production and sales previously included in revenues under the entitlement method related to Oman Block 8 because they do not qualify as *Revenue from contracts with customers* under IFRS 15 (see Note 1).

Other income of USD 4.8 million during 2018 relates to an accounting gain of USD 6.1 million recognized following the sale of DNO Tunisia AS to Panoro. There was no consideration involved in the transaction. Panoro retained a cash balance of USD 8.6 million and assumed all permit interests, rights and remaining work obligations held by DNO Tunisia AS. As part of the transaction, the Company subscribed to shares in Panoro (see Note 8). The full-year 2018 *Other income* includes negative adjustment of USD 1.4 million related to provisional amounts made during the measurement period for the acquisition of Origo Exploration Holding AS (Origo).

Other income of USD 556.0 million booked in 2017 was related to the recognition of the Kurdistan RSA.

Note 4

Cost of goods sold/inventory

USD million	1 January - 31 December	
	2018	2017
Lifting costs	-90.4	-96.1
Depreciation, depletion and amortization	-260.1	-106.1
Total cost of goods sold	-350.6	-202.2

Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention activities and insurances. The lifting costs in 2017 included a provision for obsolete inventory of USD 19.0 million related to Kurdistan.

USD million	Years ended 31 December	
	2018	2017
Spare parts and drilling equipment	8.3	7.4
Total inventory	8.3	7.4

Total inventory of USD 8.3 million is entirely related to Kurdistan. In 2018, spare parts of USD 3.9 million were reclassified to PP&E in Kurdistan. In 2017, spare parts of USD 19.6 million were reclassified to PP&E in Kurdistan.

Note 5

Administrative/other expenses

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

USD million	1 January - 31 December	
	2018	2017
Salaries and social expenses	-8.0	-10.1
General and administration expenses	-28.7	-23.1
Other operating expenses	-3.4	-7.0
Total administrative/other expenses	-40.1	-40.2

Salaries and social expenses directly attributable to operations are reclassified to lifting costs and exploration costs.

Specification of salaries and social expenses

USD million	1 January - 31 December	
	2018	2017
Salaries, bonuses, etc.	-34.4	-34.9
Employer's payroll tax expenses	-2.7	-2.4
Pensions	-2.2	-1.7
Other personnel costs	-4.7	-5.1
Reclassification of salaries and social expenses to lifting costs and exploration costs	36.0	34.0
Salaries and social expenses	-8.0	-10.1

Part of the salaries and social expenses is paid in NOK and recorded in USD based on the average exchange rate. The average USD/NOK rate used in 2018 was 8.13, compared to 8.27 in 2017.

DNO has a defined contribution scheme for its Norway-based employees, with USD 2.2 million expensed in 2018 (USD 1.7 million in 2017). The Group's obligations are limited to the annual pension contributions. DNO meets the Norwegian legal requirements for mandatory occupational pension ("*obligatorisk tjenestepensjon*").

An employee share savings plan was introduced in 2013 through which employees could save up to five percent of their gross base annual salary in synthetic company shares. Conversion to synthetic shares took place the day after the publication of quarterly results and was based on the quoted share price at the close of that business day, including a discount reflecting a 24-month restriction period during which the employee could not settle the shares. At vesting date, the Company matches the number of shares, giving the employee one additional share for each converted share. Following vesting, the employee is free to settle the shares in cash. In the second quarter of 2016, the Board of Directors decided to close the plan to new contributions. The plan will be kept open until 31 August 2019 for vesting of restricted synthetic shares and settlement of unrestricted synthetic shares. As of 31 December 2018, the Company's total liability under this plan and synthetic shares as part of other variable remuneration amounted to USD 3.8 million (USD 2.8 million at yearend 2017).

The following table shows the number of synthetic shares and movements during the year. Members of the executive management and employees have been awarded synthetic shares during the year as part of the variable remuneration. For more on remuneration to executive management (see Note 3 in the parent company accounts).

Movement in synthetic Company shares during the year

Number of shares	1 January - 31 December	
	2018	2017
Outstanding as of 1 January	2,773,373	4,005,228
Granted during the year	1,763,027	475,230
Forfeited/reversed during the year	204,641	59,130
Settled during the year	1,565,987	1,647,955
Expired during the year	-	-
Outstanding as of 31 December	2,765,772	2,773,373
Unrestricted as of 31 December	800,435	1,251,382
Weighted average remaining contractual life for the synthetic shares (in years)	3.36	1.66
Weighted average settlement price for synthetic shares settled during the year in NOK	12.46	9.41
Weighted average settlement price for synthetic shares at the end of the year	12.55	9.50

Note 5

Administrative/other expenses

Remuneration to Board of Directors and executive management

USD million	1 January - 31 December	
	2018	2017
Managing Director		
Remuneration	-0.67	-0.49
Bonus	-0.22	-0.19
Pension	-0.02	-0.02
Other remuneration	-0.30	-0.08
Remuneration to Managing Director	-1.21	-0.77
Other executive management		
Remuneration	-2.45	-1.29
Bonus	-0.59	-0.34
Pension	-0.12	-0.08
Other remuneration	-0.48	-0.25
Remuneration to other executive management	-3.64	-1.96
Total remuneration to executive management	-4.86	-2.74
Number of managers included	7	6
Total remuneration to Board of Directors	-1.10	-1.04
Total remuneration to Board of Directors and executive management	-5.95	-3.77

Total remuneration of USD 0.4 million (not included in the above table) was paid to Bruce Webb, a former member of the executive management. For further detail on remuneration to the executive management (see Note 3 in the parent company accounts).

Members of the executive management, Bjørn Dale, Haakon Sandborg, Nicholas Whiteley, Ute Quinn and Aernout van der Gaag have severance payment agreements ranging from six months to 12 months of their respective annual base salaries.

Shares and options held by directors and executive management

Directors and executive management	Years ended 31 December			
	2018		2017	
	Shares	Options	Shares	Options
Bijan Mossavar-Rahmani, Executive Chairman*	-	-	-	-
Lars Arne Takla, Deputy Chairman (Takla Energy AS)	30,000	-	30,000	-
Gunnar Hirsti, Director (Hirsti Invest AS)	250,000	-	250,000	-
Elin Karfjell, Director (Elika AS)	33,000	-	33,000	-
Shelley Watson, Director*	-	-	-	-
Bjørn Dale, Managing Director	-	-	-	-
Haakon Sandborg, Chief Financial Officer	-	-	-	-
Aernout van der Gaag, Deputy Chief Financial Officer	-	-	-	-
Ute Quinn, General Counsel	-	-	-	-
Chris Spencer, Commercial Director (Chris's Corporation AS)	29,000	-	19,000	-
Nicholas Whiteley, Exploration Director	-	-	-	-
Jon Sargeant, Managing Director DNO Technical Services AS	-	-	-	-

* Bijan Mossavar-Rahmani and Shelley Watson hold an indirect interest in DNO through their interest in RAK Petroleum.

Executive management have been awarded synthetic shares during the year as part of their variable remuneration (see Note 3 in the parent company accounts). No shares or options were held by Bruce Webb at yearend 2018.

Auditor fees

USD million (excluding VAT)	1 January - 31 December	
	2018	2017
Auditor fees	-0.55	-0.54
Other financial auditing	-0.03	-0.06
Tax advisory services	-0.04	-0.14
Other advisory services	-0.01	-
Total auditor fees	-0.63	-0.74

Note 6**Exploration expenses**

USD million	1 January - 31 December	
	2018	2017
Exploration expenses (G&G and field surveys)	-13.8	-3.1
Seismic costs	-18.0	-19.7
Exploration expenses capitalized during the year carried at cost	-8.2	-3.6
Other exploration expenses	-24.8	-6.6
Total exploration expenses	-64.7	-33.0

Total exploration expenses of USD 64.7 million in 2018 were mainly related to exploration activities in Norway and the UK, and provisions made for exploration in Tunisia.

Total exploration expenses of USD 33.0 million in 2017 were mainly related to acquisitions of seismic data in Norway and exploration expenses in Tunisia and the UK.

Note 7**Financial income and financial expenses**

USD million	1 January - 31 December	
	2018	2017
Interest received	10.0	5.5
Other financial income	-0.0	4.6
Exchange rate gain, unrealized items	-	-
Exchange rate gain, realized items	2.6	1.7
Financial income	12.6	11.8
Interest expenses	-46.1	-36.4
Exchange rate loss unrealized items	-1.9	-
Exchange rate loss realized items	-2.6	-
Impairment of financial assets	0.2	-
Other financial expenses	-16.6	-21.5
Financial expenses	-66.9	-57.9
Net finance	-54.3	-46.1

Other financial expenses were related to the amortization of bond issue costs and accretion expenses (i.e., unwinding of discount) related to the ARO. Other financial income in 2017 was mainly related to net present value effects from the settled underlift receivable contained in the Kurdistan RSA.

Note 8

Taxes

Tax income/expense

1 January - 31 December

USD million	2018	2017
Changes in deferred taxes	3.9	2.3
Income taxes receivable/-payable	27.9	17.7
Tax income/-expense	31.8	20.0

Income tax receivable/payable

Years ended 31 December

USD million	2018	2017
Exploration tax refund - NCS	28.3	33.7
Income taxes payable	-0.5	-0.7
Total tax receivable/-payable	27.8	33.1

Reconciliation of the year's tax income/expense

1 January - 31 December

USD million	2018	2017
Profit/-loss before income tax	322.5	475.1
Expected income tax according to nominal tax rate 23 percent (24 percent in 2017)	-75.7	-114.9
Expected income tax according to nominal tax rate 55 percent (54 percent in 2017)	24.1	15.6
Expected income tax according to nominal tax outside Norway	2.7	1.5
Taxes paid in kind under PSCs	-1.5	-1.8
Foreign exchange variations between functional and tax currency	-21.9	-15.8
Adjustment of previous years	-	-
Adjustment of deferred tax assets not recognized	-14.7	-15.1
Change in previous years	-	-
Other items (other permanent differences)	117.4	151.9
Change in tax rate	-4.0	-3.7
Tax loss carried forward (utilized)	5.5	2.3
Tax income/-expense	31.8	20.0
Effective income tax rate	-9.9%	-4.2%
Taxes charged to equity	-	-

Tax effects on temporary differences relate to the following items:

Years ended 31 December

USD million	2018	2017
Tangible assets	-0.2	-0.0
Other temporary differences	-1.1	-1.2
Non-deductible interests carried forward	9.9	9.8
Tax losses carried forward NCS	7.8	4.2
Tax losses carried forward	93.6	94.6
Deferred tax assets/-liabilities	110.1	107.3
Valuation allowance	-103.1	-103.9
Deferred tax assets/-liabilities	7.0	3.5
Recognized deferred tax assets	7.0	3.5
Recognized deferred tax liabilities	-	-

Net tax income of USD 31.8 million recognized in the consolidated statements of comprehensive income is comprised of DNO Norge AS' exploration tax refund under the Norwegian petroleum tax regime (USD 29.7 million) and changes in deferred taxes (USD 3.9 million), partly offset by notional corporate income tax expense for Oman Block 8 (USD 1.5 million) and tax expense in other entities (USD 0.3 million).

Net tax receivable of USD 27.8 million recognized in the consolidated statements of financial position is comprised of an exploration tax refund in Norway at yearend 2018 (USD 28.3 million), partly offset by the income taxes payable entirely related to the notional corporate income tax in Oman Block 8 (USD 0.5 million).

DNO Norge AS, a wholly-owned subsidiary of DNO ASA, is subject to the provisions of the Norwegian Petroleum Taxation Act with additional special tax at a rate of 55 percent. As the subsidiary is not yet in a tax payable position, it can claim a 78 percent refund of the exploration costs limited to taxable losses for the year. The exploration tax refund is paid out in November-December in the subsequent year.

Note 8**Taxes**

The tax value of tax losses carried forward of USD 93.6 million at yearend 2018 relates mainly to the Company and its subsidiaries in the UK. The unused tax losses of the Company in Norway relate to the ordinary tax regime and can be carried forward indefinitely. Tax losses in the UK relate mostly to pre-trading expenditure. A deferred tax asset has not been recognized for these losses as there is uncertainty regarding future taxable profits. The recognized deferred tax asset of USD 7 million relates to exploration activity on the NCS subject to the petroleum tax system where carried forward losses can be paid out upon termination of petroleum activity.

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

Under the terms of the PSCs in Kurdistan, the Company's subsidiary DNO Iraq AS is not required to pay any corporate income taxes. The share of profit oil which the KRG is entitled to is deemed to include a portion representing the notional corporate income tax paid by the KRG on behalf of DNO Iraq AS. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to reliably measure such notional corporate income tax deemed to have been paid on behalf of DNO Iraq AS. This is an accounting presentational issue and there is no tax required to be paid by DNO Iraq AS. For accounting purposes, if such notional corporate income tax was to be classified as income tax in accordance with IAS 12, it would result in a gross up of revenues with a corresponding income tax expense with no net impact on the statement of comprehensive income. Furthermore, it would be assessed whether any deferred tax asset or liability is required to be recognized equal to the difference between book values and the tax values of the qualifying assets and liabilities, multiplied by the applicable tax rate. It is estimated that the tax rate would be between nil and 15 percent.

Profits/-losses by Norwegian companies from foreign upstream activities outside of Norway are not taxable/deductible in Norway in accordance with the General Tax Act, section 2-39. Under these rules only certain financial income and expenses are taxable in Norway. Permanent tax differences in relation to this are included in *Other items* in the table above.

Note 9**Financial instruments****Financial risk management, objectives and policies****Overview**

The Group's principal financial liabilities are comprised of interest-bearing liabilities, and trade and other payables. The main purpose of these financial liabilities is to finance DNO's operations. The Group's principal financial assets include trade and other receivables, tax receivables and cash and cash equivalents. The Group also holds investments in equity instruments.

DNO is exposed to a range of risks affecting its financial performance, including market risk, liquidity risk and credit risk. The Group seeks to minimize potential adverse effects of such risks through sound business practices and risk management programs.

Market risk

The Group is exposed to market risks driven by fluctuations in oil and gas prices, foreign currency exchange rates, interest rates and the value of equity instruments held by the Company.

Oil and gas price risk

DNO's revenues are for the most part generated from the sale of oil. The Group has elected not to put in place any oil price hedging arrangements.

The following table illustrates the impact on 2017 and 2018 profit before tax from oil price fluctuations deemed reasonable and possible, with all other variables held constant. In addition to driving revenues, oil price fluctuations or the expectations of oil price fluctuations could impact DNO's capital expenditure levels and impairment assessments (see Note 10 for a sensitivity analysis on impairment).

	Change in yearend oil price USD (percent)	Effect on profit before tax (USD mill)
2018	+/- 10.0	+/- 82.9
2017	+/- 10.0	+/- 34.7

Note 9

Financial instruments

Foreign currency exchange rate risk

DNO's cash flows from operating activities derive from oil sales, operating expenses and capital expenditures which are primarily denominated in USD. The Group has no currency hedging arrangements although it monitors its foreign currency risk exposure on a continuous basis and hedging alternatives are evaluated.

The following tables illustrate the impact on DNO's profit before tax and other comprehensive income in 2017 and 2018 from foreign currency exchange rate fluctuations deemed reasonable and possible in NOK and GBP exchange rates, with all other variables held constant, which are mainly related to cash deposits in NOK and the investment in Faroe in GBP (see Note 11). Other currencies (e.g., AED, IQD, EUR) are not included as the exposure is deemed immaterial.

	Change in NOK (percent)	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2018	+ 10.0	- 3.4	- 2.0
2018	- 10.0	+ 2.8	+ 2.4
2017	+ 10.0	- 1.9	- 1.6
2017	- 10.0	+ 1.9	+ 1.9

	Change in GBP (percent)	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2018	+ 10.0	- 0.2	- 19.0
2018	- 10.0	+ 0.3	+ 23.3
2017	+ 10.0	-	-
2017	- 10.0	-	-

Interest rate risk

As most of the Group's financing derives from bond loans which are issued in USD and at fixed rates (see Note 15), the Group does not engage in interest rate hedging. Interest rate exposure on the revolving exploration facility is considered limited and no hedging arrangement is in place. The Group is also exposed to interest risk on its cash deposits held at floating interest rates.

The following table illustrates the impact on DNO's profit before tax in 2017 and 2018 from a change in interest rates on that portion of interest-bearing liabilities and cash deposits deemed reasonable and possible, with all other variables held constant.

	Increase/decrease in basis points	Effect on profit before tax (USD mill)
2018	+/- 100	+/-5.1
2017	+/- 100	+/-1.8

Equity price risk

The Group's listed equity investments (see Note 11) are recorded at fair value at the end of each period and are exposed to market price risk arising from uncertainties about future values of the equity instruments. Fair value changes are included in other comprehensive income (see Note 1).

As of 31 December 2018, the exposure to equity investments at fair value listed on the Oslo Stock Exchange and the UK's Alternative Investment Market (AIM) of the London Stock Exchange was USD 230.8 million (USD 17.4 million as of yearend 2017).

The following table illustrates the impact on DNO's profit before tax and other comprehensive income from a change in the equity price deemed reasonable and possible, with all other variables held constant.

	Increase/decrease in share price (percent)	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2018	+/- 10.0	-	+/-23.1
2017	+/- 10.0	-	+/-1.7

Note 9

Financial instruments

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. Prudent liquidity risk management implies maintaining sufficient cash balances, credit facilities and other financial resources to maintain financial flexibility under dynamic market conditions. The Group's principal sources of liquidity are operating cash flows from its producing assets in Kurdistan. In addition to its operating cash flows, the Group relies on the debt capital markets for both short- and long-term funding. At yearend 2018, the Group has outstanding senior unsecured debt in the form of bonds totaling USD 600 million and has available a revolving exploration facility in an aggregate amount of NOK 1 billion (equivalent to USD 115 million as of 31 December 2018). The Group's finance function prepares projections on a regular basis in order to plan the Group's liquidity requirements. These plans are updated regularly for various scenarios and form part of the decision basis for the Company's Board of Directors and executive management.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. DNO's revenues currently derive mainly from production in the Tawke license in Kurdistan, implying concentration risk. The Group actively seeks to reduce such risk through organic growth and business and asset acquisitions aimed at further diversifying its revenue sources (see Note 22 for details on the Faroe acquisition).

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

USD million	On demand	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years
At 31 December 2018					
Interest-bearing liabilities*	-	10.1	46.4	313.8	414.6
Other liabilities	-	-	7.4	-	-
Taxes payable	-	0.5	-	-	-
Trade and other payables	4.9	50.9	-	-	-
Total liabilities	4.9	61.4	53.8	313.8	414.6

USD million	On demand	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years
At 31 December 2017					
Interest-bearing liabilities*	-	-	53.0	486.0	-
Other liabilities	-	-	2.7	-	-
Taxes payable	-	0.7	-	-	-
Trade and other payables	4.9	26.4	-	-	-
Total liabilities	4.9	27.1	55.7	486.0	-

* Face value of the bond loans are USD 600 million (USD 400 million at yearend 2017).

For changes in liabilities arising from financing activities (see Note 15).

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the Group. The Group's exposure to credit risk is mainly related to its outstanding trade debtors (see Note 12). Other counterparty credit risk exposure to DNO is related to its cash deposits with banks and financial institutions. The table below provides an overview of financial assets exposed to credit risk at yearend 2018 and 2017.

USD million	Years ended 31 December	
	2018	2017
Trade and other receivables	209.8	27.8
Tax receivables	28.3	33.7
Cash and cash equivalents	729.1	430.2
Total	967.2	491.7

Note 9

Financial instruments

Trade debtors

Following an assessment of facts and circumstances, effective 1 October 2018, DNO recognizes revenue in Kurdistan in line with invoiced oil sales following monthly deliveries to the KRG and not upon cash receipt (see Note 1), which gives rise to a receivable in the consolidated statements of financial position. In accordance with IFRS 9, receivables are recognized and carried at their anticipated realizable value, which implies that a provision for a loss allowance on lifetime expected credit losses of the receivable is recognized. A provision for loss allowance for expected credit losses is performed at each reporting date and is based on a multifactor and holistic analysis depending on several considerations. The Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the assessment of credit risk with regard to the KRG.

Normal payment terms apply to amounts owed to DNO by the KRG for oil sales. DNO has received regular monthly payments from the KRG for more than three years, and as long as the KRG continues to settle invoices on a monthly basis in line with what has been normal practice since late 2015, there are no indications of significant increase in credit risk. As such, it is not considered necessary to provide for any loss allowance on credit losses. The table below shows the aging of trade debtors and information about credit risk exposure using a provision matrix.

USD million	Contract		Days past due (trade debtors)				Total
	assets	Current	< 30 days	30-60 days	61-90 days	> 90 days	
As of 31 December 2018							
Trade debtors (Note 12)	-	109.9	72.9	-	-	-	182.8
Expected credit loss rate (percent)	-	-	-	-	-	-	-
Expected credit loss rate (USD million)	-	-	-	-	-	-	-
As of 31 December 2017							
Trade debtors (Note 12)	-	-	-	-	-	-	-
Expected credit loss rate (percent)	-	-	-	-	-	-	-
Expected credit loss rate (USD million)	-	-	-	-	-	-	-

Cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury function. The Group limits its counterparty credit risk by maintaining its cash deposits with multiple banks and financial institutions with high credit ratings.

Capital management

For the purpose of the Group's capital management, capital is defined as the total equity of DNO. The Group manages and adjusts its capital structure to ensure that it remains sufficiently funded to support its business strategy, maximizes shareholder value and makes necessary adjustments in light of changes in the requirements of the financial covenants. The capital structure may be adjusted through equity or debt transactions, asset restructuring or through a variety of other measures.

The Group monitors capital on the basis of the equity ratio, which is calculated as total equity divided by total assets. It is DNO's policy that this ratio should be 30 percent or higher. The financial covenants of the bond loans require a minimum of USD 40 million of liquidity and that the Group maintains either an equity ratio of 30 percent or a total equity of a minimum of USD 600 million. There is also a restriction from declaring or making any dividend payments if the liquidity of the Company is less than USD 80 million immediately after such distribution is made (see Note 15). There have been no breaches of the financial covenants of any interest-bearing liability in the current period. The following table below shows the book equity ratio at yearend.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

USD million	Years ended 31 December	
	2018	2017
Total equity	1,217.8	875.9
Total assets	2,004.3	1,415.1
Equity ratio	60.8%	61.9%

Note 9

Financial instruments

Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include the carrying amounts and fair value information for financial assets and financial liabilities not measured or disclosed at fair value if the carrying amount is a reasonable approximation of fair value.

The effect of initially applying IFRS 9 on the Group's financial instruments is described in Note 1. For comparison purposes, the classification at yearend 2017 financial assets and financial liabilities are classified in accordance with IFRS 9 at yearend 2018. At yearend 2017, financial investments were classified as *Available for sale investments*, receivables and cash deposits were classified as *Loans and receivables*. There is no change in the classification of financial liabilities compared to the classification of financial instruments at yearend 2017.

2018 - USD million	Notes	Carrying amount			Fair value hierarchy			
		Financial assets designated at FVTOCI*	Financial liabilities at amortized cost	Total	Date of valuation	Level 1	Level 2	Level 3
Financial assets measured or disclosed at fair value								
Financial investments	11	230.8	-	230.8	31 December 2018	230.8	-	-
Financial assets not measured or disclosed at fair value								
Trade and other receivables	12	-	-	-		-	-	-
Tax receivables	8	-	-	-		-	-	-
Cash and cash equivalents	13	-	-	-		-	-	-
Financial liabilities measured or disclosed at fair value								
Interest-bearing liabilities (non-current)	15	-	575.7	575.7	31 December 2018	596.8	-	-
Interest-bearing liabilities (current)	15	-	18.4	18.4	31 December 2018	-	-	18.4
Financial liabilities not measured or disclosed at fair value								
Trade and other payables	18	-	-	-		-	-	-
Income tax payable	8	-	-	-		-	-	-
Provisions for other liabilities and charges	16	-	-	-		-	-	-

* Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

Note 9

Financial instruments

2017 - USD million	Notes	Carrying amount			Fair value hierarchy			
		Financial assets designated at FVTOCI	Financial liabilities at amortized cost	Total	Date of valuation	Level 1	Level 2	Level 3
Financial assets measured or disclosed at fair value								
Financial investments	11	17.4	-	17.4	31 December 2017	17.4	-	-
Financial assets not measured or disclosed at fair value								
Trade and other receivables	12	-	-	-		-	-	-
Tax receivables	8	-	-	-		-	-	-
Cash and cash equivalents	13	-	-	-		-	-	-
Financial liabilities measured or disclosed at fair value								
Interest-bearing liabilities (non-current)	15	-	372.8	372.8	31 December 2017	400.1	-	-
Interest-bearing liabilities (current)	15	-	17.6	17.6	31 December 2017	-	-	17.6
Financial liabilities not measured or disclosed at fair value								
Trade and other payables	18	-	-	-		-	-	-
Income tax payable	8	-	-	-		-	-	-
Provisions for other liabilities and charges	16	-	-	-		-	-	-

Note 10

Property, plant and equipment/Other intangible assets

DD&A is charged to cost of goods sold in the statements of comprehensive income.

PROPERTY, PLANT AND EQUIPMENT

2018 - USD million	Development assets	Assets in operation	Total oil & gas assets	Other PP&E	Total
As of 1 January 2018					
Costs	42.1	1,869.1	1,911.2	21.1	1,932.3
Accumulated impairments	-42.1	-286.1	-328.2	-0.1	-328.3
Accumulated depreciation	-	-724.9	-724.9	-15.8	-740.7
Net book amount	-	858.1	858.1	5.2	863.3
Period ended 31 December 2018					
Opening net book amount	-	858.1	858.1	5.2	863.3
Translation differences	-	-	-	-0.1	-0.1
Additions*	-	148.8	148.8	0.4	149.3
Transfers**	-	-	-	-2.8	-2.8
Disposals cost price	-	1.7	1.7	-1.3	0.4
Disposals depreciation/impairments	-	-1.7	-1.7	1.0	-0.7
Impairments	-	-	-	-	-
Depreciation charges	-	-250.3	-250.3	-1.1	-251.4
Closing net book amount	-	756.7	756.7	1.4	758.1
As of 31 December 2018					
Costs	42.1	2,019.6	2,061.7	17.6	2,079.3
Accumulated impairments	-42.1	-286.1	-328.2	-0.1	-328.3
Accumulated depreciation	-	-976.8	-976.8	-16.0	-992.8
Translation difference	-	-	-	-0.1	-0.1
Net book amount	-	756.7	756.7	1.4	758.1
Depreciation method		UoP		3-7 years linear	

* Additions includes recognition of estimated change on ARO.

** Transfers include reclassification of administrative software systems (net book value) to intangible assets and spare parts previously classified as inventory.

Note 10

Property, plant and equipment/Other intangible assets

DD&A is charged to cost of goods sold in the statements of comprehensive income.

OTHER INTANGIBLE ASSETS

2018 - USD million	License interest	Exploration assets	Other	Total
As of 1 January 2018				
Costs	103.8	10.8	-	114.6
Accumulated impairments	-19.7	-10.8	-	-30.5
Accumulated depreciation	-52.8	-	-	-52.8
Net book amount	31.4	-	-	31.4
Period ended 31 December 2018				
Opening net book amount	31.4	-	-	31.4
Translation differences	-	-0.1	-	-0.1
Additions	0.1	6.6	1.2	7.9
Transfers*	-	-	2.8	2.8
Disposals cost price	-	-	-	-
Impairments	-0.4	-	-	-0.4
Depreciation charges	-7.9	-	-0.8	-8.7
Closing net book amount	23.1	6.5	3.2	32.8
As of 31 December 2018				
Costs	103.9	17.4	11.2	132.5
Accumulated impairments	-20.1	-10.8	-	-30.9
Accumulated depreciation	-60.8	-	-8.0	-68.8
Translation differences	0.0	-0.1	-	-0.1
Net book amount	23.1	6.5	3.2	32.8
Depreciation method	UoP	3 - 7 years linear		

* Administrative software system transferred from tangible assets. Accumulated costs USD 10.0 million and accumulated depreciations USD 7.2 million.

Total PP&E and Other intangible assets related to Kurdistan are USD 785.3 million at yearend 2018.

There is no pledge over the oil and gas assets within PP&E.

Note 10

Property, plant and equipment/Other intangible assets

PROPERTY, PLANT AND EQUIPMENT

2017 - USD million	Development assets	Assets in operation	Total oil & gas assets	Other PP&E	Total
As of 1 January 2017					
Costs	181.8	1,735.1	1,916.9	21.0	1,937.9
Accumulated impairments	-181.8	-368.3	-550.2	-0.1	-550.3
Accumulated depreciation	-	-971.6	-971.6	-12.9	-984.5
Net book amount	-	395.2	395.2	8.0	403.1
Period ended 31 December 2017					
Opening net book amount	-	395.2	395.2	8.0	403.1
Translation differences	-	-	-	-	-
Additions*	-	593.6	593.6	0.2	593.8
Transfers**	-	68.5	68.5	0.2	68.8
Disposal cost price	-139.7	-528.2	-667.9	-	-668.0
Disposal impairments/depreciations	139.7	528.2	667.9	-	668.0
Impairments	-	-102.6	-102.6	-	-102.6
Depreciation charges	-	-96.6	-96.6	-3.2	-99.9
Closing net book amount	-	858.1	858.1	5.2	863.3
As of 31 December 2017					
Costs	42.1	1,869.0	1,911.1	21.3	1,932.5
Accumulated impairments	-42.1	-286.1	-328.2	-0.1	-328.3
Accumulated depreciation	-	-724.9	-724.9	-16.0	-740.9
Net book amount	-	858.1	858.1	5.2	863.3
Depreciation method		UoP		3-7 years linear	

* Additions include recognition of an asset of USD 457.5 million pursuant to the Kurdistan RSA and an estimated change on ARO.

** Transfers include reclassification of exploration assets (intangible assets) to assets in operation. In 2017, the book value of USD 49.0 million related to Peshkabir, previously classified as an exploration asset (intangible asset), was reclassified to assets in operation. In addition, the book value of USD 19.6 million related to spare parts, previously classified as inventory, was reclassified to assets in operation.

OTHER INTANGIBLE ASSETS

2017 - USD million	License interest	Exploration assets	Other	Total
As of 1 January 2017				
Costs	102.5	60.0	-	162.5
Accumulated impairments	-18.4	-11.0	-	-29.4
Accumulated depreciation	-46.6	-	-	-46.6
Net book amount	37.5	49.0	-	86.5
Period ended 31 December 2017				
Opening net book amount	37.5	49.0	-	86.5
Translation differences	-	-	-	-
Additions	1.3	-0.2	-	1.1
Transfers	-	-49.0	-	-49.0
Disposal cost price	-3.9	-	-	-3.9
Disposal impairments/depreciations	3.9	-	-	3.9
Impairments	-1.3	0.2	-	-1.1
Depreciation charges	-6.2	-	-	-6.2
Closing net book amount	31.4	-	-	31.4
As of 31 December 2017				
Costs	103.8	10.8	-	114.6
Accumulated impairments	-19.6	-10.8	-	-30.5
Accumulated depreciation	-52.8	-	-	-52.9
Net book amount	31.4	-	-	31.4
Depreciation method		UoP		

Note 10**Property, plant and equipment/Other intangible assets****Impairment testing**

Impairment tests of individual CGUs are performed when impairment triggers are identified. IAS 36 requires that an entity assess at each reporting date whether there are any indications that an asset may be impaired. Impairment is recognized when the carrying amount of an asset or a CGU exceeds the recoverable amount. The Group has defined the license level as the lowest level at which separate cash flows can be identified. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. In the assessment of the value in use, the expected future cash flow is discounted to the net present value (before tax) by applying a discount rate before tax. The discount rate is derived from the WACC for a market participant. Cash flows are projected for the estimated lifetime of the fields or license (whichever is earlier), which may exceed periods longer than five years.

Below is an overview of the key assumptions applied for impairment assessment purposes as of 31 December 2018.

Oil prices

Future oil price level is a key assumption and has significant impact on the net present value of the Group's assets. DNO has used Brent forward contracts in December 2018 as a basis for the oil price forecasts for the period from January 2019 until December 2022. An average Brent price of USD 58.2 per barrel has been applied for 2019. Thereafter the Brent forward curve is applied through December 2022. The average Brent price for 2023 is set at USD 60.7 per barrel and inflated by two percent per year thereafter.

Oil price discount

The calculation of the recoverable amount of DNO's assets is sensitive to changes in deductions for oil quality and transportation fees.

Oil and gas reserves

Oil and gas reserves, and expected production profiles, are based on management's best estimates. For more information about the determination of the reserves, reference is made to Note 1 about important accounting assessments, estimates and assumptions.

Discount rate

The discount rate is derived from DNO's WACC. WACC is weighted based on the debt and equity to enterprise value ratios at yearend. Cost of equity is calculated on a country-by-country basis using the Capital Asset Pricing Model (CAPM) and adding a country risk premium. Cost of debt is based on yield-to-maturity on DNO's outstanding bond loans with an upward adjustment to reflect a potential longer maturity. The relevant pre-tax discount rate used in the impairment assessments at yearend 2018 for Kurdistan assets is 14.8 percent (16.5 percent at yearend 2017).

Impairment charge and reversal

The following table shows the recoverable amount and carrying amount for the cash generating units which have been impaired in 2018 and 2017.

Impairments	2018		2017	
	Impairment (-)/ reversal (+)	Recoverable/ carrying amount	Impairment (-)/ reversal (+)	Recoverable/ carrying amount
USD million				
Erbil license, Kurdistan	-	24.4	-59.1	20.7
Block 8, Oman	-	-	-47.8	-
SL 18, Somaliland	-0.4	-	-	0.4
Sfax Offshore Exploration Permit, Tunisia	-1.5	-	-1.6	1.5
Total	-1.9	24.4	-108.4	22.7

Of the total impairment charge of USD 1.9 million in 2018, USD 0.4 million was charged to PP&E. In 2017 USD 102.1 million of the total impairment charge was charged to PP&E.

Note 10**Property, plant and equipment/Other intangible assets**

During 2018, the impairment charge of USD 1.9 million is comprised of the SL18 exploration license in Somaliland (USD 0.4 million) and the Sfax Offshore Exploration Permit in Tunisia (USD 1.5 million). DNO exited these licenses in 2018.

During 2017, the impairment charge of USD 108.4 million was comprised of Oman Block 8 (USD 47.8 million), the Erbil license in Kurdistan (USD 59.1 million) and the Sfax Offshore Exploration Permit in Tunisia (USD 1.6 million).

Sensitivities

A sensitivity analysis for the Erbil license shows that a 10 percent decrease in oil prices would reduce the value in use (recoverable amount) by USD 19.4 million, while an increase of 10 percent in the oil price discount would reduce the recoverable amount by USD 6.7 million. An increase in the WACC by one percent would reduce the recoverable amount by USD 3.4 million, while a reduction in 2P reserves for the Erbil license by 10 percent would reduce the recoverable amount by USD 6.3 million. None of the changes in assumptions would increase the impairment charge recognized in the statements of comprehensive income. The sensitivity is for indicative purposes only and has been established on the assumption that all other factors would remain unchanged. The expected cash flows from the Tawke license are substantially higher than the carrying amount and the same sensitivity tests performed for the Erbil license would only cause minor changes to the surplus and would not lead to any impairment charges.

License expiry for assets in operation

In Kurdistan, the Tawke license expires in 2026, but DNO has the right to one automatic five-year extension (i.e., to 2031) and, if commercial production is still possible, DNO is entitled to request a further five-year extension (i.e., to 2036). Based on DNO's current assessments, the production from the Tawke license will be commercial for the duration of its contractual term and through subsequent extensions. The Erbil license expires in 2031, but DNO has the right to one automatic five-year extension (i.e., to 2036) and, if commercial production is still possible at the end of this extended period, DNO is entitled, upon request to the KRG, to a further five-year extension (i.e., to 2041).

Note 11**Financial investments**

Financial investments are comprised of equity instruments and are recorded at fair value (market price, where available) at the end of the reporting period. Fair value changes are included in other comprehensive income (FVTOCI) (see Note 1 for more details).

USD million	Years ended 31 December	
	2018	2017
As of 1 January	17.4	14.0
Additions	201.3	-
Fair value changes through other comprehensive income (FVTOCI)	12.1	3.4
As of 31 December	230.8	17.4
Non-current portion	230.8	17.4

Financial investments include the following:

USD million	2018	2017
Listed shares:		
RAK Petroleum plc	17.9	17.4
Faroe Petroleum plc	209.2	-
Panoro Energy ASA	3.6	-
Total financial investments	230.8	17.4

Note 11**Financial investments**

The Company has a total of 15,849,737 shares (4.8 percent of total issued Class A shares) in RAK Petroleum. RAK Petroleum is listed on the Oslo Stock Exchange. Through its subsidiary, RAK Petroleum Holdings B.V., RAK Petroleum is the largest shareholder in DNO ASA with 40.45 percent of the total issued shares (see Note 14). The Company's Executive Chairman Bijan Mossavar-Rahmani, the largest shareholder in RAK Petroleum, also serves as Executive Chairman of RAK Petroleum. Change in fair value is recognized in other comprehensive income with USD 0.5 million in 2018 and USD 3.4 million in 2017.

During 2018, the Company acquired 111,494,028 shares in Faroe representing 29.90 percent of the outstanding shares. The total acquisition price for the shares was USD 198.7 million. At yearend 2018, Faroe was listed on the UK's AIM of the London Stock Exchange (see Note 22). Change in fair value is recognized in other comprehensive income with USD 10.5 million in 2018.

During 2018, the Company subscribed to 2,641,465 shares in Panoro, representing 5.65 percent of the outstanding shares, at a price of NOK 12.82 per share. The total acquisition price for the shares was USD 4.2 million. Panoro is listed on the Oslo Stock Exchange. The share subscription follows completion of a transaction in which the Company sold to Panoro Energy AS its Tunisia subsidiary, DNO Tunisia AS. Change in fair value is recognized in other comprehensive income with a decrease of USD 0.6 million in 2018.

Note 12**Trade and other receivables**

USD million	Years ended 31 December	
	2018	2017
Trade debtors	182.8	-
Underlift, entitlement method	1.1	7.8
Other short-term receivables	25.9	20.0
Total trade and other receivables	209.8	27.8

The outstanding underlift receivable relates to Block 8 in Oman. Other short-term receivables as of 31 December 2018 include mainly items of working capital related to participation in oil and gas licenses in Kurdistan and Norway.

For trade debtors at yearend 2018, see Note 1 and Note 3.

Note 13**Cash and cash equivalents**

USD million	Years ended 31 December	
	2018	2017
Cash and cash equivalents, restricted	3.2	3.8
Cash held in restricted account, Faroe offer	418.1	-
Cash and cash equivalents, non-restricted	307.8	426.4
Total cash and cash equivalents	729.1	430.2

Restricted cash consists of employees' tax withholdings, deposits for rent and employee share savings plan and restricted cash related to the revolving exploration facility (see Note 15).

In November 2018, in compliance with UK regulations, the Company was required to present a guarantee of available funds to complete the settlement of the Faroe offer. The guarantee was issued by a bank backed by the transfer of an amount of USD 418.1 million to a deposit account held in the name of the Company and pledged in favor of the bank. The guarantee was cancelled in February 2019 following the acquisition of over 98 percent of the Faroe shares.

Non-restricted cash is entirely related to bank deposits as of 31 December 2018.

DNO has a group bank account system which allows negative balances in given currencies.

Note 14

Equity

Share capital

USD million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
As of 1 January 2017	1,076,114	36.0	-0.2	35.8
Treasury shares purchased/sold	-27,300.0	-	-0.8	-0.8
Share issues	-	-	-	-
As of 31 December 2017	1,048,814	36.0	-1.0	35.0

USD million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
As of 1 January 2018	1,048,814	36.0	-1.0	35.0
Treasury shares purchased/sold	-	-	-	-
Share issues	-	-	-	-
As of 31 December 2018	1,048,814	36.0	-1.0	35.0

Total outstanding shares are 1,048,814 at par value of NOK 0.25 per share as of 31 December 2018. All shares have equal rights.

At the 2018 AGM, the Board of Directors was given the authority to increase the Company's share capital by up to NOK 40,643,031, which corresponds to 162,572,124 new shares. The authorization is valid until the 2019 AGM, but not beyond 30 June 2019; the shareholders' preferential right to the new shares pursuant to section 10-4 in the Norwegian Public Limited Liability Companies Act may be waived.

The Board of Directors was given the authority to acquire treasury shares with a total nominal value of up to NOK 27,095,354. 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 2019 AGM, but not beyond 30 June 2019.

As of 31 December 2018, the Company held 35,000,000 treasury shares.

At the 2018 AGM, the Board of Directors was given further authority to raise convertible bonds with an aggregate principal amount of up to USD 300,000,000 (see also Note 15). Upon conversion of bonds issued pursuant to this authorization, the Company's share capital may be increased by up to NOK 40,643,031. The authorization is valid until the AGM in 2019, but not beyond 30 June 2019.

Note 14

Equity

Other reserves

USD million	Share premium	Other paid-in capital	Other reserves	Currency translation	Total
Balance as of 1 January 2017	247.7	56.6	17.3	-35.1	286.4
<i>Treasury shares:</i>	-	-	-	-	-
- Sale of treasury shares	-	-	-	-	-
- Purchase of treasury shares	-	-	-23.3	-	-23.3
Issue of share capital	-	-	-	-	-
Payment of dividend	-	-	-	-	-
Currency translation differences - Group	-	-	-	-0.4	-0.4
Balance as of 31 December 2017	247.7	56.6	-6.0	-35.5	262.7
Balance as of 1 January 2018	247.7	56.6	-6.0	-35.5	262.7
<i>Treasury shares:</i>	-	-	-	-	-
- Sale of treasury shares	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	-
Issue of share capital	-	-	-	-	-
Payment of dividend	-	-	-25.8	-	-25.8
Currency translation differences - Group	-	-	-	2.6	2.6
Balance as of 31 December 2018	247.7	56.6	-31.8	-32.9	239.6

	Shares	Interest (percent)
The Company's shareholders as of 31 December 2018		
RAK Petroleum Holdings B.V.	438,379,418	40.45
State Street Bank and Trust Comp (Nominee)	15,212,879	1.40
Euroclear Bank S.A./N.V. (Nominee)	15,085,226	1.39
Verdipapirfondet Pareto investment	9,364,591	0.86
State Street Bank and Trust Comp (Nominee)	9,359,961	0.86
JPMorgan Chase Bank, N.A., London (Nominee)	9,347,073	0.86
RBC Investor Services Trust (Nominee)	7,681,952	0.71
The Northern Trust Comp, London Br (Nominee)	7,462,260	0.69
JPMorgan Chase Bank, N.A., London (Nominee)	7,423,989	0.68
State Street Bank and Trust Comp (Nominee)	7,179,915	0.66
Barclays Capital Sec. Ltd Firm	6,741,682	0.62
State Street Bank and Trust Comp (Nominee)	6,054,784	0.56
Clearstream Banking S.A. (Nominee)	5,902,346	0.54
Nordnet Bank AB (nominee)	5,852,546	0.54
KLP Aksjenorge indeks	5,566,372	0.51
JPMorgan Chase Bank, N.A., London (Nominee)	5,539,864	0.51
J.P. Morgan Bank Luxembourg S.A.(Nominee)	5,325,000	0.49
VPF Nordea avkastning	4,994,183	0.46
The Bank of New York Mellon SA/NV (Nominee)	4,851,152	0.45
J.P. Morgan Bank Luxembourg S.A.(Nominee)	4,824,703	0.45
Other shareholders	466,664,265	43.06
Total number of shares excluding treasury shares	1,048,814,161	96.77
Treasury shares as of 31 December 2018 (DNO ASA)	35,000,000	3.23
Total number of shares including treasury shares	1,083,814,161	100.00

A dividend of USD 25.8 million was distributed in 2018 (nil in 2017). See Note 22 for dividend approved on 6 February 2019 by the Board of Directors pursuant to authorization granted at the Extraordinary General Meeting (EGM) held on 13 September 2018.

Note 15

Interest-bearing liabilities

USD million	Ticker OSE	Currency	Amount	Interest (percent)	Maturity	Effective interest rate (percent)	Fair value		Carrying amount	
							2018	2017	2018	2017
Interest-bearing liabilities:										
Bond loan (ISIN NO0010606197)	DNO01	USD	200.0	8.75	18.06.2020	12.50	200.5	400.1	200.0	400.0
Bond loan (ISIN NO0010823347)	DNO02	USD	400.0	8.75	31.05.2023	9.70	396.3	-	400.0	-
Borrowing issue costs									-24.3	-27.2
Exploration financing facility		NOK	1,000.0	see below	see below	3.26	18.4	17.6	18.4	17.6
Total interest-bearing liabilities							615.2	417.7	594.1	390.4

USD million	Years ended 31 December	
	2018	2017
Non-current		
Bonds	600.0	400.0
Capitalized borrowing issue costs (bonds)	-24.3	-27.2
Exploration financing facility (long term portion)	-	-
Total non-current interest-bearing liabilities	575.7	372.8
Current		
Exploration financing facility (current portion)	18.4	17.6
Total current interest-bearing liabilities	18.4	17.6
Security and pledges		
Exploration tax refund	28.3	33.7
Restricted cash	0.6	0.7
Total book value of assets pledged	28.9	34.4

On 19 June 2015, the Company completed the placement of USD 400 million of a five-year senior unsecured bond with a fixed coupon rate of 8.75 percent and an issue price of 87.5 percent of par value. On 29 June 2018, a bondholder meeting was held in order to approve alignment of a covenant structure and terms with bond DNO02 issued by the Company on 31 May 2018. The bond is listed on the Oslo Stock Exchange under ticker DNO01. The principal amount as of 31 December 2018 is USD 200 million and falls due on 18 June 2020. Interest is paid bi-annually.

On 31 May 2018, the Company completed the placement of USD 400 million of a five-year senior unsecured bond issued at 100 percent at par with a fixed coupon rate of 8.75 percent. In connection with the bond placement, the Company rolled over USD 200 million in nominal value of DNO01 bond into the new bond. The rolled over bonds were cancelled and USD 200 million of DNO01 bond remains. The bond is listed on the Oslo Stock Exchange under ticker DNO02. The principal amount as of 31 December 2018 is USD 400 million and falls due on 31 May 2023. Interest is paid quarterly.

The financial covenants of the bonds require a minimum of USD 40 million of liquidity, and that the Group maintains either an equity ratio of 30 percent or a total equity of a minimum of USD 600 million. There is also a restriction on declaring or making any dividend payments if the liquidity of the Company is less than USD 80 million immediately following such distribution.

DNO Norge AS has available a Norwegian revolving exploration facility in an aggregate amount of NOK 1 billion (equivalent to USD 115 million as of 31 December 2018). The aggregate of the proposed loan cannot exceed 95 percent of the tax value of eligible costs which have not already been refunded by the tax authorities. The facility is secured against the tax refund and is repaid when the refunds have been received in November-December in the subsequent year. The interest rate equals three months NIBOR (Norwegian Interbank Offered Rate) plus 1.55 percent. The facility was amended on 21 December 2018 to increase the facility amount from NOK 500 million to NOK 1 billion and to extend the utilization period to 31 December 2020.

Note 15

Interest-bearing liabilities

Changes in liabilities arising from financing activities split on cash and non-cash changes

USD million	At 1 Jan	Cash flows	Non-cash changes			At 31 Dec
	2018		Amortization	Currency	Acquisition	2018
Bond loans	400.0	200.0	-	-	-	600.0
Borrowing issue costs	-27.2	-10.5	13.4	-	-	-24.3
Exploration financing facility (current)	17.6	3.4	-	-2.6	-	18.4
Total	390.4	192.9	13.4	-2.6	-	594.1

USD million	At 1 Jan	Cash flows	Non-cash changes			At 31 Dec
	2017		Amortization	Currency	Acquisition	2017
Bond loans	400.0	-	-	-	-	400.0
Borrowing issue costs	-38.3	-	11.1	-	-	-27.2
Exploration financing facility (current)	-	-16.4	-	-	34.0	17.6
Total	361.7	-16.4	11.1	-	34.0	390.4

Note 16

Provisions for other liabilities and charges

Years ended 31 December

USD million	2018	2017
Non-current		
Asset retirement obligations (ARO)	49.4	31.9
Other long-term obligations	18.7	13.8
Total non-current provisions for other liabilities and charges	68.1	45.7
Current		
Other provisions and charges	7.4	2.7
Total current provisions for other liabilities and charges	7.4	2.7
Total provisions for other liabilities and charges	75.4	48.4

The ARO comprises the future cost of decommissioning oil and gas wells, facilities and related pipelines in Kurdistan.

Other long-term provisions and charges include provision for a production bonus for the Erbil license of USD 11.8 million at yearend 2018 (USD 10.9 million at yearend 2017).

Provisions for a water purification project (WPP) in Kurdistan and provision for production bonuses for the Tawke license previously included in other long-term provisions and charges during 2017 were derecognized under the Kurdistan RSA.

USD million	Asset retirement obligations	Other non-current	Other current	Total
Provisions as of 1 January 2017	23.2	144.1	5.3	172.6
Increase/-decrease in existing provisions	5.1	2.6	1.5	9.3
Amounts charged against provisions	-2.3	-135.3	-3.1	-140.7
Effects of change in the discount rate	4.6	0.7	-	5.3
Accretion expenses (unwinding of discount)	1.2	0.7	-	1.8
Reclassification and transfer	-	1.0	-1.0	-
Provisions as of 31 December 2017	31.9	13.8	2.7	48.4
Increase/-decrease in existing provisions	1.8	1.9	2.8	6.4
Amounts charged against provisions	-	-0.4	-	-0.4
Effects of change in the discount rate	17.4	1.6	-	19.0
Accretion expenses (unwinding of discount)	1.2	0.6	-	1.8
Reclassification and transfer	-2.8	1.1	1.9	0.1
Provisions as of 31 December 2018	49.4	18.7	7.4	75.4

Note 17**Commitments and contingencies****Lease obligations**

Future minimum lease payments under non-cancellable operating leases as of 31 December 2018 are as follows:

USD million	2019	2020	2021	2022	2023	All periods thereafter	Total
Lease of drilling rigs*	-	-	-	-	-	-	-
Lease of lands and buildings (office, warehouse etc.)	3.8	3.6	2.6	2.4	2.4	2.3	17.1
Lease of equipment	0.2	0.1	-	-	-	-	0.3
Total lease obligations	4.0	3.7	2.6	2.4	2.4	2.3	17.3

* The Group's lease of drilling rigs relates to Kurdistan drilling activities; the contracts are cancellable and thus not included in the table above (total cancellable contracts are estimated to be USD 16.3 million (gross, undiscounted) as of 31 December 2018).

Contingent liabilities and contingent assets*Ministry of Oil and Minerals of Yemen arbitration claim against the partners of Block 53*

The Ministry of Oil and Minerals (MOM) of Yemen has filed an arbitration claim against the partners of Block 53 for allegedly wrongful withdrawal from the Production Sharing Agreement (PSA). DNO Yemen AS is disputing this claim. No provisions have been made as of 31 December 2018.

Unresolved issues following relinquishment of operatorship and participation in Oman Block 8

On 3 January 2019, the Company announced that its subsidiary DNO Oman Block 8 Limited had relinquished operatorship and participation in Oman Block 8 to the Oman's Ministry of Oil and Gas as a result of the expiry of the Exploration and Production Sharing Agreement (EPSA). DNO held a 50 percent interest in the license alongside LG International Corp. (LGI), which held the remaining 50 percent interest. The relinquishment has given rise to certain contested issues between Oman and the Contractor (DNO Oman Block 8 Limited and LGI) which are unresolved as of the reporting date. No provisions have been made as of 31 December 2018.

Other claims

During the normal course of its business, the Group may be involved in other legal proceedings and unresolved claims. The Group has made provisions in its consolidated financial statements for probable liabilities related to litigation and claims based on management's best judgment and in line with IAS 37. Other than what is set out above, DNO is not aware of any governmental, legal or arbitral proceedings (including any such proceedings which are pending or threatened) initiated against DNO and which may have, significant effects on DNO's results of operations, cash flows or financial position.

Contractual obligations/license commitments

USD million	2019	2020	2021	2022	2023	All periods thereafter	Total
Contractual commitments	27.4	2.7	0.1	-	-	-	30.2
Total contractual commitments/license commitments	27.4	2.7	0.1	-	-	-	30.2

Some PSCs/PSAs have work program commitments and contractual obligations to conduct certain activity. These liabilities are based on current best estimates.

Guarantees at 31 December 2018

The Company has issued parent company guarantees on behalf of its subsidiaries, DNO Norge AS and DNO Exploration UK Limited, to the authorities in Norway and the UK, respectively, in connection with the participation in licenses in these countries. In addition, parent company guarantees were issued to the Tunisian government for the contractor obligations in relation to the Sfax Offshore Exploration Permit and the Ras El Besh Concession which became null and void following the sale of DNO Tunisia AS to Panoro Energy AS in 2018. The Company, together with its partners, has issued a joint and several parent company guarantee to the KRG relating to the exploration work obligations that the parties will undertake in the Baeshiq PSC.

Liability for damages/insurance

Installations and operations are covered by various insurance policies.

Note 18**Trade and other payables**

USD million	Years ended 31 December	
	2018	2017
Trade payables	46.0	24.5
Public duties payable	3.1	1.7
Other accrued expenses	67.3	73.4
Total trade and other payables	116.4	99.6

Trade payables are non-interest bearing and are normally settled within 30 days.

Trade payables and other accrued expenses as of yearend 2018 include items of working capital related to participation in oil and gas licenses in Kurdistan and Norway and seismic acquisitions in Norway.

Note 19**Earnings per share**

USD million	1 January - 31 December	
	2018	2017
Net profit attributable to ordinary equity holders of the parent	354.3	495.0
Weighted average number of ordinary shares (excluding treasury shares)	1,048.8	1,059.3
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,048.8	1,059.3
Earnings per share, basic	0.34	0.47
Earnings per share, diluted	0.34	0.47

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

The Company did not have any potential dilutive shares at yearend 2018.

Note 20

Group companies

USD million	Ownership and voting	
	Office	interest (percent)
<i>Shares in Company subsidiaries</i>		
DNO Iraq AS	Norway	100
DNO Norge AS	Norway	100
DNO UK Limited	UK	100
DNO Invest AS	Norway	100
DNO Mena AS	Norway	100
DNO Oman AS	Norway	100
DNO Somaliland AS	Norway	100
DNO Technical Services AS	Norway	100
Northstar Exploration Holding AS	Norway	100
DNO Exploration UK Limited	UK	100
DNO Yemen AS	Norway	100
<i>Shares in subsidiaries owned through DNO Mena AS</i>		
DNO Al Khaleej Limited	Guernsey	100
DNO Oman Limited	Bermuda	100
DNO Oman Block 8 Limited	Guernsey	100
DNO Oman Block 30 Limited	Guernsey	100
DNO Technical Services Limited	Guernsey	100
DNO Tunisia Limited	Guernsey	100

The Company's subsidiaries DNO Iraq AS and DNO Yemen AS have operations in Kurdistan and Yemen, respectively. Activities on the NCS are carried out through DNO Norge AS. DNO Invest AS and Northstar Exploration Holding AS are dormant entities, while DNO UK Limited is a company with no operations. Activities on the UK Continental Shelf are carried out through DNO Exploration UK Limited. DNO Technical Services AS provides technical support and services to the various companies in the Group. With the exception of DNO Oman Block 8 Limited which had operations in Oman during 2018, subsidiaries owned through DNO Mena AS had minimal activity during the year.

Note 21

Related party disclosure

The following table provides details of the Group's related party transactions in 2018. See also Note 5 on remuneration.

Related party (USD million)	Transaction	1 January - 31 December	
		2018	2017
RAK Petroleum plc	Service agreement	-1.3	-1.3
Total related party transactions		-1.3	-1.3

RAK Petroleum, through its subsidiary RAK Petroleum Holdings B.V., is the Company's largest shareholder and the Company's Executive Chairman Bijan Mossavar-Rahmani also serves as Executive Chairman of RAK Petroleum. The Company entered into an agreement with RAK Petroleum for services including administrative and commercial support, plus other expenses. The total fee paid by the Company in 2018 was USD 1.3 million, the same amount which was paid in 2017.

In addition to the above-mentioned transactions, there are also transactions between Group companies (see Note 19 in the parent company accounts).

A portion of the overhead expenses in the Company are charged to the subsidiaries through the hourly rate for services provided by the Company.

Note 22

Significant events after the reporting date

Acquisition of Faroe Petroleum plc (Faroe)

On 8 January 2019, the Company announced the terms of a final cash offer for the entire issued and to be issued share capital of Faroe at a price of 160 pence in cash for each Faroe share.

On 14 January 2019, the Company announced the final offer had become unconditional in all respects on 11 January 2019, which is when the Company obtained control over Faroe by achieving more than 50 percent ownership. On 21 March 2019, the Company announced that it had completed the compulsory acquisition procedure for the remaining shares in Faroe that was announced on 4 February 2019. DNO now owns 100 percent of the entire issued share capital of Faroe (subject to stamping and registration).

The consideration payable by the Company under the terms of the final offer was funded from existing cash resources. The Company's main reason for the acquisition was to firmly establish itself in Norway. The Faroe acquisition strengthens the Group's portfolio and operational capabilities in Norway, transforming the Group into a more diversified company with a strong, second leg. Through the transaction, the Group obtains attractive exploration, production and development projects and an experienced team with extensive knowledge of the North Sea. Faroe currently has stakes in nine producing fields, of which five are in Norway (Trym, Tambar, Ula, Brage and Ringhorne East) and four are in the UK or cross borders with the UK (Blane (UK/Norway), East Foinaven, Enoch (UK/Norway) and the Netherlands (Orca (UK/Netherlands))).

The Company has obtained the necessary government approvals for the change of control in Norway and has submitted the required notifications in the UK and Ireland. No notification is necessary in the Netherlands.

Preliminary purchase price allocation (PPA)

The Faroe acquisition is regarded as a business combination and is accounted for using the acquisition method in accordance with IFRS 3 *Business Combinations*. The date of acquisition is determined to be the date the offer became unconditional in all respects on 11 January 2019, which is when the Company obtained control over Faroe by achieving more than 50 percent ownership. The general principle in IFRS 3 is that the identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. For convenience purposes, the Company has designated 1 January 2019 as the acquisition date. A preliminary PPA has been performed as of this acquisition date to allocate the consideration to fair values of acquired assets and assumed liabilities of Faroe.

Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 3 and IFRS 13 *Fair Value Measurement*. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition emphasizes that the fair value is a market-based measurement, not an entity-specific measurement. When measuring the fair value, the Group uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Acquired producing and development assets as well as discovery assets (i.e., intangible assets) of Faroe have been valued using the income-based approach.

The identified assets and liabilities as of the date of acquisition are estimated as follows:

Preliminary PPA (unaudited, USD million)	Fair value at acquisition-date
Deferred tax assets	432.8
Other intangible assets	291.1
Property, plant and equipment	551.8
Other non-current assets	1.1
Inventories	18.2
Trade and other receivables	129.1
Tax receivables (current)	19.3
Cash and cash equivalents	141.7
Total assets	1,585.1
Interest-bearing liabilities (non-current)	100.0
Provisions for other liabilities and charges (non-current)	448.6
Deferred tax liabilities	461.5
Trade and other payables	174.7
Income tax payable	1.6
Current interest-bearing liabilities	24.1
Total liabilities	1,210.5
Total identifiable net assets at fair value	374.6
Consideration payable on acquisition (100 percent of the shares)	812.0
Goodwill*	437.4

Note 22**Significant events after the reporting date**

The PPA does not include effects of Faroe's asset swap with Equinor Energy AS (a wholly-owned subsidiary of Equinor ASA). Although the effective date of the asset swap is 1 January 2019, it has not been approved by the Norwegian Ministry of Petroleum and Energy as of the acquisition date and as such, the PPA covers pre-swap assets owned by Faroe.

The goodwill recognized in the transaction relates mainly to technical goodwill due to the requirement to recognize deferred tax assets and liabilities for the temporary difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. Licenses under development and licenses in production can only be sold on a post-tax value pursuant to the Norwegian Petroleum Taxation Act, section 10. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12 sections 15 and 19, a provision is made for deferred tax corresponding to the tax rate multiplied by the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is goodwill.

The above valuation is based on currently available information about fair values as of the acquisition date. If new information becomes available within 12 months from the acquisition date, the Group may change the fair value assessment in the PPA in accordance with guidance in IFRS 3.

For comparison purposes, assuming that the acquisition had taken place effective 1 January 2018, full-year revenues would have increased by USD 291.4 million while net profit/-loss would have increased by USD 0.3 million.

DNO received 18 awards in Norway's APA licensing round

On 15 January 2019, the Company announced that its wholly-owned subsidiary, DNO Norge AS, was awarded participation in 18 exploration licenses, of which five are operatorships, under Norway's APA 2018 licensing round. Of the 18 licenses, 9 are in the North Sea, 2 in the Norwegian Sea and 7 in the Barents Sea. Prior to the announcement, DNO held interests in 21 Norway licenses. Another eight licenses were awarded to Faroe Petroleum Norge AS, prior to which the latter held 44 Norwegian licenses.

DNO handed over operatorship of Oman Block 8 following license expiry

On 3 January 2019, the Company announced that its subsidiary DNO Oman Block 8 Limited had relinquished operatorship and participation in Oman Block 8 to the Oman's Ministry of Oil and Gas due to the expiration of the 30-year commercial term of the EPSA. Effective 4 January 2019, Block 8 has been operated by the Musandam Oil and Gas Company, fully-owned by the state-owned Oman Oil Company Exploration and Production LLC (OOCEP). DNO held a 50 percent interest in the license alongside LGI, which held the remaining 50 percent interest. Both parties relinquished their interests upon the expiry of the EPSA.

DNO bond listed on Oslo Stock Exchange

DNO's bond loan (ISIN NO0010823347) was listed on the Oslo Stock Exchange with ticker DNO02 on 5 February 2019. The USD 400 million, five-year senior unsecured bond, which settled on 31 May 2018, matures on 31 May 2023.

The Company's Board of Directors approve dividend payment

On 6 February 2019, the Company announced that, pursuant to the authorization granted at the EGM held on 13 September 2018, the Board of Directors has approved a dividend payment of NOK 0.20 per share to be made on or about 27 March 2019 to all shareholders of record as of 18 March 2019.

Short-term bank credit facility

In January 2019, the Company entered into a USD 200 million short-term bank credit facility to strengthen the liquidity subsequent to the acquisition of Faroe.

Note 23

Company Working Interest and net entitlement reserves (unaudited)

Development of proven (1P); proven and probable (2P); and proven, probable and possible (3P) reserves (CWI)*

MMboe	Kurdistan												Oman			Total Group		
	Tawke license						Erbil license						Block 8 license Bukha & West Bukha					
	Tawke field			Peshkabir field			Benenan field			Bastora field								
	1P	2P	3P	1P	2P	3P	1P	2P	3P	1P	2P	3P	1P	2P	3P	1P	2P	3P
As of 1 January 2017	215.5	312.4	390.7	3.1	20.0	59.0	-	27.0	55.2	-	5.4	7.8	0.5	3.6	8.0	219.2	368.3	520.7
Production	-25.2	-25.2	-25.2	-0.9	-0.9	-0.9	-	-	-	-	-	-	-0.8	-0.8	-0.8	-26.9	-26.9	-26.9
Acquisitions	22.8	28.9	37.8	1.1	5.6	19.5	-	-	-	-	-	-	-	-	-	23.8	34.5	57.3
Divestments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New developments	-	-	-	8.0	42.4	175.7	-	-	-	-	-	-	-	-	-	8.0	42.4	175.7
Revision of previous estimates	17.6	-15.9	-1.1	-2.2	-14.9	-52.6	-	-0.3	-	-	-0.3	-0.2	0.3	-2.8	-7.2	15.7	-34.2	-61.1
As of 31 December 2017	230.7	300.2	402.2	9.1	52.1	200.7	-	26.7	55.2	-	5.1	7.6	-	-	-	239.8	384.1	665.7
Production	-22.0	-22.0	-22.0	-7.1	-7.1	-7.1	-	-	-	-	-	-	-0.7	-0.7	-0.7	-29.9	-29.9	-29.9
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New developments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-6.9	-21.0	-55.1	35.9	42.2	-42.2	-	-	-0.2	-	-	-0.2	0.7	0.7	0.7	29.7	21.9	-97.0
As of 31 December 2018	201.8	257.2	325.2	37.9	87.1	151.4	-	26.7	55.0	-	5.1	7.4	-	-	-	239.7	376.1	538.9

* Reserves according to the Annual Statement of Reserves and Resources (ASRR) released 11 February 2019, classification as in Norwegian Petroleum Directorate class 1-3. International petroleum consultants D&M carried out the annual independent assessment of the Tawke and Peshkabir fields in Kurdistan. The Group internally assessed the remaining licenses. All figures above reflect pre-tax shares, net to DNO after royalty and reflect DNO's additional share of cost oil covering its advances towards the government carried interest (if any).

The estimation of oil and gas reserves involves uncertainty. The figures above represent management's best judgment of the most likely quantity of economically recoverable oil and gas estimated at yearend 2018, given the information at the time of reporting. The estimates have a large spread especially for fields for which there is limited data available. 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 for production.

At yearend 2018, DNO's CWI 1P reserves stood at 239.7 MMbbls, unchanged from 239.8 MMbbls at yearend 2017, after adjusting for production during the year and technical revisions. On a 2P reserves basis, DNO's CWI reserves stood at 376.1 MMbbls, down 8.0 MMbbls from 384.1 MMbbls at yearend 2017. On a 3P reserves basis, DNO's CWI reserves were 538.9 MMbbls, compared to 665.7 MMbbls at yearend 2017.

The Intercontinental Exchange (ICE) forward curve for Brent crude (adjusted for quality and transportation differentials) was used as the basis for calculating remaining reserves.

DNO's operated production in 2018 averaged 117,607 boepd, up from 113,533 boepd in 2017. DNO's CWI production in 2018 was 29.9 MMboe (of which 29.1 MMbbls in Kurdistan and the balance in Oman), up from 26.9 MMboe in 2017 (of which 26.1 MMbbls in Kurdistan and the balance in Oman).

DNO's CWI yearend 2018 Reserve Life Index (R/P) stood at 8.2 years on a 1P reserves basis, 12.9 years on a 2P reserves basis and 18.5 years on a 3P reserves basis.

Note 23**Company Working Interest and net entitlement reserves
(unaudited)**

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

MMboe	Kurdistan**												Total Group		
	Tawke license						Erbil license						1P	2P	3P
	Tawke field			Peshkibir field			Benenan field			Bastora field					
1P	2P	3P	1P	2P	3P	1P	2P	3P	1P	2P	3P	1P	2P	3P	
31 December 2017	86.0	100.5	107.7	3.5	17.8	54.3	-	16.4	25.9	-	3.1	3.6	89.5	137.8	191.4
31 December 2018	73.7	84.8	90.3	14.3	29.3	42.9	-	16.6	26.2	-	3.2	3.5	88.0	133.8	163.0

* Reserves according to Norwegian Petroleum Directorate class 1-3.

** Net entitlement (NE) reserves reflect post-tax shares. The NE 1P developed reserves for the Tawke license were 39.4 MMbbls at yearend 2018. The corresponding figure at yearend 2017 was 45.8 MMbbls.

NE reserves are based on economic evaluation of the license agreements, incorporating projections of future costs and oil prices. NE reserves may therefore fluctuate over time, even if there are no changes in the underlying gross and CWI volumes.

Following the Kurdistan RSA, DNO's interest in the Tawke license increased to 75 percent plus, until 31 July 2022, three percent of aggregate license revenues. CWI and NE reserves in the tables above include the reserves attributable to DNO from this settlement agreement.

Note 24

Oil and gas license portfolio

DNO holds interests in three licenses in Kurdistan, all of which are PSCs. The Tawke PSC contains the producing Tawke and Peshkabir fields. The Erbil PSC contains the Benenan and Bastora fields. The Baeshiqa PSC contains two large structures with multiple independent stacked target reservoirs, including in the Cretaceous, Jurassic and Triassic.

At yearend 2018, DNO held 21 offshore exploration licenses in Norway, two offshore exploration licenses in the UK and one license in Yemen.

As is customary in the oil and gas industry, most of the Group's assets are held in partnership with other companies. Below is an overview of the Group's licenses, which are held through several wholly-owned subsidiary companies:

As of 31 December 2018

Region/license	Participating interest (percent)	Operator	Partner(s)
Kurdistan			
Tawke PSC	75.0	DNO Iraq AS	Genel Energy International Limited
Erbil PSC	40.0	DNO Iraq AS	Gas Plus Erbil Limited, Kurdistan Regional Government
Baeshiqa PSC	32.0	DNO Iraq AS	ExxonMobil Kurdistan Region of Iraq Limited, Turkish Energy Company Limited, Kurdistan Regional Government
Norway			
PL248 F	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL248 GS	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL248 HS	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL293 B	20.0	Equinor Energy AS	DNO Norge AS, Idemitsu Petroleum Norge AS
PL767	10.0	Lundin Norway AS	DNO Norge AS, INPEX Norge AS
PL825	10.0	Faroe Petroleum Norge AS	DNO Norge AS, Equinor Energy AS, Spirit Energy Norway AS
PL827S	30.0	Equinor Energy AS	DNO Norge AS
PL859	20.0	Equinor Energy AS	DNO Norge AS, Petoro AS, Lundin Norway AS, ConocoPhillips Skandinavia AS
PL889	20.0	Neptune Energy Norge AS	DNO Norge AS, Concedo ASA
PL902	10.0	Lundin Norway AS	DNO Norge AS, Aker BP ASA, Petoro AS
PL921	15.0	Equinor Energy AS	DNO Norge AS, Lundin Norway AS, Petoro AS
PL922	20.0	Spirit Energy Norge AS	DNO Norge AS, Total E&P Norge AS, Neptune Energy Norge AS
PL923	20.0	Equinor Energy AS	DNO Norge AS, Petoro AS, Wellesley Petroleum AS
PL924	15.0	Equinor Energy AS	DNO Norge AS, Lundin Norway AS
PL926	20.0	Faroe Petroleum Norge AS	DNO Norge AS, Lundin Norway AS, Concedo ASA
PL929	10.0	Neptune Energy Norge AS	DNO Norge AS, Lundin Norway AS, DEA Norge AS, Pandion Energy AS
PL931	40.0	Wellesley Petroleum AS	DNO Norge AS
PL943	30.0	Equinor Energy AS	DNO Norge AS, Capricorn Norge AS
PL950	10.0	Lundin Norway AS	DNO Norge AS, Petoro AS, INPEX Norge AS
PL951	20.0	Aker BP ASA	DNO Norge AS, Vår Energi AS, Concedo ASA
PL953	30.0	Wintershall Norge AS	DNO Norge AS, Concedo ASA
Oman			
Block 8	50.0	DNO Oman Block 8 Limited	LG International Corp.
UK			
P1998	22.5	Apache North Sea Limited	DNO Exploration UK Limited, Euroil Exploration Limited
P2074	25.0	Chrysaor CNS Limited	DNO Exploration UK Limited, Ineos UK SNS Limited
Yemen			
Block 47	64.0	DNO Yemen AS	The Yemen Company, Geopetrol Hadramaut Incorporated

Note 24

Oil and gas license portfolio

As of 31 December 2017

Region/license	Participating interest (percent)	Operator	Partner(s)
Kurdistan			
Tawke	75.0	DNO Iraq AS	Genel Energy International Limited
Erbil	40.0	DNO Iraq AS	Gas Plus Erbil Limited, Kurdistan Regional Government
Norway			
PL248 F	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL248 GS	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL248 HS	20.0	Wintershall Norge AS	DNO Norge AS, Petoro AS
PL293 B	20.0	Statoil Petroleum AS	DNO Norge AS, Idemitsu Petroleum Norge AS
PL811	20.0	Spirit Energy Norge AS	DNO Norge AS, Aker BP ASA, Faroe Petroleum Norge AS
PL812	20.0	Statoil Petroleum AS	DNO Norge AS, MOL Norge AS, Fortis Petroleum Norway AS
PL824	30.0	Point Resources AS	DNO Norge AS, Concedo ASA
PL889	20.0	VNG Norge AS	DNO Norge AS, Concedo ASA
Oman			
Block 8	50.0	DNO Oman Block 8 Limited	LG International Corp.
Somaliland			
Block SL18	50.0	DNO Somaliland AS	Petrogas (Gibraltar) Limited, Republic of Somaliland
Tunisia			
Sfax Offshore Exploration Permit and Ras El Besh Concession	87.5	DNO Tunisia AS	Eurogas International Limited, Atlas Petroleum Exploration Worldwide Limited
Hammamet Offshore Exploration Permit	46.0	Medco Ventures International	DNO Tunisia AS
UK			
P1982	35.0	Apache Beryl I Limited	DNO Exploration UK Limited, Enterprise Oil Limited
P1998	22.5	Apache North Sea Limited	DNO Exploration UK Limited, Euroil Exploration Limited
P2074	25.0	Chrysaor CNS Limited	DNO Exploration UK Limited, Ineos UK SNS Limited
Yemen			
Block 47	64.0	DNO Yemen AS	The Yemen Company, Geopetrol Hadramaut Incorporated

Parent company accounts

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Income statement

USD thousand	Note	1 January - 31 December	
		2018	2017
OPERATING REVENUES			
Operating revenues	2, 19	15,185	10,707
Total operating revenues		15,185	10,707
OPERATING EXPENSES			
Depreciation	7	-1,086	-2,248
Payroll and payroll-related expenses	3	-22,719	-13,654
Other operating expenses	4	-19,661	-16,940
Total operating expenses		-43,466	-32,842
OPERATING PROFIT/-LOSS			
		-28,281	-22,135
Net other financial items	5	456,490	133,852
PROFIT/-LOSS BEFORE INCOME TAX		428,209	111,717
Income tax expenses	6	-	2,319
ANNUAL PROFIT/-LOSS		428,209	114,036
Transferred from/to other equity		428,209	114,036
Total allocations		428,209	114,036
Earnings per share, basic	18	0.41	0.11
Earnings per share, diluted	18	0.41	0.11

Balance sheet

ASSETS

USD thousand	Note	Years ended 31 December	
		2018	2017
FIXED ASSETS			
Intangible and tangible assets			
Intangible assets	7	3,198	-
Property, plant and equipment	7	581	3,632
Total intangible and tangible assets		3,779	3,632
Financial fixed assets			
Shares in subsidiaries	8	302,859	342,112
Intercompany receivables	19	56,131	14,912
Other long-term receivables		82	207
Investment in shares	8	230,779	17,385
Total financial fixed assets		589,851	374,616
Total non-current assets		593,630	378,248
CURRENT ASSETS			
Trade and other receivables	9	3,641	2,673
Intercompany receivables	9	7,761	16,835
Cash and cash equivalents	10	638,212	388,502
Total current assets		649,614	408,010
TOTAL ASSETS		1,243,244	786,258

EQUITY AND LIABILITIES

USD thousand	Note	Years ended 31 December	
		2018	2017
Paid-in capital			
Share capital		35,991	35,991
Treasury shares		-1,022	-1,022
Share premium		220,730	247,743
Other paid-in capital		-	22,937
Total paid-in capital	11	255,699	305,649
Retained earnings			
Retained earnings		344,264	-83,945
Total retained earnings	11	344,264	-83,945
Total shareholders' equity	11	599,963	221,704
Non-current liabilities			
Intercompany liabilities	19	19,572	178,301
Interest-bearing liabilities	13	575,724	372,765
Other non-current liabilities		2,223	-
Total non-current liabilities		597,519	551,066
Current liabilities			
Provisions for other liabilities and charges	14	19,922	12,834
Intercompany liabilities		1,697	654
Dividend	11	24,143	-
Total current liabilities		45,762	13,488
Total liabilities		643,281	564,554
TOTAL EQUITY AND LIABILITIES		1,243,244	786,258

Oslo, 26 March 2019

Bijan Mossavar-Rahmani
*Executive Chairman*Lars Arne Takla
*Deputy Chairman*Shelley Watson
*Director*Elin Karfjell
*Director*Gunnar Hirsti
*Director*Bjørn Dale
Managing Director

Cash flow statement

USD thousand	Note	1 January - 31 December	
		2018	2017
OPERATING ACTIVITIES			
Profit/-loss before tax		428,209	111,717
Taxes paid	6	-	-
Depreciation and impairment of tangible and intangible assets	7	1,086	2,248
Impairment/Reversal of impairment of financial assets	5	45,987	82,490
Changes in net assets and other accruals		46,166	4,960
Net interest paid		-33,138	-31,684
Net cash flow from operating activities		488,310	169,731
INVESTING ACTIVITIES			
Payments made for intangible and tangible assets	7	-1,247	-92
Payments made for acquisitions shares, including capital increase in subsidiaries	8	-201,336	-9,984
Loans to subsidiaries	19	-40,981	-
Net cash flow from investing activities		-243,564	-10,076
FINANCING ACTIVITIES			
Proceeds from interest-bearing liabilities net of issue costs	13	189,500	-
Repayment of interest-bearing liabilities	19	-158,729	-
Purchase of treasury shares and options	11	-	-24,078
Paid dividend	11	-25,807	-
Net cash flow -used in/from financing activities		4,964	-24,078
<hr/>			
Cash and cash equivalents at the beginning of the period		388,502	252,925
Net change in cash and cash equivalents		249,710	135,577
Cash and cash equivalents at the end of the period	10	638,212	388,502
<hr/>			
Of which restricted cash		3,063	2,915
Of which held on restricted account in relation to the Faroe offer		418,100	-

Note 1

Accounting principles

■ General

The financial statements of DNO ASA (the Company) are presented in accordance with the Norwegian Accounting Act and Norwegian accounting standards. 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, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

■ Currency

The financial statements are presented in USD, which is the functional currency of the Company. 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 or loss. Foreign currency transactions are recorded using exchange rates on the date of transaction.

■ Consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with IFRS as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and have been presented separate from the parent company accounts.

■ Investments in subsidiaries

Investments in subsidiaries 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 or liabilities are classified as fixed assets or long-term liabilities.

■ Shares

Shares classified as fixed assets are valued at their cost price and impaired in the case of permanent and significant decline in value. Market-based shares are valued at fair value.

■ Property, plant & equipment (PP&E)

PP&E is carried at cost less accumulated depreciation and impairment charges.

The Company records impairment provisions when the book value of assets for which separate cash flows exceed discounted expected cash flows. The impairment amount is the difference between the book value and the fair value of the asset.

Machinery and equipment is depreciated using a straight-line method based on estimated useful life. Estimated useful life varies between three and seven years.

■ 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.

■ Pensions

The Company records pension schemes according to the Norwegian accounting standard for pension costs. The Company has contribution plans for employees as provided for under Norwegian law. For such plans, only the contributions paid during the period are expensed.

■ Revenue recognition

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

■ 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.

■ Dividend

In accordance with Norwegian accounting standards, the Company recognizes a liability to pay dividend for proposed ordinary dividend and additional or extraordinary dividend resolved after yearend but before or on the date of approval of the financial statements by the Board of Directors.

Note 2

Operating revenues

1 January - 31 December

USD thousand	2018	2017
Operating revenues	15,185	10,707
Total operating revenues	15,185	10,707

Operating revenues relates to services provided by the Company to its subsidiaries.

Note 3

Salaries, pensions, remuneration, shares, options and severance

1 January - 31 December

USD thousand	2018	2017
Payroll expenses		
Salaries, bonuses, options etc.	-14,684	-9,196
Employer's payroll tax expense incl. payroll tax on options	-2,456	-1,958
Pensions	-2,114	-1,455
Other personnel costs	-3,501	-1,217
Reclassification of payroll and payroll-related expenses to exploration and production costs	36	172
Payroll and payroll-related expenses	-22,719	-13,654
Average number of man-labor years	66	50

Pensions

DNO has a defined contribution scheme for its Norway-based employees. DNO meets the Norwegian requirements for mandatory occupational pensions ("*obligatorisk tjenestepensjon*").

Remuneration to the Board of Directors and executive management

Remuneration to the Board of Directors (USD thousand)	2018	2017
Bijan Mossavar-Rahmani, Executive Chairman, member of the nomination and remuneration committees	840.5	787.1
Lars Arne Takla, Deputy Chairman, Chair of the HSSE committee	70.4	65.9
Gunnar Hirsti, Director, Chair of the audit committee and member of the remuneration committee	66.2	72.5
Shelley Watson, Director, member of the audit committee	59.7	55.9
Elin Karfjell, Director, member of the audit committee	59.7	55.9
Total	1,096.4	1,037.3

Total remuneration to the Board of Directors consist of regular fees (USD 1,054,400) and fees for participation in the board committees (USD 42,000). Separately, a fee of USD 3,250 was paid to each of Anita Marie Hjerkin Aarnæs and Kåre Tjønneland for service on the nomination committee.

Remuneration to Managing Director and executive management (USD thousand) *	Salary	Bonus	Pension	Other	Total	Outstanding loan balance
Bjørn Dale, Managing Director	673.9	223.3	20.6	296.5	1,214.3	-
Haakon Sandborg, Chief Financial Officer	453.4	109.7	20.6	50.1	633.8	-
Aernout van der Gaag, Deputy Chief Financial Officer	395.2	8.7	20.6	59.1	483.6	-
Ute Quinn, General Counsel **	435.5	270.8	20.6	77.6	804.5	81.5
Chris Spencer, Commercial Director	440.5	66.4	20.6	53.5	581.0	-
Nicholas Whiteley, Exploration Director	440.8	123.0	20.6	128.2	712.5	-
Jon Sargeant, Managing Director DNO Technical Services AS	284.2	8.4	20.6	115.7	428.8	-

* Total remuneration of USD 0.4 million was paid to Bruce Webb, a former member of the executive management.

** Loan amount is to be repaid over 48 months including interest through salary deductions. The interest rate equals the Norwegian statutory rate applicable to employee loans (interest rate 2.1 percent as of yearend 2018).

Note 3**Salaries, pensions, remuneration, shares, options and severance**

The following table is an overview of members of the executive management that have been awarded synthetic shares during the year as part of their remuneration.

Movement in synthetic Company shares during 2018

Number of shares	Out-standing at 1 Jan	Movements 1 January - 31 December				Out-standing at 31 Dec	Unrest-ricted at 31 Dec	Weighted average price*
		Granted	Forfeited/ Reversed	Settled	Expired			
Bjørn Dale, Managing Director	180,829	187,247	118,077	3,238	-	246,761	-	9.75
Haakon Sandborg, Chief Financial Officer	56,291	187,725	-	-	-	244,016	57,014	-
Aernout van der Gaag, Deputy Chief Financial Officer	99,900	107,241	-	-	-	207,141	-	-
Ute Quinn, General Counsel	122,951	16,033	-	124,560	-	14,424	-	15.91
Chris Spencer, Commercial Director	-	159,511	-	-	-	159,511	-	-
Nicholas Whiteley, Exploration Director	74,788	207,326	-	-	-	282,114	-	-
Jon Sargeant, Managing Director DNO Technical Services AS	60,493	79,187	-	-	-	139,680	61,283	-

* The weighted average settlement price for synthetic shares settled during 2018 in NOK.

The weighted average settlement price for synthetic shares at yearend 2018 was NOK 12.55. The weighted average remaining contractual life for the synthetic shares was 3.90 years.

The synthetic share awards are subject to a two-year vesting period and require continued employment in the Company for a period of two years after the grant date. Following vesting, the employee is free to settle the shares in cash. Payments in cash for the year are included in *Other remuneration* above. For shares held by directors and executive management at yearend 2018, see Note 5 in the consolidated accounts.

Severance agreements

Members of the executive management, Bjørn Dale, Haakon Sandborg, Nicholas Whiteley, Ute Quinn and Aernout van der Gaag have severance payment agreements ranging from six months to 12 months of their respective annual base salaries.

Auditor fees

All figures are exclusive of VAT (USD thousand)	1 January - 31 December	
	2018	2017
Auditor fees	-270	-293
Other financial audit services	-30	-59
Total auditing fees	-300	-352
Other assistance	-10	-
Tax assistance	-29	-130
Total auditor fees	-339	-482

Declaration regarding determination of salary and other remuneration to the Managing Director and the rest of the executive management**The board's declaration for 2018**

According to the Norwegian Public Limited Liability Companies Act section 6-16a cf. section 5-6 third paragraph, the Board of Directors present a declaration regarding determination of salary and other remuneration to the Managing Director and executive management for the coming financial year to the AGM.

The remuneration, possible bonus and other incentive arrangements shall reflect the duties and responsibilities of the employees and contribute to adding long term value for shareholders.

Fixed salary

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

Note 3**Salaries, pensions, remuneration, shares, options and severance***Variable elements*

In addition to the fixed salary, variable remuneration elements can be used to recruit, retain and reward employees. Variable remuneration to the executive management can include cash bonuses and share-based compensation, including options (see below) and synthetic shares. Annual bonuses are awarded based on corporate results and individual performance during the year.

Other variable elements include newspapers, 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.

Share savings plan

An employee share savings plan was introduced in 2013 through which employees could save a portion of their salary by purchasing synthetic shares at a discount to the Company's share price. The purchase was then matched by DNO if these shares were kept for a period of two years and the employee was still employed by the Company. In early 2016, the Board of Directors decided to close the plan to new contributions. The plan will be kept open until 31 August 2019 for vesting of restricted synthetic shares and settlement of unrestricted synthetic shares.

Pensions

The Company has a contribution-based pension system under which Norway-based employees are entitled to a pension contribution of 12.5 percent of their annual salary. Any excess of the maximum legally allowable pension contribution is paid out to the employees as additional 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 executive 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 may be entered into selectively if the Board of Directors finds this to be useful in recruitment.

Binding parts of this declaration

Remuneration as it relates to the employee share savings plan or the options-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 of Directors and are therefore only subject to a consultative vote at the AGM.

Executive management remuneration in 2018

Executive management remuneration for 2018 was in accordance with the directives approved by the AGM in 2018.

Remuneration committee

The Board of Directors has established a remuneration committee composed of two members, the current members are Bijan Mossavar-Rahmani and Gunnar Hirsti. Its mandate is to consider matters relating to compensation of executive management and to make related recommendations to the Board of Directors.

Note 4**Other operating expenses**

USD thousand	1 January - 31 December	
	2018	2017
Lease expense-buildings and equipment	-2,476	-2,265
Other office expenses	-106	-66
IT-expenses	-3,605	-3,246
Travel expenses	-1,062	-917
Legal expenses	-607	-579
Consultant fees	-10,112	-3,928
Other general and administrative costs	-1,693	-5,939
Total other operating expenses	-19,661	-16,940

Consultant fees have increased mainly due to expenses related to the Faroe acquisition.

Other general and administrative costs have decreased due to reduced purchase of services from entities within the Group.

Note 5**Net other financial items**

USD thousand	1 January - 31 December	
	2018	2017
Dividend and group contribution received from Group companies	563,471	281,647
Interest received	7,832	3,316
Interest received from group companies	3,254	1,298
Other financial income	-4	-
Gain on foreign exchange	791	2,558
Change in fair value in financial assets	12,058	3,393
Total financial income	587,402	292,212
Interest expenses	-45,207	-35,000
Interest expenses Group companies	-5,911	-25,610
Loss on foreign exchange	-1,889	-775
Impairment of financial assets	-52,040	-85,882
Other financial expenses	-14,191	-11,093
Loss on disposal of shares	-11,674	-
Total financial costs	-130,912	-158,360
Net finance items	456,490	133,852

Impairment of financial assets (shares and receivables) in 2018 relates to DNO Mena AS (USD 28.4 million), DNO Norge AS (USD 11.1 million), DNO Exploration UK Limited (USD 6.0 million), Northstar Exploration Holding AS (USD 0.2 million), DNO Technical Services AS (USD 0.7 million), DNO Somaliland AS (USD 0.3 million), DNO Yemen AS (USD 4.8 million), DNO Al Khaleej Limited (USD 0.1 million) and DNO Oman Limited (USD 0.6 million). A change in fair value of financial assets is recognized with USD 12.1 million, USD 0.5 for shares in RAK Petroleum, USD 12.1 million for the shares in Faroe and a decrease in value of USD 0.5 million for the shares in Panoro. Other financial expenses are mainly related to amortization of bond issue costs.

Loss on disposal of shares is mainly related to sale of shares in DNO Tunisia AS (USD 11.3 million) and liquidation of DNOILCO AS (USD 0.3 million).

Impairment of financial assets (shares and receivables) in 2017 was related to DNO Tunisia AS (USD 39.6 million), DNO Mena AS (USD 23.5 million), Northstar Exploration Holding AS (USD 8.4 million) DNO Somaliland AS (USD 1.0 million), DNO Yemen AS (USD 4.3 million), DNO Tunisia Limited (USD 0.3 million), DNO Oman AS (USD 0.5 million), Hylledokk AS (USD 3.9 million) and DNO Al Khaleej Limited (USD 2.4 million). A change in fair value of USD 3.4 million is recognized for the shares in RAK Petroleum. Other financial expenses are related to amortization of bond issue costs.

Note 6

Taxes

Income tax expenses

1 January - 31 December

USD thousand	2018	2017
Changes in deferred taxes	-	2,319
Income taxes receivable/-payable	-	-
Tax income/-expense	-	2,319

Reconciliation of the year's income tax

1 January - 31 December

USD thousand	2018	2017
Profit/-loss before income tax	428,212	111,717
Expected income tax according to nominal tax rate of 23 percent (24 percent in 2017)	-98,489	-26,812
Foreign exchange variations between functional and tax currency	-1,228	-10,060
Adjustment in previous years	-	-
Adjustment of deferred tax assets not recognized	-12,859	-15,401
Impairment financial assets	-15,516	-15,269
Tax-free dividend from subsidiaries	125,677	70,412
Change in previous years	-	-
Other items	6,289	574
Change in tax rate	-3,874	-3,444
Tax loss carried forward (utilized)	-	2,319
Tax income/-expense	-	2,319
Effective tax rate	0%	-2%

Tax effects of temporary differences and losses carried forward

Years ended 31 December

USD thousand	2018	2017
Other current items	-	-
Property, plant and equipment	-231	-28
Other temporary differences	-175	-454
Non-deductible interests carried forward	9,766	9,614
Tax losses carried forward	70,415	70,712
Deferred tax assets/-liabilities	79,775	79,844
Valuation allowance	-79,775	-79,844
Deferred tax assets/-liabilities	-	-
Recognized deferred tax assets	-	-
Recognized deferred tax liabilities	-	-

The corporate tax rate was 23 percent in 2018. Effective from 1 January 2019, the corporate tax rate is 22 percent and has been used to calculate deferred taxes.

The tax value of tax losses carried forward is USD 70.4 million at yearend 2018. The carry forward period for unused losses in Norway is indefinite. A deferred tax asset has not been recognized for these losses as there is uncertainty regarding future taxable profits.

Note 7**Property, plant and equipment/Intangible assets**

USD thousand	Intangible assets	Tangible assets	Total
Costs 1 January 2018	-	13,051	13,051
Additions 2018	1,226	21	1,247
Disposals 2018	-	-11	-11
Cost 31 December 2018	3,998	10,289	14,287
Accumulated depreciation 1 January 2018	-	-9,419	-9,419
Depreciation 2018	-800	-289	-1,089
Accumulated depreciation & impairments 31 December 2018	-800	-9,708	-10,508
Book value 31 December 2018	3,198	581	3,779
Book value 31 December 2017	-	3,632	3,632

Tangible and intangible assets (office equipment and IT system) were depreciated using the linear method based on estimated useful life of three to seven years.

Note 8**Investment in shares**

Subsidiaries owned by the Company	Office	Owner-ship and voting interest (percent)	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	Norway	100	NOK 291,000	-22,895	-6,782	-
DNO UK Limited	UK	100	GBP 100	-92	-19	-
DNO Iraq AS	Norway	100	NOK 1,200	882,030	462,177	279,848
DNO Tunisia AS (disposed)	Norway	100	NOK 2,500	-	-17,445	-
DNO Invest AS	Norway	100	NOK 2,075	306	2	308
DNO Mena AS*	Norway	100	NOK 2,000	-	7,557	7,557
DNO Oman AS	Norway	100	NOK 202	-14,440	-372	-
DNO Somaliland AS	Norway	100	NOK 202	-3,108	-1,145	-
DNO Technical Services AS	Norway	100	NOK 200	5,734	-680	5,734
DNOilco AS (liquidated)	Norway	100	NOK 101	-	-1,054	-
Hylledokk AS (liquidated)	Norway	100	NOK 30	-	774	-
Northstar Exploration Holding AS	Norway	100	NOK 70,347	5,385	-4	5,385
DNO Norge AS	Norway	100	NOK 42,489	4,039	-10,975	4,039
DNO Exploration UK Limited	UK	100	GBP 30,912	-1,125	-6,770	-
Total				855,834	425,264	302,859

* DNO Mena AS own shares in other subsidiaries as described in the statutory annual financial statements of the company.

In 2018, the value in shares in subsidiaries was written off by USD 46.4 million. The write off was related to DNO Mena AS (USD 28.4 million), DNO Norge AS (USD 6.0 million), DNO Technical Services AS (USD 0.7 million) and Northstar Exploration Holding AS (USD 0.2 million).

In 2017, the value in shares in subsidiaries was written off by USD 81.6 million, including group contribution effects. The write off was related to DNO Mena AS (USD 25.5 million), DNO Tunisia AS (USD 39.6 million) and Northstar Exploration Holding AS (USD 8.4 million).

Other financial investments

The Company holds a total of 15,849,737 shares in RAK Petroleum. RAK Petroleum is listed on the Oslo Stock Exchange. The market value increased by USD 0.5 million in 2018, while the value increased by 3.4 million in 2017. During 2018 the Company purchased 111,494,028 shares in Faroe at a cost price of USD 198.7 million, representing 29.90 percent of the outstanding shares at yearend 2018. Faroe was listed on the UK's Alternative investment Market (AIM) of the London Stock Exchange. The fair value increased by USD 12.1 million subsequent to the purchase. The Company subscribed to 2,641,465 shares in Oslo-listed Panoro for a cost price of USD 4.2 million, representing 5.65 percent of the outstanding shares. The fair value decreased by USD 0.5 million subsequent to the purchase. See also Note 11 in the consolidated accounts.

Note 9**Trade and other receivables**

USD thousand	Years ended 31 December	
	2018	2017
Intercompany receivables	7,761	16,835
Prepayments and accrued income	3,556	2,656
Other short-term receivables	85	17
Trade and other receivables	11,402	19,508

Note 10**Cash and cash equivalents**

USD thousand	Years ended 31 December	
	2018	2017
Cash and cash equivalents, restricted	3,063	2,915
Cash held in restricted account, Faroe offer	418,100	-
Cash and cash equivalents, non-restricted	217,049	385,587
Total cash and cash equivalents	638,212	388,502

Restricted cash relates to employees' tax withholdings, deposits for rent and employee share saving plan.

In November 2018, in compliance with UK regulations, the Company was required to present a guarantee of available funds to complete the settlement of the Faroe offer. The guarantee was issued by a bank backed by the transfer of an amount of USD 418.1 million to a deposit account held in the name of the Company and pledged in favor of the bank. The guarantee was cancelled in February 2019 following the acquisition of over 98 percent of the Faroe shares.

Non-restricted cash is entirely related to bank deposits in USD, NOK and GBP as of 31 December 2018.

Note 11**Shareholder's equity**

USD thousand	Share capital	Treasury shares (numbers)	Treasury shares	Share premium	Other paid-in capital	Retained earnings	Total
Shareholders' equity on 1 January 2017	35,991	7,700,000	-220	247,743	46,206	-197,981	131,739
Purchase of treasury shares	-	27,300,000	-802	-	-23,269	-	-24,071
Sale of treasury shares	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	114,036	114,036
Shareholders' equity on 31 December 2017	35,991	35,000,000	-1,022	247,743	22,937	-83,945	221,704
Shareholders' equity on 1 January 2018	35,991	35,000,000	-1,022	247,743	22,937	-83,945	221,704
Purchase of treasury shares	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Dividend	-	-	-	-2,870	-22,937	-	-25,807
Additional dividend	-	-	-	-24,143	-	-	-24,143
Profit for the year	-	-	-	-	-	428,209	428,209
Shareholders' equity on 31 December 2018	35,991	35,000,000	-1,022	220,731	-0	344,264	599,963

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

On 6 February 2019, the Company announced that, pursuant to the authorization granted at the EGM held on 13 September 2018, the Board of Directors has approved an additional dividend payment of NOK 0.20 per share to be made on or about 27 March 2019 to all shareholders of record as of 18 March 2019.

Note 12**Guarantees and commitments**

See Note 17 in the consolidated accounts for information regarding other guarantees and commitments.

Note 13**Interest-bearing liabilities**

See Note 15 in the consolidated accounts for information on interest-bearing liabilities.

Note 14**Current liabilities**

USD thousand	Years ended 31 December	
	2018	2017
Trade creditors	468	1,977
Public duties payable	1,822	1,320
Accrued expenses and other current liabilities	17,632	9,537
Total trade and other payables	19,922	12,834

Included in accrued expenses and other current liabilities is a provision for incurred costs, including expenses related to the Faroe offer.

Note 15**Financial instruments**

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

Note 16**Related party disclosure**

Overhead expenses in the parent company are allocated to the subsidiaries based on their proportional use of the services provided by the parent company.

The Company has loan facilities with all subsidiaries and are interest-bearing with the Company's average interest rate on interest-bearing liabilities, except for loans to subsidiaries with only exploration activities.

See Note 21 in the consolidated accounts for further information on transactions with related parties and Note 19 below for intercompany transactions and balances at yearend with subsidiaries.

Note 17**Contingencies and events after the balance sheet date**

See Note 17 and Note 22 in the consolidated accounts for information on contingencies and events after the balance sheet date.

Note 18

Earnings per share

USD thousand	1 January - 31 December	
	2018	2017
Net profit/-loss attributable to ordinary equity holders of the parent	428,209	114,036
Weighted average number of ordinary shares (excluding treasury shares)	1,048,814	1,059,312
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,048,814	1,059,312
Earnings per share, basic	0.41	0.11
Earnings per share, diluted	0.41	0.11

Note 19

Intercompany

Long-term intercompany receivables/liabilities

USD thousand	Functional currency	Years ended 31 December			
		Receivables		Liabilities	
		2018	2017	2018	2017
DNO UK Ltd	GBP	-	-	-	-
DNO Technical Services Limited	USD	-	-	-	-
DNO Iraq AS	USD	55,627	-	-	98,179
DNO Tunisia AS	USD	-	-	-	13,570
DNO Invest AS	NOK	-	-	-	-
DNO Al Khaleej Ltd	USD	-	-	-	-
DNO Oman Block 30 Limited	USD	504	436	-	-
DNO Oman Block 31 Limited	USD	-	238	-	-
DNO Oman Block 8 Limited	USD	-	-	12,907	66,552
DNO Oman Limited	USD	-	141	-	-
DNO Oman AS	USD	-	-	-	-
DNO Somaliland AS	USD	-	-	-	-
Northstar Exploration Holding AS	NOK	-	-	5,331	-
DNO Mena AS	USD	-	14,097	1,334	-
Total long-term intercompany receivables and liabilities		56,131	14,912	19,572	178,301

Except for group contributions and loans to companies with exploration activities, the intercompany receivables and liabilities are interest bearing. The intercompany interest rate used by DNO ASA and its subsidiaries is based on country specific weighted average cost of capital. Intercompany liabilities are reduced mainly due to dividends from DNO Iraq AS which are netted against the liabilities owed by the Company DNO Iraq AS.

Note 19

Intercompany

Intercompany sales/purchases

USD thousand	Functional currency	1 January - 31 December			
		Sales		Purchases	
		2018	2017	2018	2017
DNO Technical Services AS	USD	181	325	-	-
DNO Iraq AS	USD	12,747	6,355	-	-
DNO Tunisia AS	USD	17	340	-39	-8
DNO Yemen AS	USD	120	94	-	-
DNO Al Khaleej Ltd	USD	-	35	-321	-5,414
DNO Oman Limited	USD	87	-	-	-
DNO Oman Block 8 Limited	USD	870	209	-	-
DNO Oman AS	USD	13	228	-	-
DNO Somaliland AS	USD	189	223	-	-
DNOILCO AS (liquidated)	NOK	-	824	-	-
Hylledokk AS (liquidated)	EUR	379	1,453	-	-
DNO Norge AS	NOK	533	523	-46	-
Other	USD	49	98	-	-
Intercompany sales/purchases		15,185	10,707	-406	-5,422

The Company's other related parties consist of other subsidiaries in the Group. The Company sells and buys services from these companies.

Intercompany interest income/-expenses and dividend

USD thousand	Functional currency	1 January - 31 December			
		Interest/dividend income		Interest expenses	
		2018	2017	2018	2017
DNO Technical Services AS	USD	-	-	-	-
DNO Iraq AS	USD	526,227	-	-	-13,777
DNO Tunisia AS	USD	-	-	-799	-1,035
DNO Yemen AS	USD	-	-	-	-
DNO Mena AS	USD	40,480	1,220	-	-
DNO Oman Limited	USD	18	43	-	-
DNO Oman Block 8 Limited	USD	-	-	-5,047	-10,857
DNO Al Khaleej Limited	USD	-	-	-	-
DNO UK Limited	GBP	-	-	-	-
Other	USD	-	-0	-65	59
Intercompany interest income/expenses		566,725	1,263	-5,911	-25,610

See Note 5 for more details on financial items.

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNO ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNO ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2018, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations;
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

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Revenue recognition Kurdistan

Total revenue recognized from Kurdistan in 2018 was USD 811.3 million. DNO has interests in the Tawke, Erbil and Baeshiqā licenses in Kurdistan through Production Sharing Contracts (PSCs). The payments received for oil sales in Kurdistan have historically not followed the PSC terms, and DNO has in prior years recognized revenue upon receipt of cash payments. DNO reassessed its revenue recognition procedures and based on facts and circumstances, DNO started recognizing revenue based on volumes delivered from Q4 2018. This resulted in additional revenue of USD 182.8 million in 2018 related to prior volumes delivered. The change in revenue recognition requires judgments and has a significant impact on the financial statement and is therefore a key audit matter.

We obtained an understanding of the process for revenue recognition in Kurdistan and evaluated the accounting principles applied by management. We tested a sample of sales by agreeing recognized revenue to production reports, metering confirmations and subsequent payments received. Further, we tested oil prices against observable marked data and the arithmetical accuracy of DNO's revenue calculation.

Refer to the Company's disclosures included in Note 1 Summary of IFRS accounting principles applicable for 2018 and Note 3 Revenues.

Impairment of oil & gas assets Kurdistan (property, plant, equipment and intangible assets)

Oil & gas assets in Kurdistan (property, plant, equipment and intangible assets) amount to USD 785.3 million at year-end 2018. The political conditions in Kurdistan may affect future cash flows from the oil & gas licenses. Management's judgment and estimates in the value in use model makes impairment of oil & gas assets in Kurdistan a key audit matter.

We obtained an understanding of the process related to impairment testing. We assessed data used in the value in use models, including testing of the forecasted future cash flows. We agreed assumptions on production volumes and capital expenditure to external and internal reserve reports, oil price assumptions against Brent forward oil prices including geographical quality adjustment and the weighted average cost of capital, including the country risk premium for Kurdistan, to available market information.

We evaluated the professional qualifications and objectivity of the external reserve experts used by management. Further we analyzed the sensitivity of key assumptions used in the valuation model, and assessed historical accuracy of cash flows applied by management. We tested the mathematical accuracy of the models.

Refer to the Company's disclosures included in Note 1 Summary of IFRS accounting principles applicable for 2018 and Note 10 Property, plant and equipment/other intangible assets.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report - DNO ASA

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Responsibilities of management for the financial statements

Management is 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 International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit 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 Company's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other

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matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 26 March 2019

ERNST & YOUNG AS

Asbjørn Rødal

State Authorised Public Accountant (Norway)

Independent auditor's report - DNO ASA

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Alternative performance measures

DNO discloses alternative performance measures (APMs) as a supplement to the Group's financial statements prepared based on issued guidelines from the European Securities and Markets Authority (ESMA). DNO believes that the APMs provide useful supplemental information to management, investors, securities analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of DNO's business operations, financing and future prospects and to improve comparability between periods. Reconciliations of relevant APMs, definitions and explanations of the APMs are provided below.

EBITDA

USD million	2018	2017
Revenues	829.3	347.4
Lifting costs	-90.4	-96.1
Exploration expenses	-64.7	-33.0
Administrative expenses	-36.7	-33.2
Other income past oil sales (Kurdistan RSA)	-	556.0
Other operating income/expenses	1.4	-5.5
EBITDA	638.8	735.6

Netback

USD million	2018	2017
EBITDA	638.8	735.6
Provision for obsolete inventory (Note 4)	-	19.0
Other income past oil sales (Kurdistan RSA)	-	-556.0
Change in revenue recognition criteria, Kurdistan (Note 3)	-182.8	-
Taxes received/-paid	33.2	33.2
Netback	489.1	231.8

	2018	2017
Netback (USD million)	489.1	231.8
Company Working Interest production (MMboe)	29.9	26.9
Netback (USD/boe)	16.4	8.6

Lifting costs

	2018	2017
Lifting costs (USD million)	-90.4	-96.1
Company Working Interest production (MMboe)	29.9	26.9
Lifting costs (USD/boe)	3.0	3.6

Acquisition and development costs

USD million	2018	2017
Purchases of intangible assets	-7.8	-1.3
Purchases of tangible assets	-130.3	-129.1
Acquisition and development costs*	-138.0	-130.4

* Acquisition and development costs comprise of purchases of intangible and tangible assets and exclude estimate changes on asset retirement obligations.

Operational spend

USD million	2018	2017
Lifting costs	-90.4	-96.1
Exploration expenses	-64.7	-33.0
Acquisition and development costs	-138.0	-130.4
Operational spend	-293.2	-259.5

Equity ratio

USD million	2018	2017
Equity	1,217.8	875.9
Total assets	2,004.3	1,415.1
Equity ratio	60.8%	61.9%

Alternative performance measures

Free cash flow

USD million	2018	2017
Cash generated from operations	472.0	338.8
Purchases of intangible assets	-7.8	-1.3
Purchases of tangible assets	-130.3	-129.1
Free cash flow	334.0	208.4

Marketable securities

USD million	2018	2017
Financial investments	230.8	17.4
Treasury shares*	50.5	40.6
Marketable securities	281.3	58.0

* Number of treasury shares at yearend multiplied by the DNO share price at yearend.

Net debt

USD million	2018	2017
Cash and cash equivalents	729.1	430.2
Bond loans	600.0	400.0
Net cash/-debt*	129.1	30.2

* Exploration financing facility has been excluded as it is covered by the exploration tax refund booked as an asset in the statement of financial position.

Reserve Life Index (R/P)

	2018	2017
Company Working Interest production (MMboe)	29.9	26.9
1P reserves	239.7	239.8
2P reserves	376.1	384.1
3P reserves	538.9	665.7
1P Reserve Life Index (R/P in years)	8.2	8.9
2P Reserve Life Index (R/P in years)	12.9	14.3
3P Reserve Life Index (R/P in years)	18.5	24.8

Definitions and explanations of APMs

ESMA issued guidelines on APMs that came into effect on 3 July 2016. The Company has defined and explained the purpose of the following APMs:

EBITDA (Earnings before interest, tax, depreciation and amortization)

EBITDA, as reconciled above, can also be found by excluding the DD&A and impairment of oil and gas assets from the profit/-loss from operating activities. Management believes that this measure provides useful information regarding the Group's ability to fund its capital investments and provides a helpful measure for comparing its operating performance with those of other companies.

Netback

Netback comprises EBITDA adjusted for taxes received/-paid. Management believes that this measure is useful because it provides an indication of the profitability of the Group's operating activities before tax for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently. This measure is also helpful for comparing the Group's operational performance between time periods and with those of other companies.

Netback (USD/boe)

Netback (USD/boe) is calculated by dividing netback in USD by the CWI production for the relevant period. Management believes that this measure is useful because it provides an indication of the profitability of the Group's operating activities before tax for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently, per CWI boe produced. This measure is also helpful for comparing the Group's operational performance between time periods and with that of other companies.

Lifting costs (USD/boe)

Lifting costs comprise of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention activities and insurances. DNO's lifting costs per boe are calculated by dividing DNO's share of lifting costs across producing assets by CWI production for the relevant period. Management believes that the lifting cost per boe is a useful measure because it provides an indication of the Group's level of operational cost effectiveness between time periods and with those of other companies.

Alternative performance measures

Acquisition and development costs

Acquisition and development costs comprise the purchase of intangible and tangible assets irrespective of whether paid in the period. Management believes that this measure is useful because it provides an overview of capital investments used in the relevant period.

Operational spend

Operational spend is comprised of lifting costs, exploration expenses and acquisition and development costs. Management believes that this measure is useful because it provides a complete overview of the Group's total operational costs and capital investments used in the relevant period.

Equity ratio

The equity ratio is calculated by dividing total equity by the total assets. Management uses the equity ratio to monitor its capital and financial covenants (see Note 9 in the consolidated accounts). The equity ratio also provides an indication of how much of the Group's assets are funded by equity.

Free cash flow

Free cash flow comprises cash generated from operations less acquisition and development costs. Management believes that this measure is useful because it provides an indication of the profitability of the Group's operating activities excluding the non-cash items of the income statement and includes operational spend. This measure also provides a helpful measure for comparing with that of other companies.

Marketable securities

Marketable securities are comprised of the sum of market value of financial investments and treasury shares. Management believes that this measure is useful because it provides an overview of liquid assets that can be converted to cash in a short period of time.

Net debt

Net debt comprises cash and cash equivalents less bond loans (see Note 15 in the consolidated accounts). Management believes that net debt is a useful measure because it provides indication of the minimum necessary debt financing (if the figure is negative) to which the Group is subject at the balance sheet date.

Reserve Life Index

The Reserve Life Index measures the length of time it will take to deplete a resource. The ratio is used to measure how long an oil and gas field will last, or more precisely how long the Group's oil and gas reserves will last, and is calculated by dividing the quantity of reserves by the production of petroleum from those reserves during the relevant period.

Glossary and definitions

AED United Arab Emirates dirham	CWI Company Working Interest	IAS/IFRS International Financial Reporting Standards
AGM Annual General Meeting	D&M DeGolyer and MacNaughton	ICE The Intercontinental Exchange (ICE) forward curve for Brent crude (adjusted for quality and transportation differentials) used as the basis for calculating remaining reserves
AIM UK Alternative Investment Market	DD&A Depreciation, depletion and amortization	IQD Iraqi dinar
ASRR Annual Statement of Reserves and Resources	DNO DNO ASA and its consolidated subsidiaries	KRG Kurdistan Regional Government
bbbls Barrels of oil	Group The Company and its consolidated subsidiaries	Kurdistan Kurdistan region of Iraq
Board of Directors The Board of Directors of the Company	E&P Exploration and production	Kurdistan RSA August 2017 Kurdistan Receivables Settlement Agreement
boe Barrels of oil equivalent	EBITDA Earnings before interest, tax, depreciation and amortization	License or permit Area of specified size licensed to a company by the government for production of oil or gas
bopd or boepd Barrels of oil per day or barrels of oil equivalent per day	ESMA European Securities and Markets Authority	MMbbbls Million barrels of oil
CAPM Capital Asset Pricing Model	EU The European Union	MMboe Million barrels of oil equivalent
Company DNO ASA	EUR Euros	MPE Norwegian Ministry of Petroleum and Energy
Contingent resources Quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations but not currently considered to be commercially recoverable or where a field development plan has not yet been submitted	Farm-in To acquire an interest in a license from another party	NCS Norwegian Continental Shelf
Contractor A company or companies operating in a country under a PSC on behalf of the host government for which it receives either a share of production or a fee	Farm-out To assign an interest in a license to another party	Net entitlement The portion of future production (and thus resources) legally accruing to a contractor under the terms of the development and production contract
Cost oil Share of oil produced which is applied to the recovery of costs under a Production Sharing Contract	Faroe Faroe Petroleum plc	Netback EBITDA adjusted for taxes received/-paid
Crude oil, crude or oil A mixture that consists mainly of pentanes and heavier hydrocarbons, which may contain sulphur and other non-hydrocarbon compounds, that is recoverable at a well from an underground reservoir and that is liquid at the conditions under which its volume is measured or estimated	FGI Federal Government of Iraq	NOK Norwegian kroner
Net entitlement reserves Reserves based on net entitlement production	Gas A mixture of light hydrocarbons that exist either in the gaseous phase or in solution in crude oil in reservoirs but are gaseous at atmospheric conditions	Norwegian Public Limited Liability Companies Act The Norwegian Public Limited Liability Companies Act of 13 June 1997 no. 45 ("allmennaksjeloven")
	GBP Pound sterling	
	HSSE Health, safety, security and environment	
	Hydrocarbons Compounds containing only the elements of hydrogen and carbon, which may exist as solid, liquid or gas	

Glossary and definitions

Operator

A company responsible for managing an exploration, development, or production operation

Oslo Stock Exchange

Oslo Børs ASA

Petroleum

A complex mixture of naturally occurring hydrocarbon compounds found in rock.

PP&E

Property, plant and equipment

PPA

Purchase Price Allocation

Profit oil

Production remaining after royalty and cost oil, which is split between the government and the contractors according to the prevailing contract terms

PSC/PSA

Production Sharing Contract/Agreement. A PSC or PSA is used interchangeably as an agreement between a contractor and a host government, whereby the contractor bears all risk and cost for exploration, development and production in return for a stipulated share of production

Royalty

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

SPE

Society of Petroleum Engineers

UAE

The United Arab Emirates

UK

The United Kingdom

USD

United States dollar

WACC

Weighted Average Cost of Capital

WPP

Water Purification Project

DNO ASA

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