



**7** COUNTRIES | **3** CONTINENTS



— **16 LICENSES** —

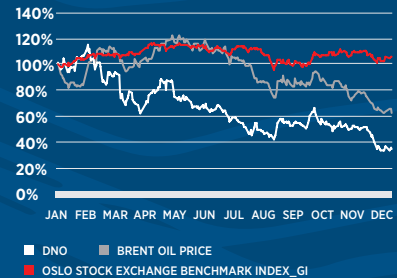
The Kurdistan Region of Iraq, the Sultanate of Oman, the Tunisian Republic, the Republic of Yemen, the United Arab Emirates and Somaliland



**WORKFORCE**

 **735**

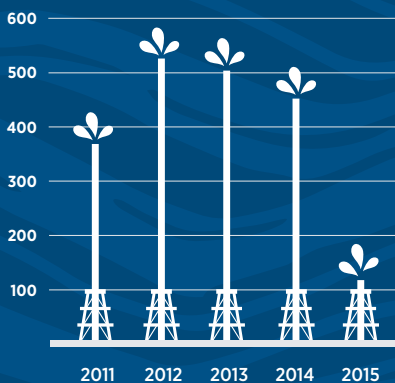
**SHARE PRICE DEVELOPMENT**



**DNO ASA**  
ANNUAL REPORT AND ACCOUNTS  
— **2015** —

**REVENUES (USD million)**

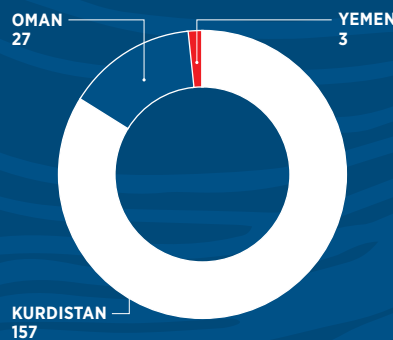
**187.4**



**NET LOSS (USD million)**

**-212.3**

**REVENUES (USD million)**

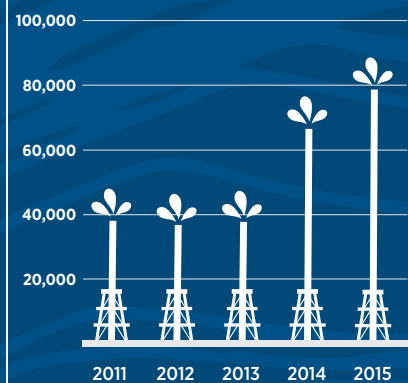


“We are stubbornly resilient.”

*Bijan Mossavar-Rahmani,  
DNO's Executive Chairman*

**CWI PRODUCTION (boepd)**

**88,411**



**CWI 2P RESERVES (MMboe)**

**391.5**

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## Highlights

DNO ASA ("DNO") reported record levels of operated production in 2015 though the company's results were impacted by the sharp drop in world oil prices and lower paid revenues in the Kurdistan region of Iraq. Operated production was up 23 percent last year to 144,500 barrels of oil equivalent per day (boepd) while revenues dropped to USD 187 million in 2015, down 59 percent from 2014. The company's production continues to be driven by the Tawke field in Kurdistan, where output in 2015 averaged 135,200 barrels of oil per day (bopd), of which 114,100 bopd was delivered for pipeline export through Turkey.

Capital expenditures in 2015 were reduced to USD 51 million from USD 297 million in 2014 as DNO hit the brakes in the face of lower oil prices and lower payments in Kurdistan. The company was among the first in the industry to cut capital and operating expenditures commencing in the fall of 2014 and continuing through 2015. In addition to annualized reductions in administrative and lifting costs of USD 50 million from mid-year 2015, the company's balance sheet was further strengthened through a NOK 975 million equity raise and a USD 400 million bond issue in 2015.

Entering 2016, even as the global oil and gas industry continues to retrench, DNO's foot is coming off the brake and pressing on the accelerator. This follows a new payment arrangement announced on 1 February 2016 by the Kurdistan Regional Government in line with contractual entitlements, laying the foundation for higher planned spending at the flagship Tawke field. Planned investments include new wells and water handling facilities to increase production by mid-year by more than ten percent from January 2016 levels.

## Key figures

USD million	2015	2014
<b>Key financials</b>		
EBITDA	29.4	254.1
Netback	22.2	203.6
Acquisition and development costs	50.7	297.3
Exploration costs expensed	23.5	50.6
<b>Reserves and production</b>		
Gross production (boepd)	144,492	117,482
Company Working Interest production (boepd)	88,411	68,958
Company Working Interest reserves and resources (MMboe)	523.1	590.3
<b>Key performance indicators</b>		
Lifting costs (USD/boe)	2.7	4.8
Netback (USD/boe)	0.7	8.2

## Board of Directors



**Bijan Mossavar-Rahmani**  
*Executive Chairman*

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

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



**Lars Arne Takla**  
*Deputy Chairman*

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

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



**Elin Karfjell**  
*Director*

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

Prior to her current role, Ms. Karfjell 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. Also a board member of Aker Philadelphia Shipyard, North Energy ASA and Contesto AS, Ms. Karfjell has previously served as a board member of Norse Energy Corporation ASA, Aktiv Kapital ASA, Aker Floating Production ASA and DNO International ASA. Ms. Karfjell has a Bachelor of Science in Accounting from Oslo and Akershus University College of Applied Sciences and a Master of Science in Accounting and Auditing from the Norwegian School of Economics and Business Administration. Ms. Karfjell was elected to DNO's Board of Directors in 2015 and is a member of the audit committee.

## Board of Directors



### **Gunnar Hirsti**

*Director*

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

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



### **Shelley Watson**

*Director*

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

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

# Board of Directors' report

## Introduction

### 2015 full-year results highlights

- Record operated production in 2015 of 144,500 boepd, up 23 percent from 2014;
- Gross output at Tawke field in Kurdistan averaged 135,200 bopd, of which 114,100 bopd was delivered for pipeline export through Turkey;
- Revenues of USD 187 million in 2015, down 59 percent from 2014;
- Kurdistan revenues totaled USD 157 million, of which USD 92 million were from local sales of crude oil and refined products and USD 66 million from oil exports;
- Capital expenditures of USD 51 million, down from USD 297 million in 2014;
- Impairments of USD 93 million to adjust for significant decline in global oil prices and for operational results contributed to a full-year operating loss of USD 174 million, compared with an operating loss of USD 243 million in 2014;
- Year-end cash balance of USD 238 million, up from USD 114 million in 2014; and
- Company Working Interest (CWI) proven and probable (2P) reserves at year-end 2015 of 392 million barrels of oil equivalent (MMboe), with another 132 MMboe of CWI contingent (2C) resources.

### Our vision and strategic priorities

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

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

DNO continues to make good progress against each of these priorities and retains the flexibility to balance capital spending with cash flow.

### Production strength and capacity

DNO reported record levels of operated production in 2015, up 23 percent to 144,492 barrels of oil equivalent per day (boepd). DNO's CWI production increased 28 percent year-on-year to a record 88,411 boepd in 2015, up from 68,958 boepd in 2014. Production growth was driven primarily by output in Kurdistan,

which grew to 83,928 boepd on a CWI basis, while Oman and Yemen CWI production stood at 4,096 boepd and 387 boepd, respectively.

DNO achieved a major milestone in early 2015 by increasing wellhead, processing and pipeline capacity at the Tawke field to 200,000 bopd, doubling capacity in less than two years.

With CWI 2P reserves and 2C contingent resources totaling 523.1 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 drilling can be one of the most cost-efficient methods of delivering significant reserves growth and associated value creation. At DNO, we focus our efforts on areas where we have in-depth knowledge of the subsurface, playing to our technical and operational strengths as a fractured carbonate specialist within the MENA region. And we benchmark each prospect in the context of our wider portfolio so that capital deployed to exploration is only allocated to those opportunities that meet our technical, financial and strategic requirements. Looking ahead, we will continue to actively pursue opportunities in high potential basins across the MENA region, with a clear focus on transforming resources into reserves at a low unit cost.

### Operational control and financial flexibility

We operate nearly all of our oil and gas assets (15 of 16 licenses) 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 use available funding sources including internally generated funds and, when necessary, equity and debt issues - both of which were employed in 2015 in order to strengthen the company's balance sheet.

During 2015, the company achieved an average lifting cost of USD 2.7 per barrel of oil equivalent (boe), down from USD 4.8 per boe in 2014. On a three-year rolling average basis, our finding and development costs are USD 5.2 per boe, demonstrating the efficient deployment of DNO's capital and the ability to deliver growth at a low unit cost.

### Encouraging an entrepreneurial culture

DNO's growth and success revolve 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 responsibility and effective 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 2015 and Country-by-Country Report 2015 for more information on activities in the areas in which we operate. Both reports are available on our website ([www.dno.no](http://www.dno.no)).

## Operations review

### Annual statement of reserves

The company's annual statement of reserves (ASR) has been prepared in accordance with the Oslo Stock Exchange listing and disclosure requirements Circular No. 1/2013. International petroleum consultants DeGolyer and MacNaughton (D&M) have carried out the annual independent assessment of the Tawke field in Kurdistan. The company has internally assessed the remaining assets.

As of 31 December 2015, DNO's CWI 2P reserves and 2C contingent resources were estimated at 523.1 million barrels of oil equivalent (MMboe), down from 590.3 MMboe at year-end 2014. CWI 2P reserves were estimated at 391.5 MMboe, down from 483.6 MMboe at year-end 2014 after adjusting for CWI production of 32.3 MMboe during the year, a re-categorization of 53.9 MMboe from CWI 2P reserves to CWI 2C contingent resources and other technical revisions of 5.9 MMboe. CWI 2C contingent resources were estimated at 131.6 MMboe, up from 106.7 MMboe at year-end 2014.

DNO's year-end 2015 Reserve Life Index (R/P) stood at 12.2 years on a 2P reserves basis and 16.3 years on a 2P reserves and 2C contingent resources basis.

The ASR report for 2015 is available for download at the company's website.

### Kurdistan region of Iraq APPRAISAL AND FIELD DEVELOPMENT

#### Tawke license

In early 2015, DNO hit a key milestone of 200,000 bopd of wellhead, processing and pipeline capacity at the Tawke field. The company doubled capacity with 10 new horizontal wells; the installation of a 44-kilometer, 24-inch pipeline and the construction of two new early production facilities with combined capacity of 80,000 bopd, supplementing the existing central processing facility capacity of 120,000 bopd. Since inception, the Tawke field development program has included drilling 30 wells, installation of 200,000 bopd of processing capacity, construction of two pipelines with combined capacity in excess of 300,000 bopd, construction of a major export hub at Fish Khabur and

development of 125,000 bopd of road tanker loading capacity as an alternative to pipeline exports. Tawke-30, the last well in the expansion campaign, was completed in March 2015.

New investments are currently planned at Tawke to reverse production decline with new wells and water handling facilities. Tawke production is expected to climb from 120,000 bopd to 135,000 bopd by mid-year, with further increases to follow as additional investments are made. The company also plans to drill the Peshkabir-2 well to appraise the previous Jurassic discovery and explore the Cretaceous zone. If successful, the Peshkabir field can be quickly tied back to existing infrastructure at Fish Khabur only 10 kilometers away.

#### Erbil license

Testing has shown higher volumes of oil-in-place for the Benenan heavy oil field, currently estimated to hold more than two billion barrels. An appraisal of commercialization of the field is ongoing.

### PRODUCTION

Gross production from the Tawke field averaged 135,173 bopd in 2015 (83,806 bopd on a CWI basis), up 48 percent from 2014 output of 91,255 bopd. In 2015, an average of 114,078 bopd was delivered for pipeline export through Turkey, with an additional 16,735 bopd sold into the Kurdistan local market and the balance processed in the Tawke refinery.

### RESERVES

As of 31 December 2015, CWI 2P reserves and 2C contingent resources in the company's three Kurdistan licenses totaled 495.5 MMboe, down from 541.2 MMboe at year-end 2014.

At Tawke, gross 2P reserves and 2C contingent resources stood at 643.2 MMbbls (398.8 MMbbls on a CWI basis), down from 698.0 MMbbls at year-end 2014. Gross 2P reserves dropped to 543.0 MMbbls from 680.3 MMbbls at year-end 2014 after adjusting for a record 49.3 MMbbls produced during the year, a re-categorization of 82.5 MMbbls from 2P reserves to 2C contingent resources pending a review of enhanced oil recovery options at Tawke and a decision to commit funds towards a field-wide redevelopment program, and other technical revisions of 5.5 MMbbls. During 2015, investments at Tawke were significantly curtailed due to lower oil prices and irregular payments by the Kurdistan Regional Government (KRG) for exports. Notwithstanding, Tawke gross proven (1P) reserves increased to 387.0 MMbbls from 319.9 MMbbls at year-end 2014 with improved confidence about primary recovery rates at the field.

At Peshkabir, gross 2P reserves stood at 32.2 MMbbls (20.0 MMbbls on a CWI basis), with 2C contingent resources estimated at 63.0 MMboe, of which 60.2 MMbbls is oil and 2.8 MMboe is gas.

At the Erbil license, gross 2P reserves at the Benenan field stood at 57.8 MMbbls (26.9 MMbbls on a CWI basis). Gross 2P reserves at the Bastora field are estimated at 11.3 MMbbls (5.3 MMbbls on a CWI basis).

## Yemen

### EXPLORATION

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

### PRODUCTION

Production in Yemen, which averaged 883 bopd (387 bopd on a CWI basis), was suspended in early 2015 due to the country's deteriorating security conditions and remains under force majeure. Also in early 2015, DNO exited the non-operated Block 53 license.

### RESERVES

Due to current oil price levels and the difficulty in conducting operations in Yemen, all producing and non-producing assets are currently considered sub-commercial and as such hold no recognized reserves.

## Oman

### EXPLORATION

The company spudded the Hayah-1 exploration well at onshore Block 36 in February 2016. The Block 36 acreage is located in the prolific Rub al-Khali basin, in the southwestern part of Oman bordering Saudi Arabia and Yemen, covering a surface area of more than 18,000 square kilometers.

### PRODUCTION

At Block 8, DNO operates Oman's only producing offshore fields, Bukha and West Bukha, where gross production in 2015 totaled 8,193 boepd (4,096 boepd on a CWI basis), with output roughly split equally between oil and gas. An additional well remains under consideration to increase West Bukha oil and gas production.

### RESERVES

As of 31 December 2015, gross 2P reserves at Block 8 were estimated at 4.0 MMbbls of oil, condensate and other liquids and 8.4 Bcf of marketable gas (1.5 MMboe), of which 2.7 MMboe is net to DNO on a CWI basis.

## United Arab Emirates

### EXPLORATION

Reprocessing of existing seismic data and an associated basin study on the RAK Onshore license are ongoing.

### PRODUCTION

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

## Tunisia

### EXPLORATION

The company's exploration and appraisal program is proceeding in Tunisia, with 3D seismic activity planned at the Sfax Offshore Exploration Permit in preparation for drilling a well in 2017.

## Somaliland

### EXPLORATION

At Block SL 18 onshore Somaliland, a field geological survey and an environmental impact assessment have been conduct-

ed. A gravity-magnetic survey was successfully completed at the block in December 2015. The government is in the process of creating an oil security force to support seismic acquisitions.

## Business development

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

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

In 2015, DNO relinquished Block 30 and Block 31 in Oman as part of an ongoing consolidation and rationalization of the company's portfolio. Similarly, discussions are ongoing with the Ministry of Natural Resources in Kurdistan on the relinquishment of the Dohuk PSC. In Yemen, the company's positions are under review, as the force majeure conditions continue to prevent normal business operations.

## Financial performance in 2015

### Revenues, profits and cash flow

Revenues in 2015 stood at USD 187.4 million, down from USD 452.0 million in 2014.

Total Kurdistan revenue, including from local sales of crude oil and refined products, as well as export sales, stood at USD 157.4 million in 2015. Revenues from export sales in Kurdistan are not recognized as such until receipt of cash payments. Revenue from Oman amounted to USD 26.8 million, while revenue from Yemen totaled USD 3.2 million.

Impairment charges of USD 92.9 million contributed to an operating loss of USD 174.0 million for the year.

The company ended the year with USD 237.6 million in cash and an additional USD 13.5 million in marketable securities.

Operating cash flow for the year was USD -74.1 million, compared to USD 181.4 million in 2014. The difference between the loss from operations and operating cash flow is mainly due to impairment and depreciation charges.

## Cost of goods sold

In 2015, the total cost of goods sold was USD 197.0 million, compared with USD 316.5 million in 2014. The reduction was primarily due to lower lifting costs and depreciation in Oman and Yemen.

Lifting costs in 2015 totaled USD 86.3 million, compared with USD 117.9 million in 2014. Lifting costs for Kurdistan operations fell to USD 2.3 per barrel in 2015, compared with USD 3.1 per barrel in 2014. Lifting costs in Oman rose to USD 11.3 per barrel, compared with USD 5.5 per barrel in 2015, while lifting costs in Yemen fell to USD 26.1 per barrel, compared with USD 42.0 per barrel in 2014. Depreciation, depletion and amortization (DD&A) costs fell to USD 107.0 million in 2015 from USD 196.5 million a year earlier.

## Exploration costs expensed

Total expensed exploration costs for the full-year were USD 23.5 million, down from USD 50.6 million in 2014.

## Acquisition and development costs

Total capital investments fell to USD 50.7 million, down from USD 297.3 million in 2014. The majority of the investments were related to the company's capacity expansion and field development programs in Kurdistan.

## Impairment charges

The company's total impairment charges of USD 92.9 million in 2015 included USD 42.3 million in Oman, USD 29.3 million in Kurdistan, USD 13.2 million in Yemen, USD 6.0 in Tunisia and USD 2.1 million in the United Arab Emirates.

## Assets, liabilities and equity

At the end of 2015, total assets stood at USD 1.0 billion, down from USD 1.1 billion at the end of 2014. Included in current assets is a receivable of USD 118.9 million related to local sales from the Tawke field. Property, plant and equipment (PP&E) and intangible assets decreased to USD 396.6 million mainly due to impairment charges. The equity ratio was 43.3 percent, while the ratio between current assets and current liabilities was 376.5 percent. In 2015, DNO completed the placement of USD 400 million of new, five-year senior unsecured bonds and settled its call of all outstanding bonds.

## Going concern

DNO'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.

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## Corporate governance

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

The Articles of Association and the Norwegian Public Limited

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

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

## Equity and dividends

### SHAREHOLDERS' EQUITY

It is DNO's policy to maintain a strong credit profile and robust capital ratios. We therefore monitor capital on the basis of our equity ratio, with a policy that this ratio should be 30 percent or higher. As of 31 December 2015, this ratio was 43.3 percent. The Board of Directors considers this figure to be satisfactory given the company's business objectives, strategy and risk profile.

### DIVIDEND POLICY

The Board of Directors assesses on an annual basis whether dividend payments should be proposed for approval at the Annual General Meeting (AGM). Assessment is based on planned capital expenditure, cash flow projections and DNO's objective of maintaining a strong credit profile and robust capital ratios. There were no dividends proposed in 2015.

### AUTHORIZATIONS TO THE BOARD OF DIRECTORS

At the 2015 AGM, the Board of Directors was authorized 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 2016, but not beyond 30 June 2016. As of 31 December 2015, DNO held 4,000,000 treasury shares.

The Board of Directors was further authorized 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 2016, but not beyond 30 June 2016.

## Equal treatment of shareholders and transactions with close associates

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

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

For more information about related party transactions, please refer to Note 21 in the consolidated financial statements for 2015.

## Freely negotiable shares

DNO'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 the company, or a shareholder representing at least five percent of the share capital, may request an extraordinary general meeting to deal with specific matters. The Board of Directors must ensure that the meeting is held within one month after the request has been submitted.

## Board of Directors' composition and independence

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

As of 31 December 2015, the Board of Directors consisted of five members, all of whom have relevant and broad experience. Four board members are independent of the company's main shareholders. There are two women on the board. The majority of board members are independent of the company's executive management and material business contacts.

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

## The board's work

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

The Board of Directors is subject to a set of procedural rules 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 committees

### AUDIT COMMITTEE

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

### REMUNERATION COMMITTEE

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

### NOMINATION COMMITTEE

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

### 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 board members. Additional fees are applied on a uniform basis for each director's participation in the committees.

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

## Remuneration of executive management

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

The remuneration of executive management is presented in the notes to the consolidated financial statements for 2015, Note 5.

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

Reports on the company's risk exposure and reviews of its risk management are regularly undertaken and presented to the executive management and Board of Directors. The company has

an internal audit function that undertakes annual audits of the main business units.

### Information and communication

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

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

We also publish an annual financial calendar setting out key dates and events, such as quarterly presentations. The DNO investor relations' policy encourages open communication with capital markets and shareholders. In addition to scheduled quarterly 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 company's internal control and risk management systems. The auditor also participates in board meetings when considered appropriate.

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

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

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## Enterprise risk management

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

### Financial risk

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

### Entitlement risk

DNO has interests in three licenses in Kurdistan through Production Sharing Contracts (PSCs) and has based its entitlement calculations on the terms of these PSCs. Although DNO has good title to its oil and gas licenses, including the right to explore for and produce oil and gas from these licenses, the Federal Government of Iraq (FGI) has in the past challenged the validity of certain PSCs signed by the KRG.

As a result of continuing disagreements between the FGI and the KRG, economic conditions in the Kurdistan region of Iraq and limited available export channels, DNO faces constraints in fully monetizing its oil produced in Kurdistan. There is no guarantee that oil can be exported or delivered to the local market in sufficient quantities or at reasonable prices, or that DNO will promptly receive its full entitlement payments for the oil it delivers.

### Operational risk

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

Our ability to effectively manage and deliver value from our exploration, development and production activities is heavily 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 and our reputation.

### Security risk

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

## Compliance risk

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

## Political risk

Our portfolio is located in 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 2015. In Kurdistan, we continue to closely monitor security conditions although our operations to date have seen minimal impact from recent 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.

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## Organization and personnel

At the end of 2015, DNO had a workforce of 735 employees, of which 11 percent were women. Forty individuals were based at the company's headquarters in Oslo, Norway, while 695 were engaged in our international operations. Our workforce is characterized by strong cultural, religious and national diversity, with some 36 nationalities represented across the company.

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

Lost time incident frequency in 2015 was 0.28 compared to 0.64 in 2014 and total recordable incident frequency in 2015 was 1.12 compared to 2.23 in 2014. Sickness absence in 2015 was 1.30 percent compared with 2.28 percent in 2014.

### 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 2016

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

#### *Fixed remuneration*

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

#### *Variable remuneration*

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

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

#### *Share saving plan*

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

#### *Pensions*

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

#### *Share-based incentive scheme*

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

#### *Severance agreements*

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

## Binding sections

Remuneration as it relates to the employee share saving plan or the share-based incentive scheme 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.

## Management remuneration for 2015

Executive management remuneration for 2015 was awarded in accordance with the guidelines approved by the AGM in 2015.

## Executive management



**BJØRN DALE**  
*Managing Director*

Mr. Dale joined DNO in 2011. He has extensive experience in managing corporate development projects, including cross-border transactions and corporate restructuring. Mr. Dale holds a Master of Law degree from the University of Oslo and an Executive MBA from the Stockholm School of Economics.



**JEROEN REGTIEN**  
*Chief Operating Officer*

Mr. Regtien joined DNO in January 2015 following a 30-year career with Royal Dutch Shell plc where he most recently served as Country Chairman and Managing Director for Shell Egypt. Earlier, he was Vice President for Hydrocarbon Recovery Technologies, Innovation Research and Development, based in the Netherlands. Mr. Regtien holds a degree in experimental physics from the Groningen State University.



**HAAKON SANDBORG**  
*Chief Financial Officer*

Mr. Sandborg joined DNO in 2001. In addition to his oil and gas experience, 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.



**CLAES ÅBYHOLM**  
*General Counsel*

Mr. Åbyholm joined DNO in 2014. He has extensive oil and gas and other legal experience from positions held in Statoil ASA, Norsk Hydro ASA, Wiersholm and Kværner ASA. Mr. Åbyholm holds a Master of Law degree from the University of Oslo.



**JAMES EDENS**  
*Commercial Director*

Mr. Edens joined DNO in 2015. Mr. Edens has over 25 years of business development and commercial management experience, including leading major developments and asset acquisitions. He previously served as CNR International's Managing Director, a North Sea and offshore Africa focused upstream division of Canadian Natural Resources. Mr. Edens holds a Bachelor of Engineering in Engineering Physics from Dalhousie University.



**NICHOLAS WHITELEY**  
*Exploration Director*

Dr. Whiteley joined DNO in 2015 from Cairn India, where he served as General Manager of Exploration. He has a strong focus on exploration, appraisal and new ventures, leading exploration campaigns across Europe, Russia, the Middle East, the Far East, Africa and South America. He holds a Master of Science degree in Earth Sciences from the University of Cambridge and a PhD from the University of Oxford.

## Parent Company

The parent company reported a net profit in 2015 of USD 53.5 million compared with a net loss of USD 154.6 million for 2014. Total assets as of 31 December 2015 were USD 693.2 million, down from USD 709.2 million at end-2014. The long-term intercompany receivables were zero as of 31 December 2015, compared to USD 116.3 million at year-end 2014. The company's cash balance at year-end 2015 was USD 233.2 million compared with USD 108.5 million for 2014. Total shareholder equity at year-end 2015 was USD 253.8 million compared with USD 84.9 million in 2014.

The equity ratio increased to 37 percent from 12 percent in 2014. No ordinary dividend was proposed for 2015 and the Board of Directors proposes that the annual profit of USD 53.5 million is transferred to other equity.

## Main events since year-end

On 6 January 2016, DNO confirmed receipt of USD 30 million as partial payment towards oil exported from the Tawke field by the KRG. The payment was shared pro-rata with the Tawke license partner. On 8 February 2016, another payment of USD 21.45 million was received from the KRG for exports from the Tawke field under a new payment arrangement announced on 1 February 2016. The payment, also shared pro-rata by DNO and its partner, includes USD 17.99 million toward the monthly entitlement for January exports and USD 3.46 million toward the recovery of outstanding entitlements for past deliveries.

## Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for the period 1 January to 31 December 2015 have been prepared in accordance with IFRS and give a fair view of DNO ASA and the group's assets, liabilities, financial position and results for the period viewed in their entirety, and that the Board of Directors' report includes a fair review of any significant events that arose during the period and their effect on the financial report, any significant related parties' transactions and a description of the significant risks and uncertainties for the group.

Oslo, 17 March 2016



Bijan Mossavar-Rahmani  
Executive Chairman



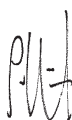
Lars Arne Takla  
Deputy Chairman



Shelley Watson  
Director



Elin Karfjell  
Director



Gunnar Hirsti  
Director



Bjørn Dale  
Managing Director



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## Consolidated statements of comprehensive income

1 January–31 December

USD million	Note	2015	2014
Revenues	2.3	187.4	452.0
Cost of goods sold	4	-197.0	-316.5
<b>Gross profit</b>		<b>-9.5</b>	<b>135.5</b>
Other operating income		2.0	2.6
Tariffs and transportation		-1.8	-4.2
Administrative expenses	5	-19.0	-22.4
Other operating expenses	5	-29.3	-7.8
Impairment oil and gas assets	10	-92.9	-296.7
Exploration costs expensed	6	-23.5	-50.6
Net gain/-loss from sale of PP&E	10	-	0.4
<b>Profit/-loss from operating activities</b>		<b>-174.0</b>	<b>-243.2</b>
Financial income	7	15.8	21.5
Financial expenses	7	-78.3	-30.1
<b>Profit/-loss before income tax</b>		<b>-236.5</b>	<b>-251.8</b>
Income tax expenses	8	24.1	25.8
<b>Net profit/-loss</b>		<b>-212.3</b>	<b>-226.1</b>
<b>Other comprehensive income</b>			
Currency translation differences		0.3	0.4
Fair value changes available-for-sale financial assets	11	-	-
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>	8	<b>0.3</b>	<b>0.4</b>
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income, net of tax</b>		<b>-212.0</b>	<b>-225.7</b>
Net profit/-loss attributable to:			
Equity holders of the parent		-212.3	-226.1
Total comprehensive income attributable to:			
Equity holders of the parent		-212.0	-225.7
Earnings per share, basic	19	-0.20	-0.23
Earnings per share, diluted	19	-0.20	-0.23

# Consolidated statements of financial position


Years ended 31 December

USD million	Note	2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deferred income tax assets	8	-	3.3
Other intangible assets	10	133.2	150.5
Property, plant and equipment	10	396.6	528.9
Available-for-sale investments	11	10.8	35.0
Other non-current assets	12	12.5	4.8
<b>Total non-current assets</b>		<b>553.1</b>	<b>722.5</b>
<b>Current assets</b>			
Inventories	4	62.0	77.7
Trade and other receivables	12	155.5	187.3
Cash and cash equivalents	13	237.6	113.8
<b>Total current assets</b>		<b>455.1</b>	<b>378.8</b>
<b>TOTAL ASSETS</b>		<b>1,008.2</b>	<b>1,101.3</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	35.9	33.6
Other reserves	14	288.4	175.1
Retained earnings	-	111.8	324.1
<b>Total equity</b>		<b>436.2</b>	<b>532.8</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	15	350.7	214.7
Deferred income tax liabilities	8	-	34.4
Provisions for other liabilities and charges	16	97.1	100.1
<b>Total non-current liabilities</b>		<b>447.8</b>	<b>349.2</b>
<b>Current liabilities</b>			
Trade and other payables	18	52.5	139.7
Income taxes payable	8	1.7	1.9
Provisions for other liabilities and charges	16	70.0	77.6
<b>Total current liabilities</b>		<b>124.2</b>	<b>219.2</b>
<b>Total liabilities</b>		<b>572.0</b>	<b>568.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,008.2</b>	<b>1,101.3</b>

Oslo, 17 March 2016



Bijan Mossavar-Rahmani  
Executive Chairman



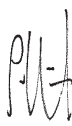
Lars Arne Takla  
Deputy Chairman



Shelley Watson  
Director



Elin Karfjell  
Director



Gunnar Hirsti  
Director



Bjørn Dale  
Managing Director

# Consolidated cash flow statements

1 January–31 December

USD million	Note	2015	2014
<b>OPERATING ACTIVITIES</b>			
Profit/-loss from operating activities before income tax		-236.5	-251.8
<b>Adjustments to add (deduct) non-cash items:</b>			
+/- Net interest expenses (-income)		28.4	12.6
Previously capitalized exploration and evaluation expenses	6	5.1	5.9
Depreciation of PP&E	4	110.5	198.5
Impairment loss on oil and gas assets	10	92.9	296.7
Loss/-gain on PP&E	10	0.2	-0.4
Impairment of financial assets	11, 12	34.1	14.8
Other *		-18.0	-4.2
<b>Changes in working capital and provisions:</b>			
- Inventories	4	13.8	-26.9
- Trade and other receivables	12	14.3	-75.7
- Trade and other payables	18	-87.2	83.1
- Provisions for other liabilities and charges		7.1	-2.0
Cash generated from operations		-35.4	250.5
Income taxes paid		-7.2	-50.5
Interest paid	7	-31.6	-18.6
<b>Net cash from/-used in operating activities</b>		<b>-74.1</b>	<b>181.4</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of intangible assets	10	-0.1	-6.6
Proceeds from sale of intangible assets	9	-	0.3
Purchases of tangible assets	10	-50.6	-290.7
Proceeds from sale of tangible assets	9	-	0.9
Purchases of available-for-sale financial assets	11	-	-38.9
Interest received		1.1	0.4
<b>Net cash from/-used in investing activities</b>		<b>-49.5</b>	<b>-334.5</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings	15	344.8	-
Repayment of borrowings	15	-211.4	-
Purchase of treasury shares, including options	14	-3.0	-
Proceeds from sale of treasury shares	14	21.4	-
Proceeds from issuance of shares, net	14	96.9	-
<b>Net cash from/-used in financing activities</b>		<b>248.8</b>	<b>-</b>
<b>Net increase/-decrease in cash and cash equivalents</b>		<b>124.9</b>	<b>-153.1</b>
Cash and cash equivalents at beginning of the period		113.8	265.9
Exchange gain/-losses on cash and cash equivalents		-1.1	1.0
<b>Cash and cash equivalents at end of the period</b>	13	<b>237.6</b>	<b>113.8</b>
Of which restricted cash	13	3.1	3.5

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

## Consolidated statements of changes in equity

USD million	Note	Share capital	Other reserves	Retained earnings	Total equity
<b>Balance at 1 January 2014</b>		<b>33.6</b>	<b>174.7</b>	<b>550.2</b>	<b>758.5</b>
Fair value gains, net of tax:					
- available-for-sale financial assets		-	6.6	-	6.6
Reclassification of available-for-sale fair value change		-	-6.6	-	-6.6
Currency translation differences		-	0.4	-	0.4
Other comprehensive income/-loss		-	0.4	-	0.4
Loss for the period		-	-	-226.1	-226.1
<b>Total comprehensive income</b>		<b>-</b>	<b>0.4</b>	<b>-226.1</b>	<b>-225.7</b>
Issue of share capital, net of transaction costs		-	-	-	-
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		-	-	-	-
		<b>-</b>	<b>0.4</b>	<b>-226.1</b>	<b>-225.7</b>
<b>Balance at 31 December 2014</b>	14	<b>33.6</b>	<b>175.1</b>	<b>324.1</b>	<b>532.8</b>

USD million	Note	Share capital	Other reserves	Retained earnings	Total equity
<b>Balance at 1 January 2015</b>		<b>33.6</b>	<b>175.1</b>	<b>324.1</b>	<b>532.8</b>
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-	-	-
Reclassification of available-for-sale fair value change		-	-	-	-
Currency translation differences		-	0.3	-	0.3
Other comprehensive income/-loss		-	0.3	-	0.3
Loss for the period		-	-	-212.3	-212.3
<b>Total comprehensive income</b>		<b>-</b>	<b>0.3</b>	<b>-212.3</b>	<b>-212.0</b>
Issue of share capital, net of transaction costs		1.9	95.0	-	96.9
Purchase of treasury shares		-0.1	-2.7	-	-2.8
Sale of treasury shares		0.6	20.8	-	21.4
		<b>2.3</b>	<b>113.1</b>	<b>-</b>	<b>115.4</b>
<b>Balance at 31 December 2015</b>	14	<b>35.9</b>	<b>288.4</b>	<b>111.8</b>	<b>436.2</b>

**Note 01****Summary of IFRS accounting principles applicable for 2015****■ Principal activities and corporate information**

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

DNO is a public limited company incorporated, registered and located in Norway at Dokkveien 1, Aker Brygge, 0250 Oslo. DNO is the ultimate parent of the DNO group (DNO and its subsidiaries) and the company's shares are listed on the Oslo Stock Exchange. The group's operating activities are mainly undertaken in the Middle East and North Africa.

**■ Statement of compliance**

The consolidated financial statements of the DNO group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements were approved by the Board of Directors on 17 March 2016.

**■ 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, financial assets classified as available-for-sale and inventories resulting from the net entitlement method are recognized at fair value. As permitted by International Accounting Standard (IAS) 1, the statement of comprehensive income is presented on a mixed basis as a blend of expenses by nature and function as this gives the most relevant and reliable presentation for the group. The consolidated financial statements have been prepared based on a going concern assumption.

**■ Changes in accounting policies and disclosures**

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

**■ 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 DNO group are:

- Estimates of proven and probable reserves;
- Timing of export payments for ongoing and historical production from the Tawke field and any payments related to the Water Purification Project (WPP);
- Receivable related to local sales in Kurdistan;
- Operating costs, including asset retirement obligations and other expenses; and
- Impairment assumptions for intangible assets and property, plant and equipment (PP&E) such as future oil prices, Weighted Average Cost of Capital (WACC), timing of cash flows and future investments.

**Risks associated with operating in the Kurdistan region of Iraq**

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

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

Since the commencement of local sales from the Tawke field in 2007, followed by intermittent exports commencing in 2009, DNO has received a total of USD 1.35 billion in net payments in Kurdistan through the end of 2015, of which USD 1.04 billion was for local sales, including refined product sales, and USD 301 million for export sales. DNO received export payments totaling USD 98 million in 2011, USD 117 million in 2012, USD 21 million in 2014 and USD 66 million in 2015.

There remains substantial uncertainty related to the receipt of proceeds from oil exported from Kurdistan and there can be no assurance that payments made to DNO will correspond to the revenue to which the company is entitled under its PSCs or that the company will be able to export and/or be paid its entire entitlement for exports from the Tawke field or any other future producing fields. Any of these risks could result in a loss of revenue to the DNO group and adversely affect the group's business, results of operations, recoverability of capitalized intangible assets and PP&E, financial condition and prospects.

**Note 01****Summary of IFRS accounting principles applicable for 2015 continued****Reserves and resources estimates**

Oil and gas producing assets are depreciated on a unit of production basis at a rate calculated by reference to total proven and probable developed reserves plus proven and probable undeveloped reserves determined in accordance with the rules and guidelines of the Society of Petroleum Engineers (SPE), incorporating the estimated future cost of developing those reserves.

All estimates of oil and gas reserves and resources involve uncertainty. In its estimates, the DNO 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 available at the end of the year (see Note 23), calculated as the DNO 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 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 is 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 contractors' entitlement to annual production is determined based on the PSCs and is subject to audit and confirmation by the relevant government authority in each country of operation.

The estimates for reserves and resources are made in accordance with the rules and guidelines of the SPE and are in conformity with requirements from the Oslo Stock Exchange for the reporting of reserves. International petroleum consultants DeGolyer and MacNaughton (D&M) have carried out an independent assessment of the Tawke field. The company 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.

**Receivable from local sales in Kurdistan**

At the Tawke field in Kurdistan, a temporary arrangement was put into place in 2014 related to local sales under which the PSC terms for contractor entitlement were not followed. The imbalance is recorded as a receivable in the financial statements until the imbalance is settled. In 2015, the temporary arrangement was revised to more closely align with the PSC terms.

**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 evaluation of future asset retirement obligations, any provisions or contingent payments, payments under the WPP and the timing of export payments in Kurdistan.

**Impairment of oil and gas assets**

DNO has significant investments in 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 DNO group's oil and gas assets. The estimation of the recoverable amount for the oil and gas assets includes evaluations of expected future cash flows and future market conditions, including entitlement production and future oil prices and risk factors (discount rate). Several DNO licenses expire in the near future, which could affect impairment calculations. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgment, including about oil prices.

**Deferred tax liability in Kurdistan**

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

**Revenue recognition**

The payment mechanism for oil export sales in Kurdistan was still under development in 2015 and did not follow the PSC terms. Considering the uncertainties related to the timing of payments, the recognition of export revenues is therefore done upon receipt of payment until a permanent payment mechanism is well established.

**■ Group accounting and consolidation principles****Basis for consolidation**

The consolidated financial statements comprise those of the DNO group. Control is achieved when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. DNO ASA currently holds a 100 percent interest in all of its subsidiaries.

**Note 01****Summary of IFRS accounting principles applicable for 2015 continued**

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

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)**

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

The group's activities in exploration and production are conducted through joint operations, wherein parties have rights to the assets and also obligations for the liabilities.

The group accounts for joint operations by recording its share of the joint venture's assets, liabilities and cash flows. The group combines its share of the income and expenses, assets and liabilities and cash flows of any joint venture in which it participates.

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

**■ Foreign currency translation and transactions****Functional currency**

The consolidated financial statements are presented in US Dollars (USD), DNO's functional currency from 1 January 2014.

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. Receivables and liabilities in foreign currencies are translated into functional currency at the balance sheet date exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in profit or loss. Those arising in respect of financial assets and liabilities are recorded net as a financial item.

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

**Subsidiaries**

Income statements and 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. Balance sheet items are translated using the exchange rate at year-end, 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 statement of financial position**

Current assets and short-term liabilities include items due less than a year from the balance sheet 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.

**■ 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 value of the PP&E in the statement of financial position represents the cost less accumulated DD&A and any impairment charges. Other fixed assets in use (excluding oil and gas properties) are generally depreciated on a straight-line basis at rates varying from three to seven years. Expected useful lives are reviewed at each balance sheet date and, where there are changes in estimates, depreciation periods are changed accordingly. Any change is accounted for prospectively. For oil and gas licenses, expected useful life is the period of estimated production.

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to profit or loss during the financial period in which they are incurred. The cost of 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 operating profit. Assets to be disposed of are reported at the lower of the carrying amount and the fair value, less selling costs.

**Borrowing costs**

Interest costs directly attributable to 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

**Note 01****Summary of IFRS accounting principles applicable for 2015 continued**

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

**Exploration and development costs for oil and gas licenses**

The DNO 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 drilling 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 unit-of-production method. An assessment for impairment is made at each reporting date. This assessment involves confirming that exploration drilling is still under way or firmly planned or, 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 value 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 oil and gas licenses.

3D seismic acquisition over a discovery area is capitalized if it relates to drilling a well and the objective is to learn more about the reservoir and to support the determination of new well locations within the discovery area.

For accounting purposes, the field enters into the development phase when 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 direct costs. Pre-operating costs are expensed in the period in which they are incurred. Capitalized development costs are classified as tangible assets.

**Oil and gas licenses**

Capitalized costs for oil and gas licenses are depreciated using the unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proven and probable reserves (expected to be recovered during the concession or contract period) at the beginning of the period. The reserves are calculated as the DNO group's entitlement to reserves under the contracts. The future development

expenditures necessary to bring those reserves into production are included in the basis for depreciation and are estimated by the management based on current period-end unescalated price levels. Any changes in the reserves and cost estimates that affect unit-of-production rates are dealt with prospectively.

**Component cost accounting/decomposition**

The group allocates the amount initially recognized in respect of an item of PP&E to its significant parts and depreciates separately each such part over its useful life. DNO has defined the field level as the lowest level at which separate cash flows can be identified. This means that there is no decomposition beyond the field level. A plan for development is usually defined for each field taking into consideration exploration wells, production wells and infill wells. The field reserves are evaluated according to the chosen production plan.

**Intangible assets**

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

**Exploration and evaluation assets**

IFRS 6 Exploration for and Evaluation of Mineral Resources requires exploration and evaluation assets to be classified as tangible or intangible according to the nature of the assets. Some exploration and evaluation assets should be classified as intangible, for example license acquisition costs and capitalized exploration assets. When technical feasibility and commercial viability of the assets are decided upon, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets classified as intangible are assessed for impairment before reclassification. No amortization is charged during the exploration and evaluation phase.

**Other intangible assets**

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

**Impairment of non-current assets**

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. An oil and gas field is considered one cash generating unit. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The

**Note 01****Summary of IFRS accounting principles applicable for 2015 continued**

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 cash generating unit.

A previously recognized impairment loss is reversed through profit or loss only if there has been a change in the estimates used to determine the recoverable amount. It is not reversed to an amount that would be higher than if no impairment loss had been recognized. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**■ Farm-in and farm-out**

A farm-in 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. The farmee does not record any receivable nor any of its costs assigned to the acquisition of the license interest. The farmee will thereby have capitalized wells and equipment costs but no capitalized property acquisition costs. The farmor does not record any well and equipment costs. There are no accruals for future commitments in farm-in/ farm-out agreements in the exploration and evaluation phase and no profit or loss is recognized by the farmor. In the development or production phase a farm-in/ farm-out agreement will be treated as a transaction recorded at fair value as represented by the costs carried by the farmee. Any gain or loss arising on the farm-in/farm-out is recognized in the statement of comprehensive income.

**■ License swaps/asset swaps**

If a transaction of one or more items of PP&E are exchanged for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, such transactions should be measured at fair value unless they lack commercial substance. The cost of the acquired asset is measured at the fair value of the asset given up unless the fair value of the asset received is more clearly evident. License swaps are measured at fair value at the time of the transaction, with recognition of gain or loss.

**■ Financial instruments**

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

**Investments and other financial assets**

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

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

Investments classified as loans and receivables are measured at amortized cost using the effective interest rate method. This classification is used for non-derivative assets with fixed or determinable payments not quoted in an active market. Gains and losses are recognized when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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

**Impairment of financial assets**

The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets needs to be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial

**Note 01****Summary of IFRS accounting principles applicable for 2015** continued

recognition of the asset and if this event has an impact on the estimated future cash flows from the asset that can be reliably estimated.

If there is objective evidence of an impairment of financial assets carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying value and the present value of future cash flows. The present value of the future cash flows are discounted using the asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

**Derecognition of financial assets and liabilities**

A financial asset is derecognized when:

- The group no longer has the right to receive cash flows from 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.

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

**Other long-term receivables**

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

**Trade receivables**

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

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

**Cash and cash equivalents**

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

**Share capital***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.

*Financial income and expenses*

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets 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 borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets measured at fair value through profit or loss, impairment losses recognized on financial assets and losses on financial assets recognized in profit or loss.

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

**■ Inventories**

Inventories, other than inventories of oil, are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. 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.

**■ Interest-bearing liabilities**

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Any difference between proceeds (net of trans-

**Note 01****Summary of IFRS accounting principles applicable for 2015 continued**

action costs) and the redemption value is recognized in profit or loss over the period of the interest-bearing liabilities. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains or losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

**■ Revenue recognition**

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

*Kurdistan local sales*

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

*Kurdistan export sales*

For export sales, title is considered to have passed on delivery of oil to the export pipeline at Fish Khabur. Without a permanent payment mechanism in place for export sales through the end of 2015, revenue cannot be reliably measured at the delivery point and revenue is therefore recognized at the point of cash receipt.

Overlift and underlift using the entitlement method are valued at their net realizable value on the balance sheet date. Overlift and underlift are calculated as the difference between the group's share of production and its actual sales and are classified as other current liabilities/assets. Under the sales method, overlift and underlift are recorded to cost.

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

**■ Production Sharing Contracts (PSCs)**

A PSC is an agreement between a contractor and a host government, whereby the contractor bears all risk 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 group's share of costs and share of profit oil represents the contractor's entitlement under a PSC. The sum of royalties and the government's share of profit oil, including that of a governmentally controlled enterprise, represents the government take under a PSC.

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

**■ Income taxes**

Tax expenses consist of taxes payable and changes in deferred tax. Taxes payable are calculated based on taxable profits at the current tax rate. 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 not reverse in the foreseeable future.

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

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

**■ Employee benefits****Pensions**

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

**Share saving plan**

An employee share saving plan was introduced in 2013 through which employees can save a portion of their salary by purchasing synthetic shares at a discount to the company's share price. The

**Note 01****Summary of IFRS accounting principles applicable for 2015 continued**

purchase is matched by DNO if these shares are kept for a period of two years and the employee is still employed by the company. The arrangement is considered a cash-settled, share-based payment since the settlement is made in cash. DNO records a liability related to the matching of the synthetic shares and an accompanying cost element.

**■ Provisions and contingent liabilities**

A provision is recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is 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 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 interest expenses. Contingent liabilities are not recognized but are disclosed unless the possibility of an outflow of resources is remote.

**Asset retirement obligations (decommissioning)**

Provisions for decommissioning liabilities for oil and gas production facilities are recognized in full. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

A corresponding tangible fixed asset of an amount equivalent to the provision is also recognized. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. The decommissioning provision is accreted to the discounted liability, with the accretion of the discount classified as an interest expense.

The provision and the discount rate are reviewed at each balance sheet date. According to IFRIC 1.5, changes in the measurement of the decommissioning liability 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 both the cost of the asset and profit or loss in the period in which the estimate is revised.

**■ 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 the DNO group, the operating segments equal the reportable segments. The reportable segments provide products or services within a particular economic environment that is subject to risks and returns different from those of components operating in other economic environments. The group has identified its reportable segments based on the nature of the risk and return within its business and by the geographical location of the group's assets and operations. Transfer prices between the segments and companies are set using the arm's length principle in a manner similar to transactions with third parties.

**■ Earnings per share**

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

**■ Related parties**

Parties are related if one party has the ability 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 and IFRIC interpretations not yet effective**

The standards and interpretations issued but not yet effective up to the date of issuance are listed below. The group intends to adopt these standards when they become effective.

- IFRS 15 Revenues from contracts with customers:  
IFRS 15 was issued in May 2014 and the objective of the standard is to establish the principles to which an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard introduces a new five-step model that will apply to revenue arising from contracts with customers. Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards, though earlier application is permitted. The group has assessed the impact of the IFRS 15 and no significant changes in revenue recognition exists. The group plans to adopt the standard on the required effective date.

**Note 01**

**Summary of IFRS accounting principles applicable for 2015** continued

• IFRS 9 Financial Instruments:

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018, though early adoption is permitted. The group evaluated the requirements of IFRS 9 and has determined that there is no significant impact on the financial statements. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the group's financial assets but will not have an impact on classification and measurement of financial liabilities. The group will quantify the effect in conjunction with the other phases when the final standard including all phases is issued.

**Note 02****Segment information**

The DNO group identifies and reports its segments based on information provided to the management and Board of Directors. Resources are allocated and decisions are made based on this information. The group has identified its reportable segments based on the nature of the risks and returns within its business and by the location of the group's assets and operations. The DNO group primarily produces and sells crude oil and natural gas. Inter-segment sales are based on the "arm's length" principle and are eliminated on consolidation. Segment profit does include profit from inter-segment sales.

The DNO group reports five operating segments: Kurdistan (KUR), Oman (OMAN), Yemen (YEM), Ras Al Khaimah (UAE) and Tunisia (TUN). The operating segments equal the reportable segments. During 2015, oil production from Kurdistan was sold locally to several customers as well as delivered for export by the KRG by pipeline through Turkey. In Oman, gas and LPG are sold to one customer, with the oil sold to multiple buyers through a bidding process. The sale of oil constitutes around 95 percent of the company's revenues in Oman, with the remaining five percent coming from the sale of gas and LPG.

From 1 January 2014, new rules for country-by-country reporting by companies in the extractive industries were introduced by the Norwegian government. DNO's report is available on the company's website.

**USD million**

Twelve months ended 31 December 2015	Note	KUR	OMAN	YEM	UAE	TUN	Total reported segments	Un- allocated	Eliminated	GROUP
<b>INCOME STATEMENT INFORMATION</b>										
External sales	3	157.4	26.8	3.2	-	-	187.4	-	-	187.4
Inter-segment sales		-	-	-	-	-	-	-	-	-
Cost of goods sold	4	-163.2	-27.6	-2.9	-0.3	-0.2	-194.1	-	-2.8	-197.0
<b>Gross profit</b>		<b>-5.7</b>	<b>-0.8</b>	<b>0.3</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-6.7</b>	-	<b>-2.8</b>	<b>-9.5</b>
Other operating income		0.8	1.2	-	-	-	2.0	-	-	2.0
Tariffs and transportation		-0.5	-	-1.3	-	-	-1.8	-	-	-1.8
Administrative expenses	5	1.0	0.4	0.5	0.2	0.3	2.4	-21.4	-	-19.0
Other operating expenses	5	-7.0	1.7	-22.4	0.5	-	-29.4	-	0.1	-29.3
Impairment of oil and gas assets		-29.3	-42.3	-13.2	-2.1	-6.0	-92.9	-	-	-92.9
Exploration costs expensed	6	-	-5.9	-5.4	-1.0	-10.7	-23.0	-0.5	-	-23.5
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	-	-	-
<b>Segment operating result</b>		<b>-40.7</b>	<b>-47.5</b>	<b>-41.4</b>	<b>-3.2</b>	<b>-16.6</b>	<b>-149.3</b>	<b>-0.5</b>	<b>-24.2</b>	<b>-174.0</b>
Net finance costs (incl. interests)		1.9	-1.3	-0.5	-0.1	-10.2	-10.2	-52.3	-	-62.5
Gain/-loss on sale of shares		-	-	-	-	-	-	-	-	-
Income tax expenses		-	25.3	-1.2	-	-	24.1	-	-	24.1
<b>Net profit/-loss</b>										<b>-212.3</b>
<b>BALANCE SHEET INFORMATION</b>										
Capital expenditures this period		46.5	0.4	0.5	-	0.1	47.5	0.2	3.0	50.7
Property, plant and equipment		385.5	0.2	-	-	0.8	386.5	-	10.1	396.6
Inventories		51.6	4.8	-	2.0	3.6	62.0	-	-	62.0
Other assets		257.2	100.5	1.9	96.5	62.0	518.1	1.0	30.5	549.5
<b>Total segment assets</b>		<b>694.3</b>	<b>105.5</b>	<b>1.9</b>	<b>98.5</b>	<b>66.4</b>	<b>966.6</b>	<b>1.0</b>	<b>40.6</b>	<b>1,008.2</b>
Unallocated corporate assets										-
<b>Consolidated total assets</b>										<b>1,008.2</b>
<b>Total segment liabilities</b>		<b>194.0</b>	<b>16.8</b>	<b>46.7</b>	<b>98.4</b>	<b>4.3</b>	<b>360.3</b>	<b>0.3</b>	<b>-140.9</b>	<b>219.6</b>
Unallocated corporate liabilities								352.4		352.4
<b>Consolidated total liabilities</b>										<b>572.0</b>
<b>OTHER SEGMENT INFORMATION</b>										
Sale of petroleum products		157.4	26.8	3.2	-	-	187.4	-	-	187.4
Lifting costs		-69.5	-13.9	-2.6	-0.3	-	-86.3	-	-	-86.3
Lifting costs (USD/bbl)		-3.2	-11.3	-26.1	-	-	-2.7	-	-	-2.7
Amortization and depreciation		-93.2	-13.5	-0.3	-	-	-107.0	-	-	-107.0
Netback, including asset sale proceeds *		82.4	2.1	-28.7	-1.1	-10.4	44.2	-0.5	-21.5	22.2

## Note 02

## Segment information continued

## USD million

Twelve months ended  
31 December 2014

	Note	KUR	OMAN	YEM	UAE	TUN	Total reported segments	Un-allocated	Eliminated	GROUP
<b>INCOME STATEMENT INFORMATION</b>										
External sales	3	306.6	87.2	58.2	-	-	452.0	-	-	452.0
Inter-segment sales		2.7	8.1	1.2	0.4	0.4	12.8	0.4	-13.1	-
Cost of goods sold	4	-179.6	-81.6	-53.9	-0.2	-0.1	-315.4	-0.1	-1.1	-316.5
<b>Gross profit</b>		<b>129.7</b>	<b>13.6</b>	<b>5.5</b>	<b>0.2</b>	<b>0.3</b>	<b>149.4</b>	<b>0.3</b>	<b>-14.2</b>	<b>135.5</b>
Other operating income		0.2	-	-	2.3	-	2.5	-	0.1	2.6
Tariffs and transportation		-0.3	-	-3.9	-	-	-4.2	-	-	-4.2
Administrative expenses	5	-0.3	-9.2	-0.1	-0.9	-	-10.5	1.7	-13.7	-22.4
Other operating expenses	5	-2.5	-	-2.3	-0.4	-	-5.2	-2.6	-0.1	-7.8
Impairment of oil and gas assets		-140.0	-55.1	-57.0	-44.5	-	-296.7	-	-	-296.7
Exploration costs expensed	6	-0.2	-14.6	-6.4	-0.7	-28.0	-50.0	-1.2	0.6	-50.6
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	0.4	-	0.4
<b>Segment operating result</b>		<b>-13.4</b>	<b>-65.3</b>	<b>-64.2</b>	<b>-43.9</b>	<b>-27.7</b>	<b>-214.7</b>	<b>-1.4</b>	<b>-27.2</b>	<b>-243.2</b>
Net finance costs (incl. interests)		-3.1	-1.1	-2.9	-0.2	-0.6	-7.8	-0.8	-	-8.6
Gain/-loss on sale of shares		-	-	-	-	-	-	-	-	-
Income tax expenses		-	27.6	-1.8	-	-	25.8	-	-	25.8
<b>Net profit/-loss</b>										<b>-226.1</b>
<b>BALANCE SHEET INFORMATION</b>										
Capital expenditures		253.4	18.6	7.8	-0.3	7.0	286.5	0.2	9.5	296.1
Property, plant and equipment		454.1	53.1	10.6	-	0.9	518.8	0.1	10.1	528.9
Inventories		60.6	8.9	1.3	3.3	3.6	77.7	-	-	77.7
Other assets		262.9	114.8	24.1	0.4	78.0	480.1	1.0	13.5	494.7
<b>Total segment assets</b>		<b>777.5</b>	<b>176.8</b>	<b>36.0</b>	<b>3.7</b>	<b>82.5</b>	<b>1,076.6</b>	<b>1.1</b>	<b>23.6</b>	<b>1,101.3</b>
Unallocated corporate assets										-
<b>Consolidated total assets</b>										<b>1,101.3</b>
<b>Total segment liabilities</b>		<b>246.2</b>	<b>54.1</b>	<b>41.7</b>	<b>111.2</b>	<b>79.5</b>	<b>532.7</b>	<b>-37.6</b>	<b>-141.3</b>	<b>353.7</b>
Unallocated corporate liabilities								251.0		251.0
<b>Consolidated total liabilities</b>										<b>568.4</b>
<b>OTHER SEGMENT INFORMATION</b>										
Sale of petroleum products		309.3	95.3	59.4	0.4	0.4	464.8	0.4	-13.1	452.0
Lifting costs		-66.5	-14.2	-37.2	-	-	-117.9	-	-	-117.9
Lifting costs (USD/bbl)		-3.1	-5.5	-42.0	-	-	-4.8	-	-	-4.8
Amortization and depreciation		-112.7	-67.3	-16.6	-	-0.1	-196.5	-0.9	-1.1	-198.5
Netback, including asset sale proceeds *		239.8	8.1	2.8	1.3	-27.6	224.4	-1.7	-19.1	203.6

\* Netback is defined as EBITDA adjusted for taxes paid

**Note 03****Revenues**

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

USD million	Years ended 31 December	
	2015	2014
Sale of petroleum products	187.4	452.0
<b>Total revenues</b>	<b>187.4</b>	<b>452.0</b>

There was a combination of export and local sales from the Tawke field in Kurdistan in 2015. Local sales were delivered against short-term contracts to a number of local buyers. The payment mechanism for local sales, which is not fully in line with the PSC terms, has resulted in a receivable to DNO of USD 118.9 million. For export sales, a new payment arrangement was announced by the KRG on 1 February 2016 in line with contractual entitlements, but this arrangement was not in place for 2015. Export revenues have historically been recognized by DNO only upon receipt of payment; in 2015, three payments were received towards the contractor's share of Tawke exports by the KRG totaling USD 90 million (USD 66 million net to and recognized by DNO).

Gross exported volumes in Kurdistan were 3.7 MMbbls in 2009, 15.2 MMbbls in 2011, 7.5 MMbbls in 2012, 18.6 MMbbls in 2014 and 41.6 MMbbls in 2015. Payments for these exports were received on account from the KRG and require further reconciliation between the KRG and DNO. DNO's revenue entitlements will be based on PSC terms covering allocation of profit oil and cost oil, utilizing calculations of volumes sold and export prices adjusted for quality differentials and transportation charges.

The balance of receivables for DNO's share of Tawke production stood at USD 1.06 billion at the end of 2015, of which USD 936.7 million (representing exports) was unbooked and USD 118.9 million (representing local sales) was booked. This was up from USD 775.5 million at end-2014, of which USD 663.3 million was unbooked and USD 112.2 million was booked. The total unbooked receivable is based on management's best estimate. The final receivable amount will be based on a reconciliation with the KRG and may differ from the estimate made by management.

**Note 04****Cost of goods sold/inventory**

USD million	Years ended 31 December	
	2015	2014
Lifting costs*	-86.3	-117.9
Depreciation, depletion and amortization	-110.7	-198.6
<b>Total cost of goods sold</b>	<b>-197.0</b>	<b>-316.5</b>

\* Lifting costs consist of expenses relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurances, CO<sub>2</sub> taxes, royalties to the state and internal costs.

USD million	Years ended 31 December	
	2015	2014
Spare parts and drilling equipment	62.0	77.7
<b>Total inventory</b>	<b>62.0</b>	<b>77.7</b>

Of the total inventory of USD 62.0 million, USD 51.6 million is related to Kurdistan, USD 3.6 million to Tunisia and USD 6.8 million to Oman and to Ras Al Khaimah. The inventory is not pledged.

## Note 05

## Administrative/other expenses

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

USD million	Years ended 31 December	
	2015	2014
Salaries and social expenses *	-7.0	-0.7
General and administration expenses	-12.1	-21.7
Other operating expenses **	-29.3	-7.8
<b>Total administrative/other expenses</b>	<b>-48.3</b>	<b>-30.2</b>

\* Salaries and social expenses directly attributable to operations are reclassified to lifting costs and exploration costs in profit or loss.

\*\* Other operating expenses are general and administration costs related to fields in development, which are not capitalized. Operating expenses for fields with production suspended in 2015 have been reclassified from lifting cost to other operating expenses.

## Specification of salaries and social expenses

USD million	Years ended 31 December	
	2015	2014
Salaries, bonuses, etc.	-28.6	-38.8
Employer's payroll tax expenses	-2.0	-3.5
Pensions	-1.2	-1.3
Other personnel costs	0.3	-5.3
Reclassification of salaries and social expenses to lifting costs and exploration costs	24.6	48.2
<b>Salaries and social expenses</b>	<b>-7.0</b>	<b>-0.7</b>

Part of salaries and social expenses are paid in NOK and recorded in USD based on the average exchange rate. The average USD/NOK rate used in 2015 was 8.06, compared to 6.30 for 2014.

An employee share saving plan was introduced in 2013 through which employees can save up to five percent of their gross base annual salary in synthetic company shares. Conversion to synthetic shares takes place the day after the quarterly results for the group have been reported to the market. The basis for conversion is the quoted share price at the close of that business day including a discount reflecting a 24-month restriction period during which the employee cannot 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. As of 31 December 2015, the company's total liability under this plan amounted to USD 1.9 million, reflecting a USD 2.5 million reversal during the year of the prior liability due to the decrease in DNO's share price and exchange rate movements.

## Pensions

DNO has a defined contribution scheme for employees in DNO ASA (parent company), with USD 1.2 million expensed under the scheme in 2015. The group's obligations are limited to the annual contributions. DNO meets the Norwegian legal requirements for mandatory occupational pension ('obligatorisk tjenestepensjon').

## Remuneration to Board of Directors and executive management

USD million	Years ended 31 December	
	2015	2014
<b>Managing Director:</b>		
Remuneration	0.70	0.65
Pension	0.06	0.02
Bonus	-	0.22
Other remuneration	0.02	0.01
<b>Total compensation paid to Managing Director</b>	<b>0.79</b>	<b>0.90</b>
<b>Other executive management:</b>		
Remuneration	1.36	0.50
Pension	0.12	0.03
Bonus	-	0.03
Other remuneration	0.24	0.01
<b>Total compensation paid to executive management</b>	<b>1.71</b>	<b>0.56</b>
Number of managers included	5	2
<b>Board of Directors</b>	<b>1.05</b>	<b>1.29</b>
<b>Total remuneration to Board of Directors and executive management</b>	<b>3.55</b>	<b>2.75</b>

For further detail on remuneration to executive management, see Note 3 in the parent company accounts. Severance payment agreements (up to two times annual salary) apply to the following members of executive management: Bjørn Dale, Jeroen Regtien, Haakon Sandborg, Claes Åbyholm and Nicholas Whiteley. No loans have been granted and no guarantees have been issued for executive management, shareholders or members of the Board of Directors.

**Note 05****Administrative/other expenses** continued**Shares and options held by directors and executive management as of 31 December 2015**

<b>Directors and executive management</b>	<b>Shares</b>	<b>Options</b>
Bijan Mossavar-Rahmani, Executive Chairman	-	-
Lars Arne Takla, Deputy Chairman (Takla Energy AS)	10,000	-
Gunnar Hirsti, Director (Hirsti Invest AS)	250,000	-
Elin Karfjell, Director	-	-
Shelley Watson, Director	-	-
Bjørn Dale, Managing Director	-	-
Jeroen Regtien, Chief Operating Officer	-	-
Haakon Sandborg, Chief Financial Officer	-	-
Claes Åbyholm, General Counsel	-	-
James Edens, Commercial Director	-	-
Nicholas Whiteley, Exploration Director	-	-
<b>Total</b>	<b>260,000</b>	<b>-</b>

**Auditor's fees**

<b>USD million (excluding VAT)</b>	Years ended 31 December	
	<b>2015</b>	<b>2014</b>
Auditor's fees	0.55	0.58
Other financial auditing	0.01	0.01
Tax advisory services	0.12	0.01
Other advisory services	0.02	-
<b>Total fees</b>	<b>0.69</b>	<b>0.60</b>

**Note 06****Exploration expenses**

<b>USD million</b>	Years ended 31 December	
	<b>2015</b>	<b>2014</b>
Exploration expenses (G&G and field surveys)	-8.4	-12.9
Seismic costs	-0.5	-14.8
Exploration costs capitalized in previous years carried to cost	-5.1	-5.9
Exploration costs capitalized this year carried to cost	-3.8	-10.3
Other exploration costs expensed	-5.7	-6.7
<b>Total exploration costs expensed</b>	<b>-23.5</b>	<b>-50.6</b>

Exploration costs capitalized in 2014 and 2015 carried to cost are related to dry well costs in Tunisia (Sfax Offshore Exploration Permit). In addition, there have been field studies and geological work in all business segments.

**Note 07****Financial income and financial expenses**

<b>USD million</b>	Years ended 31 December	
	<b>2015</b>	<b>2014</b>
Interest received	1.2	0.5
Other financial income	3.4	-
Exchange rate gain, unrealized items	9.5	19.4
Exchange rate gain realized items	1.8	1.5
Financial income	15.8	21.5
Interest expenses	-29.6	-24.0
Capitalized interest	-	1.0
Exchange rate loss unrealized items	-0.4	-1.2
Exchange rate loss realized items	-3.9	-1.0
Impairment of financial assets	-34.1	-14.8
Other financial expenses	-10.3	9.8
Financial expenses	-78.3	-30.1
<b>Net finance</b>	<b>-62.5</b>	<b>-8.6</b>

Impairment of financial assets includes USD 24.2 million related to shares in RAK Petroleum plc (see Note 11) and a write down of a receivable related to the farm-down in Tunisia.

## Note 08

# Taxes

### Income tax expenses

USD million	Years ended 31 December	
	2015	2014
Changes in deferred taxes	31.1	62.6
Income taxes payable related to PSCs in Yemen and Oman	-7.0	-36.8
<b>Total income tax expenses</b>	<b>24.1</b>	<b>25.8</b>

### Reconciliation of the year's income tax

USD million	Years ended 31 December	
	2015	2014
<b>Profit before income tax</b>	<b>-236.5</b>	<b>-251.8</b>
Expected income tax according to nominal tax rate (27%)	63.8	68.0
Taxes paid in kind under PSCs exceeding 27%	-24.7	-11.9
Adjustment of previous years	9.2	-
Adjustment of deferred tax assets not recorded	2.5	2.2
Other items	-22.2	-32.6
Change in tax rate	-4.4	-
<b>Total income taxes</b>	<b>24.1</b>	<b>25.8</b>
<b>Effective income tax rate</b>	<b>10.2 %</b>	<b>10.2 %</b>
<b>Taxes charged to equity</b>	<b>-</b>	<b>-</b>

### Temporary differences relate to the following items:

USD million	Years ended 31 December	
	2015	2014
Other current items	-	-
Tangible assets	-0.3	-31.1
Other fixed items (receivables, abandonment, etc.)	0.1	-3.5
Losses carried forward	55.6	61.5
Total	55.5	26.9
Deferred tax asset allowance	-55.5	-58.0
<b>Total deferred taxes</b>	<b>-</b>	<b>-31.1</b>
Capitalized deferred tax assets	-	6.6
Capitalized deferred tax liabilities	-	-37.7

Income taxes payable amounting to USD 1.7 million (2014: USD 1.9 million) relate entirely to the notional company tax component in the PSCs in Yemen and Oman.

The tax loss carry forward of USD 55.5 million (25 percent of USD 222.0 million) as of year-end 2015 partly results from historical hedging losses related to oil price contracts in the parent company. The unused tax losses can be carried forward indefinitely according to Norwegian tax rules. The subsidiary DNO UK Ltd has a tax loss carry forward of approximately GBP 18 million, the majority of which can be carried forward indefinitely.

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

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

The deferred tax asset of USD 3.3 million at year-end 2014 was related to unused cost oil at Block 47 in Yemen. This tax asset was written off during 2015.

In DNO's results for the period ending 31 December 2015, no presentation of taxation expenses with an equivalent gross up for revenue has been accounted for in Kurdistan and it has not been possible to reliably measure the amount of tax paid on behalf of DNO due to uncertainties over how the amount of tax should be calculated. This is an accounting presentation issue and there is no tax to be paid. Contingent on the fulfilment of the criteria in IAS 12 "Income Taxes", DNO's recorded revenues from the Tawke license will be grossed up with a corresponding income tax expense (corporate tax) and a deferred tax liability will be recorded. As of 31 December 2015, the deferred tax liability for the Tawke license would amount to approximately USD 133 million. For the Erbil license a deferred tax asset would amount to about USD 11 million related to the unused cost oil position.

From 2014, profits from foreign oil activities are no longer taxable in Norway in accordance with The General Tax Act, section 2-39. Further exploration expenses will no longer be tax deductible. Under the new rules only certain financial income and expenses are taxable in Norway.

**Note 09****Financial risk management objectives and policies****Overview**

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

Risk management is carried out by a central treasury function (group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and mitigates financial risks in close cooperation with the group's operating units. The board also approves principles for overall risk management and business procedures covering specific areas and assigns the audit committee to monitor compliance.

**Oil price risk**

Oil price fluctuations can have considerable impact on the DNO group's earnings, future capital expenditures and impairment assessments.

**Liquidity risk**

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

The DNO group maintained conservative capital spending throughout 2015 and had a free cash position of USD 237.6 million at year-end. Contributing to the increase in cash last year was the private placement of shares in March 2015, the new USD 400 million bond issued in June 2015 and three export payments from Kurdistan. It is expected that planned future investments will be funded from operational cash flow, cash balances and credit facilities, with revenues from Kurdistan expected to drive future capital programs.

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

USD million At 31 December 2015	Less than 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Interest bearing loans and borrowings				400.0	400.0
Other liabilities		105.0	166.3	53.3	324.6
Taxes payable	1.7				1.7
Trade and other payables	52.5				52.5
					<b>778.8</b>

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

**Currency risk**

DNO's revenues are in USD and corporate operational costs are mainly in USD and NOK. Prior to the refinancing of the bond loans in 2015, the company had financial expenses in both USD and NOK from its interest-bearing debt funding in both currencies. From August 2015, the bond financing is only in USD. There remains some exposure arising from costs incurred in other currencies such as NOK and Iraqi Dinars (IQD).

The following table demonstrates the sensitivity to a possible increase or decrease in the NOK exchange rate, holding all other variables constant.

	Increase/decrease in NOK	Effect on profit before tax (USD mill)	Effect on equity (USD mill)
<b>31 December 2015</b>	+/- 10%	-/+ 9.6	-/+ 0.0
<b>31 December 2014</b>	+/- 10%	-/+ 11.5	-/+ 0.0

**Note 09****Financial risk management objectives and policies** continued**Interest rate risk**

As of 31 December 2015, DNO has one bond loan maturing in 2020 with a fixed interest rate. As of 31 December 2015, DNO has no interest rate hedging instruments.

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

	Increase/decrease in basis points	Effect on profit before tax (USD mill)	Effect on equity (USD mill)
2015	+/- 100	-/+ 1.4	+/- 0.0
2014	+/- 100	-/+ 2.4	+/- 0.0

**Credit risk**

DNO has policies in place to ensure that its oil and gas sales are made to customers with adequate credit strength. The group has no recent historical losses on trade receivables. The company's main counterparty is the KRG and there is inherent risk related to the receivable for local sales amounting to USD 118.9 million. See Note 12 for details on trade receivables.

DNO has policies that limit the amount of credit exposure to any financial institution. Cash deposits are primarily maintained with investment grade financial institutions. Maximum credit risk as of 31 December 2015 is USD 155.5 million.

**Market risk on investments**

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

**Political risk**

Our portfolio is located in countries where political, social and economic instability may adversely impact our business and could have a negative impact on the book value of our assets. The political and security situation in Yemen continued to deteriorate in 2015. In Kurdistan, we continue to closely monitor security conditions although our operations to date have seen minimal impact from recent developments.

**Entitlement risk**

DNO has interests in three licenses in Kurdistan through PSCs and has based its entitlement calculations on the terms of these PSCs. Although DNO has good title to its oil and gas licenses, including the right to explore for and produce oil and gas from these licenses, the FGI has in the past challenged the validity of certain PSCs signed by the KRG. As a result of continuing disagreements between the FGI and the KRG, economic conditions in the Kurdistan region of Iraq and limited available export channels, DNO faces constraints in fully monetizing its oil produced in Kurdistan. There is no guarantee that oil can be exported or delivered to the local market in sufficient quantities or at reasonable prices, or that DNO will promptly receive its full entitlement payments for the oil it delivers.

At the Tawke field in Kurdistan, a temporary arrangement was put into place in 2014 related to local sales under which the PSC terms for contractor entitlement were not followed. The imbalance is recorded as a receivable in the financial statements until the imbalance is settled. In 2015, the temporary arrangement was revised to more closely align with the PSC terms. Export sales from Tawke have not followed the PSC terms and there is uncertainty related to both timing of revenue and receipt of payments. A new payment arrangement for exports was announced by the KRG on 1 February 2016 in line with contractual entitlements, but this arrangement was not in place for 2015.

**Note 09****Financial risk management objectives and policies** continued**Capital management**

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

DNO monitors capital on the basis of its book equity ratio. This ratio is calculated as book equity divided by total assets. It is the group's policy that this ratio should be 30 percent or higher. As of 31 December 2015, the book equity ratio was 43.3 percent, compared to 48.4 percent in 2014.

USD million	31 December	
	2015	2014
Total equity	436.2	532.8
Total assets	1,008.2	1,101.3
<b>Book equity ratio</b>	<b>43.3 %</b>	<b>48.4 %</b>

**Financial instruments by category**

Below is a comparison by category for carrying amounts and fair values of all of the group's financial instruments in the financial statements. The following estimated fair values have been determined by the group using appropriate market information and accepted valuation methodologies.

The carrying amount of bank deposits is a reasonable estimate for fair values. The bond issued in 2015 will be listed on the Oslo Stock Exchange and the fair value of the loan is based on broker trades made in December 2015.

USD million	Notes	31 December 2015		31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>					
Bank deposits	13	237.6	237.6	113.8	113.8
Available-for-sale investments	11	10.8	10.8	35.0	35.0
Other financial assets	12	168.0	168.0	187.3	187.3
		<b>416.4</b>	<b>416.4</b>	<b>336.1</b>	<b>336.1</b>
<b>Financial liabilities</b>					
Interest-bearing liabilities (non-current)	15	400.0	276.0	214.7	213.1
		<b>400.0</b>	<b>276.0</b>	<b>214.7</b>	<b>213.1</b>

## Note 09

## Financial risk management objectives and policies continued

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

2015 – USD million	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
<b>Financial assets</b>						
Bank deposits	13	-	-	237.6	-	237.6
Available-for-sale investments	11	-	-	-	10.8	10.8
Trade and other receivables	12	-	-	168.0	-	168.0
		-	-	<b>405.6</b>	<b>10.8</b>	<b>416.4</b>

2015 – USD million	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortized costs	Non-financial liabilities	Total
<b>Financial liabilities</b>					
Interest-bearing liabilities (non-current)	15	-	350.7	-	350.7
Provision for other liabilities and charges (current)	16	-	-	70.0	70.0
Provision for other liabilities and charges (non-current)	16	-	-	97.1	97.1
Trade and other payables	18	-	-	52.5	52.5
		-	<b>350.7</b>	<b>219.6</b>	<b>570.3</b>

2014 – USD million	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
<b>Financial assets</b>						
Bank deposits	13	-	-	113.8	-	113.8
Available-for-sale investments	11	-	-	-	35.0	35.0
Trade and other receivables	12	-	-	187.3	-	187.3
		-	-	<b>301.1</b>	<b>35.0</b>	<b>336.1</b>

2014 – USD million	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortized costs	Non-financial liabilities	Total
<b>Financial liabilities</b>					
Interest-bearing liabilities (non-current)	15	-	214.7	-	214.7
Provision for other liabilities and charges (current)	16	-	-	77.6	77.6
Provision for other liabilities and charges (non-current)	16	-	-	100.1	100.1
Trade and other payables	18	-	-	139.7	139.7
		-	<b>214.7</b>	<b>317.4</b>	<b>532.1</b>

**Note 09****Financial risk management objectives and policies** continued**Fair value hierarchy**

As of 31 December 2015 the group held the following financial instruments measured at fair value:

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

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

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

Assets measured at fair value (USD million)	Carrying amount			
	31 December 2015	Level 1	Level 2	Level 3
Available for sale investments	10.8	10.8	-	-

Assets measured at fair value (USD million)	Carrying amount			
	31 December 2014	Level 1	Level 2	Level 3
Available for sale investments	35.0	35.0	-	-

The available for sale investments are shares in RAK Petroleum plc, which have been reclassified from level 2 to level 1 following the listing of its shares on the Oslo Stock Exchange in November 2014.

Liabilities measured at fair value (USD million)	Carrying amount			
	31 December 2015	Level 1	Level 2	Level 3
WPP liability	129.0	-	-	129.0
Production bonuses	27.1	-	-	27.1
Bond loans	350.7	276.0	-	-

Liabilities measured at fair value (USD million)	Carrying amount			
	31 December 2014	Level 1	Level 2	Level 3
WPP liability	129.0	-	-	129.7
Production bonuses	30.8	-	-	30.8
Bond loans	214.7	213.1	-	-

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

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

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

**PROPERTY, PLANT AND EQUIPMENT**

2015 – USD million	Develop- ment assets	Assets in operation	Total oil & gas properties	Other PP&E	Total
<b>At 1 January 2015</b>					
Costs	181.7	1,615.0	1,796.7	18.9	1,815.6
Accumulated impairments	-177.9	-252.4	-430.3	-	-430.3
Accumulated depreciation	-	-849.7	-849.7	-6.7	-856.4
<b>Net book amount</b>	<b>3.8</b>	<b>512.9</b>	<b>516.7</b>	<b>12.2</b>	<b>528.9</b>
<b>Period ended 31 December 2015</b>					
Opening net book amount	3.8	512.9	516.7	12.2	528.9
Exchange differences	-	-	-	-	-
Additions	0.5	44.6	45.2	3.0	48.2
Transfers	4.2	-4.2	-	-	-
Disposals	-	-	-	-0.3	-0.3
Impairments	-8.6	-67.0	-75.5	-0.1	-75.6
Depreciation charges	-	-101.0	-101.0	-3.5	-104.5
<b>Closing net book amount</b>	<b>-</b>	<b>385.4</b>	<b>385.4</b>	<b>11.3</b>	<b>396.6</b>
<b>At 31 December 2015</b>					
Costs	181.8	1,655.4	1,837.2	19.8	1,857.0
Accumulated impairments	-181.8	-319.4	-501.2	-0.1	-501.3
Accumulated depreciation	-	-950.7	-950.7	-8.4	-959.0
<b>Net book amount</b>	<b>-</b>	<b>385.4</b>	<b>385.4</b>	<b>11.3</b>	<b>396.6</b>
Depreciation method	UoP	UoP	3-7 years linear		

**INTANGIBLE ASSETS**

2015 – USD million	License interest	Expto- ration assets	Goodwill	Total
<b>At 1 January 2015</b>				
Costs	102.5	96.8	46.4	245.7
Accumulated impairments	-8.1	-5.9	-46.4	-60.3
Accumulated depreciation	-34.9	-	-	-34.9
<b>Net book amount</b>	<b>59.5</b>	<b>90.9</b>	<b>-</b>	<b>150.5</b>
<b>Period ended 31 December 2015</b>				
Opening net book amount	59.5	90.9	-	150.5
Exchange differences	-	-	-	-
Additions	-	0.1	-	0.1
Transfers	-	-	-	-
Disposals	-	-	-	-
Impairments	-6.4	-5.1	-	-11.5
Depreciation charges	-6.0	-	-	-6.0
<b>Closing net book amount</b>	<b>47.2</b>	<b>85.9</b>	<b>-</b>	<b>133.2</b>
<b>At 31 December 2015</b>				
Costs	102.5	96.9	46.4	245.8
Accumulated impairments	-14.4	-11.0	-46.4	-71.8
Accumulated depreciation	-40.8	-	-	-40.8
<b>Net book amount</b>	<b>47.2</b>	<b>85.9</b>	<b>-</b>	<b>133.2</b>
Depreciation method	UoP			
UoP= Unit of Production				

There is no pledge over the oil and gas assets.

**Note 10****Property, plant and equipment/intangible assets continued****PROPERTY, PLANT AND EQUIPMENT**

2014 – USD million	Develop- ment assets	Assets in operation	Total oil & gas properties	Other PP&E	Total
<b>At 1 January 2014</b>					
Costs	358.6	1,158.4	1,517.0	8.0	1,525.0
Accumulated impairments	-100.5	-35.6	-136.0	-	-136.0
Accumulated depreciation	-	-659.0	-659.0	-4.8	-663.8
<b>Net book amount</b>	<b>258.1</b>	<b>463.9</b>	<b>722.0</b>	<b>3.2</b>	<b>725.2</b>
<b>Period ended 31 December 2014</b>					
Opening net book amount	258.1	463.9	722.0	3.2	725.2
Exchange differences	-	-	-	-	-
Additions	69.2	210.5	279.7	11.0	290.6
Transfers	-246.1	246.1	-	-0.1	-0.1
Disposals	-	-	-	0.1	0.1
Impairments	-77.4	-216.9	-294.3	-	-294.3
Depreciation charges	-	-190.7	-190.7	-1.9	-192.6
<b>Closing net book amount</b>	<b>3.8</b>	<b>512.9</b>	<b>516.7</b>	<b>12.2</b>	<b>528.9</b>
<b>At 31 December 2014</b>					
Costs	181.7	1,615.0	1,796.7	18.9	1,815.6
Accumulated impairments	-177.9	-252.4	-430.3	-	-430.3
Accumulated depreciation	-	-849.7	-849.7	-6.7	-856.4
<b>Net book amount</b>	<b>3.8</b>	<b>512.9</b>	<b>516.7</b>	<b>12.2</b>	<b>528.9</b>
Depreciation method	UoP	UoP		3-7 years linear	

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

**INTANGIBLE ASSETS**

2014 – USD million	License interest	Explo- ration assets	Goodwill	Total
<b>At 1 January 2014</b>				
Costs	95.6	97.4	46.4	239.4
Accumulated impairments	-5.9	-	-46.4	-52.3
Accumulated depreciation	-28.9	-	-	-28.9
<b>Net book amount</b>	<b>60.8</b>	<b>97.4</b>	<b>-</b>	<b>158.3</b>
<b>Period ended 31 December 2014</b>				
Opening net book amount	60.8	97.4	-	158.3
Exchange differences	-	-	-	-
Additions	7.2	-0.6	-	6.6
Transfers	-	-	-	-
Disposals	-0.3	-	-	-0.3
Impairments	-2.2	-5.9	-	-8.1
Depreciation charges	-6.0	-	-	-6.0
<b>Closing net book amount</b>	<b>59.5</b>	<b>90.9</b>	<b>-</b>	<b>150.5</b>
<b>At 31 December 2014</b>				
Costs	102.5	96.8	46.4	245.7
Accumulated impairments	-8.1	-5.9	-46.4	-60.3
Accumulated depreciation	-34.9	-	-	-34.9
<b>Net book amount</b>	<b>59.5</b>	<b>90.9</b>	<b>-</b>	<b>150.5</b>
Depreciation method		UoP		

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

DNO performed impairment tests for its oil and gas assets at year-end 2015 according to IAS 36 Impairment of Assets. IAS 36.9 requires that an entity assess at each reporting date whether there are any indications that an asset may be impaired. If such indications exist, the recoverable amount of the asset shall be estimated. Booked values of the oil and gas assets have been compared with expected cash flows from the assets (values in use), calculated as the net present value (before tax) of the assets. DNO has defined the field level as the lowest level at which separate cash flows can be identified. Field level is thereby the aggregation level for depreciation purposes and when assessing impairment. Net present value per field is calculated by discounting the future cash flows and comparing them to the booked value. The following assumptions have been used in calculating net present value: cash flow based on best estimate production profiles (P50 estimates) and the oil price based on the forward curve for Brent crude as of 31 December 2015, as published by the Intercontinental Exchange (ICE), adjusted for any discounts in oil quality applicable to each field. Considering that as of end-2015 the monthly price went forward only to March 2023, a method of linear prediction (extrapolation) beyond this date has been used. An average Brent price of USD 40.9 per barrel has been applied for 2016. Thereafter the forward curve for Brent crude is applied through March 2023, followed by a long-term oil price starting at USD 58.7 per barrel. The pre-tax discount rate used is based on DNO's WACC where 13.2 percent (2014: 13.3 percent) has been used for the Kurdistan assets, 9.9 percent (2014: 9.6 percent) for the assets in Oman, 13.5 percent (2014: 14.2 percent) for the assets in Yemen and 10.4 percent (2014: 9.5 percent) for the assets in the United Arab Emirates. The material decline in global oil prices has had a negative impact on the net present value of the assets, especially for licenses with a short time to expiry.

WACC is weighted based on the debt and equity to enterprise value ratios at year-end. Cost of equity is calculated on a country-by-country basis by using the Capital Asset Pricing Model for DNO ASA and adding a country risk premium derived from Business Monitor International's country risk report for 2015. Cost of debt is based on the effective rate for DNO's bond loan with no tax adjustment.

Based on these calculations, an impairment charge of USD 41.2 million was recorded in 2015 for Block 8 in Oman, mainly driven by reduced prices and downward revision of reserves. In Kurdistan, an impairment charge of USD 25.0 million was recorded for the Erbil license driven by reduced oil prices. The Dohuk license recorded an impairment charge of USD 4.3 million. The acquisition cost of USD 6.0 million at the Sfax Offshore Exploration Permit in Tunisia was impaired and the Yemen blocks have been impaired by USD 13.2 million. An impairment charge of USD 2.1 million was recorded for the Saleh field in Ras Al Khaimah and DNO Oman Limited recorded an impairment charge of USD 1.1 million.

A sensitivity analysis shows that a decrease in oil price of ten percent would result in further impairment charges of USD 17.3 million, entirely related to the Erbil license. An increase in the WACC for the Erbil license by one percent would increase the impairment charge by USD 9.1 million and a drop in reserves by ten percent would increase the impairment charge by USD 14.6 million. If expectations with regard to timing of cash flows are not met, this could also result in an impairment charge.

The expected cash flows from the Tawke license in Kurdistan are substantially higher than the booked values and the same sensitivity tests performed for the Erbil license would only cause minor changes to the surplus and would not lead to impairment charges. For further assessments confer the political risk section in Note 09.

**Capitalized interest**

Interest costs on loans to finance the construction of PP&E in the development phase are capitalized. In 2015, no interest has been capitalized. (2014: USD 1.0 million related to development projects in the Erbil and Dohuk PSCs in Kurdistan). The capitalization rate for 2014 was an average of 8.2 percent.

**License expiry**

The Tawke license in Kurdistan expires in 2031 and the Erbil license expires in 2036. Block 8 in Oman expires in 2019. In Yemen, Block 32 expires in 2019 and Block 43 in 2024.

**Note 11****Available-for-sale financial assets**

Available-for-sale financial assets are recorded at fair value (market price, where available) at the end of each period. Changes in fair value are included in other comprehensive income and are presented as valuation reserve under equity. Impairments will be charged to profit or loss, while reversal of impairments will be taken through other comprehensive income.

USD million	Years ended 31 December	
	2015	2014
Beginning of the period	35.0	10.8
Additions	-	38.9
Revaluation surplus/deficit transfer to other comprehensive income	-	-
Impairment	-24.2	-14.8
<b>End of the period</b>	<b>10.8</b>	<b>35.0</b>
Non-current portion	10.8	35.0

DNO has a total of 15,849,737 shares (4.86 percent of outstanding shares) in RAK Petroleum plc. All shares have been acquired in open market transactions. RAK Petroleum plc is listed on the Oslo Stock Exchange. An impairment charge of USD 24.2 million was recorded in 2015 due to lower market value of the shares.

RAK Petroleum plc is the largest shareholder in DNO ASA with a 40.4 percent of the total issued shares as of 31 December 2015.

**Note 12****Trade and other receivables**

USD million	Years ended 31 December	
	2015	2014
Trade receivables	7.1	15.2
Less: provisions for impairment of receivables	-	-
Net trade receivables	7.1	15.2
Prepayments	2.5	1.3
Underlift, entitlement method	121.4	119.6
VAT receivable	0.4	0.7
Other short-term receivables	24.1	50.6
<b>Total trade and other receivables</b>	<b>155.5</b>	<b>187.3</b>

The underlift mainly relates to the arrangement for local sales in Kurdistan put into place in 2014 under which the PSC terms for the contractor entitlement were not followed. In 2015, this temporary arrangement was revised to more closely align with the PSC terms. The company assesses the local sales receivable as fully recoverable and to be settled with cash but it is possible that it could be settled in a number of other ways, including through a settlement in kind.

Other short-term receivables include the receivable related to the farm down in Tunisia (Sfax Offshore Exploration Permit) and working capital in oil and gas licenses, including cash deposits amounting to USD 6.8 million for the Tawke license in a local bank in Kurdistan. In 2015, part of the receivable related to the farm-down in Tunisia was written off, with USD 12.5 million of the total receivable classified as long-term.

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

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

**Note 13****Cash and cash equivalents**

USD million	Years ended 31 December	
	2015	2014
Cash and cash equivalents, restricted	3.1	3.5
Cash and cash equivalents, non-restricted	234.5	110.3
<b>Total cash and cash equivalents</b>	<b>237.6</b>	<b>113.8</b>

Restricted cash relates to employees' tax deductions, as well as deposits for rent and savings related to the employee share saving plan. Non-restricted cash is entirely related to bank deposits as of 31 December 2015.

**Cash held in currency**

USD million	31 December 2015		31 December 2014	
	Amount in currency	Amount in USD	Amount in currency	Amount in USD
NOK	68.5	7.4	82.1	11.0
EUR	-	-	-	-0.1
USD	230.1	230.1	103.0	103.0
GBP	0.1	0.1	-	-0.2
<b>Total cash and cash equivalents</b>		<b>237.6</b>		<b>113.8</b>

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

**Note 14****Equity****SHARE CAPITAL**

2014 - USD million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
<b>At 1 January 2014</b>	<b>1,010,229</b>	<b>34.1</b>	<b>-0.6</b>	<b>33.6</b>
Treasury shares purchased/sold	-	-	-	-
Share issues	-	-	-	-
<b>At 31 December 2014</b>	<b>1,010,229</b>	<b>34.1</b>	<b>-0.6</b>	<b>33.6</b>

2015 - USD million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
<b>At 1 January 2015</b>	<b>1,010,229</b>	<b>34.1</b>	<b>-0.6</b>	<b>33.6</b>
Treasury shares purchased/sold	9,050	-	0.5	0.5
Share issues	60,535	1.9	-	1.9
<b>At 31 December 2015</b>	<b>1,079,814</b>	<b>36.0</b>	<b>-0.1</b>	<b>35.9</b>

On 10 March 2015, DNO completed an equity share offering of NOK 975 million of new shares and treasury shares. A total of 73,584,906 shares were allocated at an offer price of NOK 13.25 per share, comprising 60,534,906 new shares and 13,050,000 in treasury shares. Total transaction costs were USD 2.2 million. The total number of ordinary shares at 31 December 2015 was 1,083,814,161, with a par value of NOK 0.25 per share. All issued shares are fully paid. All shares carry equal voting and dividend rights.

At the AGM in 2015, the Board of Directors was authorized to increase the share capital by up to NOK 40,643,031. The authorization is valid until 30 June 2016 or the AGM in 2016 (whichever is earlier), replacing the authorization granted to the Board of Directors at the AGM in 2014. The shareholders' preferential right to the new shares pursuant to section 10-4 in the Norwegian Public Limited Companies Act may be waived.

At the AGM in 2015, the Board of Directors was also authorized 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 30 June 2016 or the AGM in 2016 (whichever is earlier). At 31 December 2015, the company held 4,000,000 treasury shares.

At the AGM in 2015, the Board of Directors was also authorized to raise convertible bonds with an aggregate principal amount of up to USD 350,000,000. Upon conversion of bonds issued pursuant to this authorization, the company's share capital may be increased by up to NOK 45,000,000. The authorization is valid until 30 June 2016 or the AGM in 2016 (whichever is earlier).

## Note 14

## Equity continued

## Other reserves

USD million	Share premium	Other paid-in capital	Available-for-sale investments	Other reserves	Currency translation	Total
<b>Balance at 1 January 2014</b>	<b>152.8</b>	<b>48.6</b>	-	<b>9.2</b>	<b>-35.7</b>	<b>174.7</b>
Available-for-sale fair value, net of tax	-	-	6.6	-	-	6.6
Reclassification of available-for-sale fair value change	-	-	-6.6	-	-	-6.6
<i>Treasury shares:</i>						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Currency translation differences - Group	-	-	-	-	0.4	0.4
<b>Balance at 31 December 2014</b>	<b>152.8</b>	<b>48.6</b>	-	<b>9.2</b>	<b>-35.3</b>	<b>175.1</b>
<b>Balance at 1 January 2015</b>	<b>152.8</b>	<b>48.6</b>	-	<b>9.2</b>	<b>-35.3</b>	<b>175.1</b>
Available-for-sale fair value, net of tax	-	-	-	-	-	-
Reclassification of available-for-sale fair value change	-	-	-	-	-	-
<i>Treasury shares:</i>						
- Sale of treasury shares	-	8.0	-	12.8	-	20.8
- Purchase of treasury shares	-	-	-	-2.7	-	-2.7
Issue of share capital	95.0	-	-	-	-	95.0
Currency translation differences - Group	-	-	-	-	0.3	0.3
<b>Balance at 31 December 2015</b>	<b>247.7</b>	<b>56.6</b>	-	<b>19.3</b>	<b>-35.1</b>	<b>288.4</b>

## The company's shareholders at 31 December 2015

	Shares	% interest
RAK Petroleum Holdings B.V.	438,379,418	40.60 %
Verdipapirfondet DNB Norge (IV)	24,414,839	2.26 %
Clearstream Banking S.A.	21,296,768	1.97 %
Credit Suisse Securities (USA) LLC	20,894,633	1.94 %
Verdipapirfondet DNB Norge Selektiv	15,118,595	1.40 %
Svedbank Generator	13,660,296	1.27 %
Morgan Stanley & Co. LLC	11,978,549	1.11 %
Nordnet Bank AB	11,504,264	1.07 %
Avanza Bank AB	9,070,308	0.84 %
DNB Livsforsikring	8,688,959	0.80 %
J.P. Morgan Chase Bank N.A.	6,353,747	0.59 %
Vanguard Energy Fund-WMC	6,310,418	0.58 %
Nordea Bank Danmark A/S	5,969,383	0.55 %
State Street Bank & Trust CO.	5,696,489	0.53 %
VPF Nordea Kapital	5,625,044	0.52 %
J.P. Morgan Bank Luxembourg SA	4,756,561	0.44 %
Tryggen Invest AS	4,466,195	0.41 %
Cipi Lamp Ucits SWEDBANK	3,967,070	0.37 %
Danske Bank A/S	3,901,142	0.36 %
Other shareholders	457,761,483	42.39 %
<b>Total number of shares excluding treasury shares</b>	<b>1,079,814,161</b>	<b>100.0 %</b>
Treasury shares at 31 December 2015	4,000,000	
<b>Total number of shares including treasury shares</b>	<b>1,083,814,161</b>	

No ordinary or extraordinary dividend was distributed in 2015.

**Note 15****Interest-bearing liabilities**

USD million	Ticker OSE	Currency	Amount	Interest	Maturity	Effective interest rate 2015	Fair value		Carrying amount	
							2015	2014	2015	2014
<b>Non-current interest-bearing bonds:</b>										
Bond loan (ISIN NO0010606197)		USD	400.0	8.75%	18.06.20	12.5%	276.0	-	400.0	-
Borrowing issue costs									-49.3	-0.6
Bond loan (ISIN NO0010606197)	DNO14	NOK	560.0	NIBOR + 7.5%	11.04.16	8.92%	-	76.5	-	75.3
Bond loan (ISIN NO0010606189)	DNO13	USD	140.0	LIBOR + 7.5%	11.04.16	7.76%	-	136.7	-	140.0
<b>Total interest-bearing bonds</b>							<b>276.0</b>	<b>213.1</b>	<b>350.7</b>	<b>214.7</b>

On 19 June 2015, DNO completed the placement of USD 400 million of new, five-year senior unsecured bonds with a fixed coupon rate of 8.75 percent and an issue price of 87.5 percent of par value. In connection with the issuance, DNO repurchased portions of the USD and NOK tranches of its previous bond. The company repurchased USD 15.4 million of the USD tranche with ticker DNO13 leaving USD 124.6 million outstanding. Additionally, DNO repurchased NOK 139 million of the NOK tranche with ticker DNO14 leaving NOK 421 million outstanding.

On 7 August 2015, DNO made a settlement of its call of all outstanding bonds including the USD tranche with ticker DNO13 and the NOK tranche with ticker DNO14. The bonds were redeemed at a price of 101.5 percent of par value as provided for under Clause 10.2.2 of the Bond Agreement. The settlement follows the company's exercise of its option to call outstanding bonds on 24 June 2015. Through exercise of the call option, USD 124.6 million in the USD tranche of the bonds and NOK 421 million in the NOK tranche were redeemed on 6 August 2015.

The new bond loan includes typical financial covenants on market terms. Inter alia, the bond loan requires DNO to have a minimum equity ratio of 30 percent, maintain liquidity of a minimum of USD 40 million and to impose a restriction to declare or make any dividend payments or other distributions exceeding 25 percent of net income based on DNO's consolidated accounts for the previous financial calendar year. As of 31 December 2015, DNO satisfies all loan agreement requirements.

There are no commitments related to further drawdowns on the bond loan that matures on 18 June 2020. Until maturity there are no installments to be paid.

The new bond loan will be registered on the Oslo Stock Exchange in early 2016 and the fair value is based on broker trades made in December 2015.

**Note 16****Provisions for other liabilities and charges**

Years ended 31 December

USD million	2015	2014
<b>Non-current</b>		
Asset retirement obligations *	4.5	3.7
Other long-term obligations **	92.6	96.3
<b>Total non-current provisions for other liabilities and charges</b>	<b>97.1</b>	<b>100.1</b>
<b>Current</b>		
Other provisions and charges **	70.0	77.6
<b>Total current provisions for other liabilities and charges</b>	<b>70.0</b>	<b>77.6</b>
<b>Total provisions for other liabilities and charges</b>	<b>167.1</b>	<b>177.7</b>

\* Asset retirement obligations (AROs) are related to future well closures, decommissioning and removal expenditures for oil installations in Kurdistan, Oman and Ras Al Khaimah. The obligations are imposed and defined by local and international legal requirements. In accordance with the PSCs, production facilities and the operating equipment will be transferred to the local authorities when the fields are no longer commercial or at license expiry.

\*\* Provisions for a water purification capacity building project in the Kurdistan region of Iraq are included in other long-term obligations and other provisions and charges for the Tawke license. The water purification project (WPP) is capitalized and depreciated over the life of the Tawke field. The WPP liability is not currently payable and eventual payments will be contingent on defined gross revenue levels and will be fully recoverable through cost oil. Changes in the timing of these payments may change the net present value of the liability and the calculated interest. The WPP liability is recorded at net present value, where the unwinding of interest is charged to profit or loss. USD 45 million of the WPP liability of USD 129 million is classified as short-term and included in other provisions and charges at year-end 2015; USD 84 million is classified as other long-term obligations.

Provision for a production bonus for the Tawke license of USD 19.7 million is included in other provisions and charges. Provision for a production bonus for the Erbil license is USD 7.4 million, of which USD 0.9 million is classified as current and the remaining part is classified as non-current.

USD million	Asset retirement obligations	Other non-current	Other current	Total
<b>Balance at 1 January 2014</b>	<b>3.6</b>	<b>89.5</b>	<b>79.7</b>	<b>172.7</b>
Charged to consolidated statement of comprehensive income:				
- Additional provisions	0.1	6.5	-	6.6
- Unused amounts reversed or reclassified	-	-	-	-
Incurred and charged against the provision during the period	-	-	-2.1	-2.1
<b>Balance at 31 December 2014</b>	<b>3.7</b>	<b>96.3</b>	<b>77.6</b>	<b>177.7</b>
Charged to consolidated statement of comprehensive income:				
- Additional provisions	0.8	-	-	0.8
- Unused amounts reversed or reclassified	-	-	-	-
Incurred and charged against the provision during the period	-	-3.7	-7.6	-11.3
<b>Balance at 31 December 2015</b>	<b>4.5</b>	<b>92.6</b>	<b>70.0</b>	<b>167.1</b>

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

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

USD million	2016	2017	2018	2019	2020	All periods thereafter	TOTAL
Lease of properties	3.3	2.9	2.5	2.5	2.2	9.3	22.8
<b>Total lease obligations</b>	<b>3.3</b>	<b>2.9</b>	<b>2.5</b>	<b>2.5</b>	<b>2.2</b>	<b>9.3</b>	<b>22.8</b>

Lease of properties consists mainly of DNO office rentals in Oslo and Dubai.

**b) Legal disputes**

As of 31 December 2015, DNO is involved in the following legal cases and disputes:

The Ministry of Oil and Minerals of the Republic of Yemen has filed an arbitration claim against the partners on Block 53 for allegedly wrongful withdrawal from the PSC. DNO is disputing this claim.

**c) Contractual obligations/license commitments**

USD million	2016	2017	2018	2019	2020	All periods thereafter	TOTAL
Drilling and exploration	16.0	12.0	5.0	-	-	-	33.0
Other commitments	1.7	0.7	0.3	-	-	-	2.7
<b>Total contractual commitments/license commitments</b>	<b>17.7</b>	<b>12.7</b>	<b>5.3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35.6</b>

The company has obligations related to the WPP in Kurdistan (see Note 16).

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

**d) Guarantees at 31 December 2015**

Letters of financial and technical support have been issued by DNO ASA in favor of DNO Iraq AS and DNO Yemen AS. In addition, parent company guarantees have been issued to the Tunisian government for the contractor obligations in relation to the Sfax Offshore Exploration Permit and the Ras El Besh Concession.

**e) Liability for damages/insurance**

Installations and operations are covered by an operations insurance policy.

**Note 18****Trade and other payables**

USD million	Years ended 31 December	
	2015	2014
Trade creditors	2.6	6.4
Public duties payable	1.0	2.4
Debt to employees and shareholders	1.1	3.0
Other accrued expenses	47.8	127.9
<b>Total trade and other payables</b>	<b>52.5</b>	<b>139.7</b>

Other accrued expenses include working capital related to participation in oil and gas licenses.

**Terms and conditions of the above financial liabilities:**

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

Other payables are non-interest bearing and have an average term of 30 to 60 days.

**Note 19****Earnings per share**

USD million	Years ended 31 December	
	2015	2014
Net profit attributable to ordinary equity holders of the parent	-212.3	-226.1
Weighted average number of ordinary shares (excluding treasury shares)	1,069.5	1,010.2
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,069.5	1,010.2
<b>Earnings per share, basic</b>	<b>-0.20</b>	<b>-0.23</b>
<b>Earnings per share, diluted</b>	<b>-0.20</b>	<b>-0.23</b>

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. DNO did not have any potential dilutive shares at year-end.

**Note 20****Group companies**

USD million	Business address	Ownership and voting interest (in %)	Company's equity
DNO Yemen AS	Oslo	100.0	-42.9
DNO UK Ltd	London	100.0	-
DNO Invest AS	Oslo	100.0	0.3
DNO Tunisia AS	Oslo	100.0	60.1
DNO Iraq AS	Oslo	100.0	505.4
DNO Mena AS	Oslo	100.0	83.4
DNO Oman AS	Oslo	100.0	2.9
DNO Somaliland AS	Oslo	100.0	0.7
DNO Technical Services AS	Oslo	100.0	6.8

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

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

**Note 21****Related party disclosure**

The following table provides details of the group's related party transactions in 2015. See also Note 5 on remuneration.

Related party (USD million)	Transaction	Years ended 31 December	
		2015	2014
RAK Petroleum plc	Service agreement	1.2	1.0
	Rent	0.1	-
		<b>1.3</b>	<b>1.0</b>

**Description of transactions with related parties:****RAK Petroleum plc**

RAK Petroleum plc is DNO's largest shareholder and DNO's Executive Chairman Bijan Mossavar-Rahmani was nominated by RAK Petroleum plc. DNO ASA entered into an agreement with RAK Petroleum plc for services including administrative and commercial support, plus other expenses. The total fee paid by DNO ASA in 2015 was USD 1.2 million.

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

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

**Note 22****Significant transactions in 2015 and events after the balance sheet date****Significant transactions/events in 2015****Private placement of new shares and treasury shares**

In March 2015, DNO successfully completed an equity share offering of NOK 975 million, consisting of new shares and treasury shares.

**Yemen suspension of production**

In early 2015, DNO suspended its Yemen production due to the country's security conditions and remains under force majeure.

**Bond refinancing**

In June 2015, DNO completed the placement of USD 400 million of new, five-year senior unsecured bonds with a coupon rate of 8.75 percent and an issue price of 87.5 percent of par value.

**Export payments from Kurdistan**

During 2015, DNO received three partial payments for past exports from the Tawke field. Total gross payments received were USD 90 million, of which USD 66 million was net to DNO.

**Share buyback program**

In December 2015, DNO initiated a new share buyback program pursuant to a shareholder vote at the AGM of 28 May 2015 authorizing DNO to purchase up to 108,381,416 own shares. As of 31 December 2015, DNO held 4,000,000 treasury shares.

**Events after the balance sheet date****Export payments from Kurdistan**

On 6 January 2016, DNO confirmed receipt of USD 30 million as partial payment towards oil exported from the Tawke field by the KRG. The payment was shared pro-rata with its Tawke license partner. On 8 February 2016, another payment of USD 21.45 million was received from the KRG for exports from the Tawke field under a new payment arrangement announced on 1 February 2016. The payment, also shared pro-rata by DNO and its partner, includes USD 17.99 million toward the monthly entitlement for January exports and USD 3.46 million toward the recovery of outstanding entitlements for past deliveries.

## Note 23

## Company Working Interest proven and probable reserves (2P) and contingent resources (2C)

Million boe	YEMEN		KURDISTAN		OMAN		UAE		TUNISIA		DNO GROUP		
	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Total
<b>1 January 2014</b>	<b>7.0</b>	<b>3.6</b>	<b>524.3</b>	<b>66.3</b>	<b>10.7</b>	<b>15.4</b>	-	<b>8.2</b>	-	<b>5.8</b>	<b>541.9</b>	<b>99.4</b>	<b>641.3</b>
Discoveries, additions and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	7.6	-	7.6	7.6
Divestment of reserves/resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-3.0	-1.0	-28.7	0.7	-1.7	-	-	-	-	-	-33.4	-0.3	-33.7
New developments	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2014 production	-1.0	-	-21.3	-	-2.6	-	-	-	-	-	-24.9	-	-24.9
<b>31 December 2014</b>	<b>3.0</b>	<b>2.6</b>	<b>474.2</b>	<b>67.0</b>	<b>6.4</b>	<b>15.4</b>	-	<b>8.2</b>	-	<b>13.4</b>	<b>483.6</b>	<b>106.7</b>	<b>590.3</b>
Discoveries, additions and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of reserves / resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestment of reserves/ resources	-	-	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-2.9	0.4	-54.8	39.7	-2.4	-15.2	-	-	-	-	-60.1	25.0	-35.1
New developments	-	-	-	-	-	-	-	-	-	-	-	-	-
Year 2015 production	-0.1	-	-30.6	-	-1.3	-	-	-	-	-	-32.0	-	-32.0
<b>Total reserves and resources 31 December 2015 (unaudited)</b>	<b>-</b>	<b>3.0</b>	<b>388.7</b>	<b>106.7</b>	<b>2.7</b>	<b>0.3</b>	<b>-</b>	<b>8.2</b>	<b>-</b>	<b>13.4</b>	<b>391.5</b>	<b>131.6</b>	<b>523.1</b>

Reserves according to the annual statement of reserves released 17 March 2016, classification as in Norwegian Petroleum Directorate (NPD) class 1-3. Resources corresponds to class 4-7 in NPD definitions. The figures represent best estimate (P50 base case). International petroleum consultants DeGoyler and MacNaughton have carried out the annual independent assessment of the Tawke field in Kurdistan. The company has internally assessed the remaining assets.

As in the accounting principles, estimation of oil and gas reserves and resources involves uncertainty. The figures above represent management's best judgment of the most likely quantity of economically recoverable oil and gas estimated at year-end 2015, 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.

As of 31 December 2015, DNO's CWI 2P reserves and 2C contingent resources were estimated at 523.1 million barrels of oil equivalent (MMboe), down from 590.3 MMboe at year-end 2014. CWI 2P reserves were estimated at 391.5 MMboe, down from 483.6 MMboe at year-end 2014 after adjusting for CWI production of 32.3 MMboe during the year, a re-categorization of 53.9 MMboe from CWI 2P reserves to CWI 2C contingent resources and other technical revisions of 5.9 MMboe. CWI 2C contingent resources were estimated at 131.6 MMboe, up from 106.7 MMboe at year-end 2014.

DNO's year-end 2015 Reserve Life Index (R/P) stood at 12.2 years on a 2P reserves basis and 16.3 years on a 2P reserves and 2C contingent resources basis.

The ICE forward curve for Brent crude at 31 December 2015 (adjusted for quality differences) has been used as the basis for calculating remaining reserves.

CWI reserves in Oman and Kurdistan includes DNO's share of cost oil resulting from carried interests.

The production figures also include oil consumed in the operation at the fields.

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

Million boe	YEMEN	KURDISTAN	OMAN	UAE	DNO GROUP
	Reserves	Reserves	Reserves	Reserves	Reserves
31 December 2014	2.1	150.5	3.5	-	156.1
<b>31 December 2015</b>	<b>-</b>	<b>162.1</b>	<b>2.3</b>	<b>-</b>	<b>164.4</b>

\*Reserves according to NPD class 1-3 only.

Net entitlement reserves in Oman and Kurdistan include reserves attributable to the value of the notional tax paid on behalf of the contractors by the government as provided for under the PSCs; in 2015, such net entitlement reserves in Kurdistan and Oman were 43.8 MMboe and 0.4 MMboe, respectively.

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## Income statements

USD thousand	1 January–31 December		
	Note	2015	2014
<b>OPERATING REVENUES</b>			
Operating revenues	2	6,079	30,713
<b>Total operating revenues</b>		<b>6,079</b>	<b>30,713</b>
<b>OPERATING EXPENSES</b>			
Ordinary depreciation	7	1,953	978
Payroll and payroll-related expenses	3	12,188	39,361
Other operating expenses	4	13,153	18,312
<b>Total operating expenses</b>		<b>27,294</b>	<b>58,651</b>
<b>OPERATING PROFIT/-LOSS</b>		<b>-21,215</b>	<b>-27,938</b>
Net other financial items	5	74,692	-126,661
<b>PROFIT /-LOSS BEFORE INCOME TAX</b>		<b>53,477</b>	<b>-154,600</b>
Income tax expenses	6	-	-
<b>ANNUAL PROFIT/-LOSS</b>		<b>53,477</b>	<b>-154,600</b>
Transferred from/to other equity		53,477	-154,600
<b>Total allocations</b>		<b>53,477</b>	<b>-154,600</b>
Earnings per share, basic	18	0.05	-0.15
Earnings per share, diluted	18	0.05	-0.15

## Balance sheets

USD thousand	Years ended 31 December		
	Note	2015	2014
<b>Assets</b>			
<b>FIXED ASSETS</b>			
<b>Tangible fixed assets</b>			
Property, plant and equipment	7	7,940	7,384
<b>Total tangible assets</b>		<b>7,940</b>	<b>7,384</b>
<b>Financial fixed assets</b>			
Shares in subsidiaries	8	434,167	438,449
Intercompany receivables	19	4,387	116,346
Investments in shares	8	10,796	34,970
<b>Total financial fixed assets</b>		<b>449,350</b>	<b>589,764</b>
<b>Total fixed assets</b>		<b>457,290</b>	<b>597,148</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	9	2,356	3,604
Cash and cash equivalents, restricted	10	3,101	3,489
Cash and cash equivalents, unrestricted	10	230,067	104,967
<b>Total current assets</b>		<b>235,524</b>	<b>112,060</b>
<b>TOTAL ASSETS</b>		<b>692,814</b>	<b>709,208</b>

## Equity and liabilities

USD thousand

EQUITY	Years ended 31 December		
	Note	2015	2014
<b>Paid-in capital</b>			
Share capital		35,991	34,121
Treasury shares		-115	-550
Share premium account		247,743	152,755
Other paid in capital		48,166	30,049
<b>Total paid-in capital</b>	11	<b>331,785</b>	<b>216,375</b>
<b>Retained earnings</b>			
Retained earnings		-78,032	-131,509
<b>Total retained earnings</b>	11	<b>-78,032</b>	<b>-131,509</b>
<b>Total shareholders' equity</b>	11	<b>253,753</b>	<b>84,866</b>
<b>Non-current liabilities</b>			
Intercompany liabilities	19	81,383	387,254
Interest-bearing liabilities	13	350,682	214,702
Other non-current liabilities		956	1,955
<b>Total non-current liabilities</b>		<b>433,021</b>	<b>603,911</b>
<b>Current liabilities</b>			
Provisions for other liabilities and charges		6,039	20,431
<b>Total current liabilities</b>	14	<b>6,039</b>	<b>20,431</b>
<b>Total liabilities</b>		<b>439,060</b>	<b>624,342</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>692,814</b>	<b>709,208</b>

Oslo, 17 March 2016



Bijan Mossavar-Rahmani  
Executive Chairman



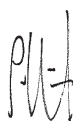
Lars Arne Takla  
Deputy Chairman



Shelley Watson  
Director



Elin Karfjell  
Director



Gunnar Hirsti  
Director



Bjørn Dale  
Managing Director

## Cash flow statements

1 January-31 December

USD thousand	Note	2015	2014
<b>OPERATING ACTIVITIES</b>			
Profit/-loss before tax		53,477	-154,600
Taxes paid	6	-	-
Depreciation and impairment of tangible and intangible assets	7	1,953	978
Impairment/Reversal of impairment of financial assets	5	194,796	112,190
Changes in net assets and other accruals		-264,590	4,681
Interest paid		-31,617	-18,608
Dividend received	5	20,545	-
<b>Net cash flow from operating activities</b>		<b>-25,436</b>	<b>-55,358</b>
<b>INVESTING ACTIVITIES</b>			
Payments made for investments in other assets	7	-2,510	-7,338
Payments made for acquisitions of bonds, securities, stocks and shares		-	-38,887
Interest received		1,141	416
Net cash flow from investing activities in subsidiaries		-95,970	-52,685
<b>Net cash flow from investing activities</b>		<b>-97,339</b>	<b>-98,494</b>
<b>FINANCING ACTIVITIES</b>			
New interest-bearing debt	13	344,793	-
Repayment of interest-bearing debt	13	-211,352	-
Issue of share capital	11	1,870	-
Purchase of treasury shares and options	11	-2,959	-
Sale of treasury shares and options	11	21,361	-
Proceeds from issuance of shares	11	94,988	-
<b>Net cash flow -used in/from financing activities</b>		<b>248,701</b>	<b>-</b>
<b>Effects of change in currency (cash and cash equivalents)</b>		<b>-1,214</b>	<b>1,048</b>
Cash and cash equivalents 1 January		108,456	261,260
Net change in cash and cash equivalents		124,712	-152,804
<b>Cash and cash equivalents 31 December</b>	10	<b>233,168</b>	<b>108,456</b>
Of which restricted cash		3,101	3,489

**Note 01****Accounting principles****■ General**

The financial statements of DNO ASA (the company) are presented in accordance with the Norwegian Accounting Act and other generally accepted accounting principles in Norway. 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 US Dollars (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 DNO group have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been presented separate from the parent company accounts.

**■ Investments in subsidiaries and associated companies**

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

**■ Valuation and classification of balance sheet items**

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

**■ Shares**

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

**■ Property, plant & equipment**

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 certain 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.

**■ Share saving plan**

An employee share saving plan was introduced in 2013 through which employees can save part of their salary in synthetic company shares. The purchase is matched by DNO if these shares are kept for a period of two years and the employee is still employed by the company. The arrangement is considered a cash-settled, share-based payment since the settlement is made in cash. DNO records a liability related to the matching of the synthetic shares and an accompanying cost element.

**■ Allowance for doubtful accounts**

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

**■ Contingent gains/losses**

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

**■ Cash flow statement**

The cash flow statement is based on the indirect method. Cash equivalents include bank deposits.

**Note 02****Operating revenues**

USD thousand	Years ended 31 December	
	2015	2014
Operating revenues	6,079	30,713
<b>Total operating revenues</b>	<b>6,079</b>	<b>30,713</b>

Operating revenues consist of income from services provided by the parent company to the subsidiaries.

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

USD thousand	Years ended 31 December	
	2015	2014
<b>Payroll expenses</b>		
Salaries, bonuses, options etc.	13,274	36,411
Employer's payroll tax expenses include payroll tax on options	2,037	3,160
Pensions	1,142	1,184
Other personnel costs	-2,695	4,660
Reclassification of payroll and payroll-related expenses to exploration and production costs	-1,571	-6,052
<b>Payroll and payroll-related expenses</b>	<b>12,188</b>	<b>39,361</b>
Average number of man-labor years	67	67

Salaries and social expenses are paid in NOK and recorded in USD based on the average exchange rate. The average USD/NOK rate used in 2015 was 8.06, compared to 6.30 for 2014.

The decrease in other personnel costs in 2015 was related to the revaluation of the employee share saving plan due to the decrease in DNO's share price and exchange rate movements.

Payroll expenses for participation in non-operated licenses are classified as exploration and production costs in the income statement.

**Pensions**

DNO has a defined contribution scheme for employees in the parent company. DNO meets the Norwegian requirements for mandatory occupational pensions ("obligatorisk tjenestepensjon").

**Remuneration to Board of Directors and executive management**

Remuneration paid to the Board of Directors (USD thousand)	Years ended 31 December	
	2015	2014
Bijan Mossavar-Rahmani, Executive Chairman	807,322	986,732
Lars Arne Takla, Deputy Chairman	67,587	82,922
Gunnar Hirsti, Director	60,459	74,392
Shelley Watson, Director	57,356	70,424
Elin Karfjell, Director (from June 2015)	33,458	-
Ellen K. Dyvik, Director (to June 2015)	23,898	70,424
<b>Total</b>	<b>1,050,079</b>	<b>1,284,895</b>

Included in the 2015 figures is USD 6,200 paid as fees for work related to the audit committee, the remuneration committee, the HSSE committee and nomination committee to Mr. Bijan Mossavar-Rahmani, Mr. Gunnar Hirsti, Ms. Shelley Watson, Mr. Lars Arne Takla, Ms. Ellen K. Dyvik, Ms. Elin Karfjell and Mr. Kåre Tjønneland.

Remuneration to Managing Director and executive management in 2015 (USD thousand)	Salary	Bonus	Pension	Other	Total
Bjørn Dale, Managing Director	701,022	-	61,247	24,822	787,091
Jeroen Regtien, Chief Operating Officer	550,000	-	40,000	175,000	765,000
Haakon Sandborg, Chief Financial Officer	328,732	-	40,304	20,272	389,308
Claes Åbyholm, General Counsel	253,579	-	32,553	5,235	291,367
James Edens, Commercial Director (from October 2015)	95,785	-	-	-	95,785
Nicholas Whiteley, Exploration Director (from October 2015)	127,735	-	6,717	37,342	171,794

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

For shares and options held by directors and executive management as of 31 December 2015 (see Note 5 in the consolidated accounts).

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

Severance payment agreements (up to two times annual salary) apply to the following members of executive management: Bjørn Dale, Jeroen Regtien, Haakon Sandborg, Claes Åbyholm and Nicholas Whiteley.

**Auditor's fees**

All figures are exclusive of VAT (USD thousand)	Years ended 31 December	
	2015	2014
Auditor's fees	275	299
Other financial auditing	12	13
<b>Total auditing fees</b>	<b>287</b>	<b>312</b>
Other assistance	15	-
Tax assistance	116	10
<b>Total auditor's fees</b>	<b>418</b>	<b>322</b>

**Declaration regarding determination of salary and other remuneration to the Managing Director and other executive management****The board's declaration for 2015**

According to the Norwegian Public Limited Liability Companies Act section 6-16a cf. section 5-6 third paragraph, the Board of Directors present a declaration regarding determination of salary and other remuneration to the Managing Director and senior employees 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.

*Variable elements*

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

Other variable elements include a scheme of newspapers, mobile phone and reimbursement of costs for broadband communication in accordance with established rates. The Board of Directors can decide on the amount and specific criteria for variable elements of the salaries.

*Share saving plan*

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

*Pensions*

DNO ASA has a contribution-based pension system under which employees are entitled to a pension contribution of 12.5 percent of their annual salary.

*Share-based incentive scheme*

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

*Severance agreements*

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

**Note 03****Salaries, pensions, remuneration, shares, options and severance cont.****Binding parts of this declaration**

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

**Management remuneration in 2015**

Management remuneration for 2015 was in accordance with the directives approved by the AGM in 2015.

**Remuneration committee**

The Board of Directors has a remuneration committee that considers questions related to the compensation to the Managing Director and executive management and presents these matters to the board for final review.

**Note 04****Other operating expenses**

Other operating expenses (USD thousand)	Years ended 31 December	
	2015	2014
Exploration expenses	-	-582
Lease expenses (buildings and equipment)	2,017	3,499
Other office expenses	253	2,649
IT expenses	2,367	2,192
Travel expenses	718	1,863
Legal expenses	261	822
Consultant fees	5,685	6,097
Other general and administrative costs	1,852	1,773
<b>Total other operating expenses</b>	<b>13,153</b>	<b>18,312</b>

**Note 05****Net other financial items**

USD thousand	Years ended 31 December	
	2015	2014
Dividend received from group companies	265,074	-
Interest received	1,141	460
Interest received from group companies	26,484	-
Other financial income	31	-
Gain on foreign exchange	16,284	21,467
Reversal impairment of financial assets	114,987	-
<b>Total financial income</b>	<b>424,001</b>	<b>21,927</b>
Interest expenses	-29,225	-35,004
Interest expenses group companies	-	-462
Loss on foreign exchange	-	-931
Impairment of financial assets	-309,783	-112,190
Other financial expenses	-10,301	-
<b>Total financial costs</b>	<b>-349,309</b>	<b>-148,588</b>
<b>Net finance items</b>	<b>74,692</b>	<b>-126,661</b>

Dividends were received from DNO Mena AS (USD 20.5 million), DNO Yemen AS (USD 234.2 million) and from DNO Iraq AS (USD 10.3 million). Dividends from DNO Yemen AS and DNO Iraq AS was offset against debt. Reversal of impairment of financial assets was related mainly to settlement of receivables on DNO Al Khaleej Ltd and debt conversion in DNO UK Ltd.

Impairment of financial assets in 2015 was related to shares in DNO Technical Services AS (USD 2.2 million), DNO UK Ltd (USD 7.8 million), DNO Mena AS (USD 162.6 million), DNO Oman AS (USD 18.1 million), DNO Somaliland AS (USD 1.5 million), DNO Tunisia AS (USD 14.4 million) and DNO Yemen (USD 79.1 million). In addition, shares in RAK Petroleum plc were impaired by USD 24.2 million (see Note 11 in the consolidated accounts).

Impairment of financial assets in 2014 was related to the receivable on DNO Al Khaleej Limited (USD 54.7 million), DNO Mena AS (USD 44.0 million) and DNO Tunisia AS (USD 13.5 million).

**Note 06****Taxes**

USD thousand	Years ended 31 December	
	2015	2014
Taxes payable	-	-
Change in deferred taxes	-	-
<b>Income taxes</b>	<b>-</b>	<b>-</b>

**Effective tax rates**

USD thousand	2015	2014
<b>Profit/-loss before taxes</b>	<b>53,477</b>	<b>-154,600</b>
Expected income tax according to nominal tax rate (27%)	-14,439	41,742
Adjustment of deferred tax assets not capitalized	-1,956	-4,667
Impairment financial assets	-52,595	-30,291
Tax-free dividend from subsidiaries	71,570	-
Change in previous years	14,739	-13,041
Other items	-14,121	6,258
Change in tax rates	-3,198	-
<b>Total income taxes</b>	<b>-</b>	<b>-</b>
<b>Effective tax rate (including change in deferred taxes)</b>	<b>0%</b>	<b>0%</b>

**The tax effect of temporary differences and losses carried forward:**

USD thousand	2015	2014
Other current items	-	-
Property, plant & equipment	293	-
Other fixed items (receivables, abandonment, etc.)	-150	3,480
Losses carried forward	-40,123	-41,504
<b>Total, basis for deferred taxes/(tax assets)</b>	<b>-39,980</b>	<b>-38,024</b>
Deferred tax asset allowance	39,980	38,024
<b>Total deferred taxes/(tax assets)</b>	<b>-</b>	<b>-</b>
<b>Capitalized deferred tax assets</b>	<b>-</b>	<b>-</b>
<b>Capitalized deferred tax liabilities</b>	<b>-</b>	<b>-</b>

The current tax rate was 27 percent in 2015. Effective from 1 January 2016 the current tax rate is 25 percent. Tax rates effective from 1 January 2016 have been used to calculate deferred taxes.

The tax loss carry forward is USD 40.0 million (25 percent of USD 160.0 million) as of year-end 2015. The carrying forward period for the unused losses in Norway is indefinite.

**Note 07****Property, plant and equipment**

USD thousand	Other tangible/intangible assets	Total PP&E
Costs 1 January 2015	9,802	9,802
Additions 2015	2,510	2,510
Disposals 2015	-	-
Transfers 2015	-	-
<b>Cost 31 December 2015</b>	<b>12,312</b>	<b>12,312</b>
Accumulated depreciation 1 January 2015	-2,419	-2,419
Depreciation 2015	-1,953	-1,953
Impairments 2015	-	-
Accumulated depreciation disposals	-	-
Disposals and transfers 2015	-	-
<b>Accumulated depreciation &amp; impairments 31 December 2015</b>	<b>-4,372</b>	<b>-4,372</b>
<b>Book value 31 December 2015</b>	<b>7,940</b>	<b>7,940</b>
Book value 31 December 2014	7,384	7,384

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

Additions in 2015 were mainly related to capitalization of costs related to a new Enterprise Resource Planning (ERP) system.

**Note 08****Investment in shares**

<b>Subsidiaries owned by DNO ASA</b>	<b>Company's business address</b>	<b>Owner-ship and voting interest</b>	<b>Company's share capital in 1,000</b>	<b>Company's equity in USD 1,000</b>	<b>Company's profit/-loss in USD 1,000</b>	<b>Book value in USD 1,000</b>
DNO Yemen AS	Oslo	100 %	NOK 291,000	-42,935	-42,657	-
DNO UK Ltd	London	100 %	GBP 100	-37	-686	165
DNO Iraq AS	Oslo	100 %	NOK 1,200	505,430	-47,950	279,847
DNO Tunisia AS	Oslo	100 %	NOK 2,500	60,061	-26,491	60,061
DNO Invest AS	Oslo	100 %	NOK 2,075	303	-3	341
DNO Mena AS	Oslo	100 %	NOK 2,000	83,362	-30,634	83,362
DNO Oman AS	Oslo	100 %	NOK 202	2,884	-4,883	2,884
DNO Somaliland AS	Oslo	100 %	NOK 202	712	-415	712
DNO Technical Services AS	Oslo	100 %	NOK 200	6,795	-2,815	6,795
<b>Total</b>				<b>616,575</b>	<b>-156,534</b>	<b>434,167</b>

In 2015, DNO ASA refinanced its subsidiaries mainly through debt conversions. In total, USD 185.4 million was converted from debt to equity, while USD 96.0 million was paid in cash. USD 285.6 million of the value of the shares in subsidiaries was written off in 2015 (see Note 5).

**Other investments**

Other investments by DNO ASA in 2015 and 2014 are related to shares in RAK Petroleum plc, in which DNO holds 15,849,737 shares. All shares were acquired in open market transactions. RAK Petroleum plc was listed on the Oslo Stock Exchange on 7 November 2014 and, when listed, the shares were converted 10:1 from 158,497,373 to 15,849,737.

Due to lower market value of the shares, an impairment loss of USD 24.2 million was charged in 2015 (USD 14.8 million in 2014).

**Note 09****Trade and other receivables**

<b>USD thousand</b>	<b>Years ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
Trade receivables	-	1,305
Prepayments and accrued income	2,205	1,582
Other short-term receivables	151	717
<b>Total trade and other receivables</b>	<b>2,356</b>	<b>3,604</b>

**Note 10****Cash and cash equivalents**

<b>USD thousand</b>	<b>Years ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
Cash and cash equivalents, restricted	3,101	3,489
Cash and cash equivalents, non-restricted	230,067	104,967
<b>Total cash and cash equivalents</b>	<b>233,168</b>	<b>108,456</b>

Restricted cash relates to employee tax deduction as well as deposits for rent and savings related to the employee share saving plan.

The cash is held mainly in USD and NOK.

**Note 11****Shareholders' equity**

USD thousand	Share capital	Treasury shares, number (1,000)	Treasury shares, amount	Share premium account	Other paid-in capital	Retained earnings	Total
Shareholders' equity on 1 January 2014	34,121	13,050	-550	152,755	30,049	23,090	239,465
Purchase of treasury shares	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-154,600	-154,600
<b>Shareholders' equity on 31 December 2014</b>	<b>34,121</b>	<b>13,050</b>	<b>-550</b>	<b>152,755</b>	<b>30,049</b>	<b>-131,510</b>	<b>84,866</b>
Shareholders' equity on 1 January 2015	34,121	13,050	-550	152,755	30,049	-131,510	84,865
Purchase of treasury shares	-	4,000	-115	-	-2,729	-	-2,844
Sale of treasury shares	-	-13,050	550	-	20,848	-	21,398
Share issue	1,870	-	-	94,988	-	-	96,858
Profit for the year	-	-	-	-	-	53,477	53,477
<b>Shareholders' equity on 31 December 2015</b>	<b>35,991</b>	<b>4,000</b>	<b>-115</b>	<b>247,743</b>	<b>48,167</b>	<b>-78,033</b>	<b>253,753</b>

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

**Note 12****Guarantees and commitments**

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

**Note 13****Interest-bearing liabilities**

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

**Note 14****Current liabilities**

USD thousand	Years ended 31 December	
	2015	2014
Trade creditors	1,036	4,885
Public duties payable	1,048	1,378
Accrued expenses and other current liabilities	3,935	16,124
<b>Total trade and other payables</b>	<b>6,039</b>	<b>22,387</b>

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

**Note 15****Financial instruments and risk management**

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

**Note 16****Related party disclosure**

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

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

See Note 21 in the consolidated accounts for further information on transactions with related parties and Note 19 below for intercompany position at year-end 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	Years ended 31 December	
	2015	2014
Net profit/-loss attributable to ordinary equity holders of the parent	53,477	-154,600
Weighted average number of ordinary shares (excluding treasury shares)	1,069.5	1,010.2
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,069.5	1,010.2
Earnings per share, basic	0.05	-0.15
Earnings per share, diluted	0.05	-0.15

**Note 19****Intercompany****Long-term intercompany receivables**

USD thousand	Currency	Years ended 31 December	
		2015	2014
DNO UK Ltd	GBP	29	2,035
DNO Iraq AS	USD	-	43,434
DNO Tunisia AS	USD	2,041	29,672
DNO Invest AS	NOK	4	-
DNO Al Khaleej Ltd	USD	365	-
DNO Oman Block 30 Limited	USD	40	2,013
DNO Oman Block 8 Limited	USD	-	5,906
DNO Oman Limited	NOK	35	17,322
DNO Oman AS	USD	1,764	2,131
DNO Somaliland AS	USD	108	3,948
DNO Tunisia Limited	USD	-	9,884
<b>Total long-term intercompany receivables</b>		<b>4,387</b>	<b>116,346</b>

**Long-term intercompany debt**

USD thousand	Currency	Years ended 31 December	
		2015	2014
DNO Yemen AS	USD	2,212	252,962
DNO Iraq AS	USD	5,233	-
DNO Mena AS	USD	423	24,040
DNO Oman Block 8 Limited	USD	71,336	97,745
DNO Technical Services Limited	USD	2,179	12,507
<b>Total long-term intercompany debt</b>		<b>81,383</b>	<b>387,254</b>

Intercompany receivables and debt are interest bearing with an average interest rate of 8.3 percent charged for 2014 and 8.5 percent for 2015.

Reduced intercompany balances in 2015 are mainly due to debt conversions and repayments. The parent company received a dividend from DNO Yemen AS which mainly offset the debt.

## Auditor's report 2015



Statsautoriserte revisorer  
Ernst & Young AS  
Dronning Eufemias gate 6, NO-0191 Oslo  
Oslo Atrium, P.O.Box 20, NO-0051 Oslo

Foretaksregisteret: NO 976 389 387 MVA  
Tlf: +47 24 00 24 00  
Fax: +47 24 00 24 01  
www.ey.no  
Medlemmer av Den norske revisorforening

To the Annual Shareholders' Meeting of  
DNO ASA

### AUDITOR'S REPORT

#### Report on the financial statements

We have audited the accompanying financial statements of DNO ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2015, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2015, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditor's responsibility*

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

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

## Auditor's report 2015



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

### *Opinion on the financial statements of the Parent Company*

In our opinion, the financial statements of DNO ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

### *Opinion on the financial statements of the Group*

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

### **Report on other legal and regulatory requirements**

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

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

#### *Opinion on registration and documentation*

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

Oslo, 17 March 2016  
ERNST & YOUNG AS

Asbjørn Rødal  
State Authorised Public Accountant (Norway)

# Glossary and definitions

## **2D seismic**

A seismic survey along a single line or a series of lines analyzed to create a two-dimensional image of the subsurface

## **3D seismic**

Multiple and closely spaced seismic lines acquired together in a grid formation and analyzed to create a three-dimensional image of the subsurface

## **AGM**

Annual General Meeting

## **bbls**

Barrels of oil

## **Bcf**

Billion cubic feet

## **boe**

Barrels of oil equivalent

## **bopd or boepd**

Barrels of oil per day or barrels of oil equivalent per day

## **Capital employed**

Equity plus interest-bearing debt

## **Company**

DNO ASA

## **Company Working Interest (CWI)**

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

## **CWI reserves**

Reserves based on company working interest production

## **Contingent resources**

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

## **Contractor**

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

## **Cost oil**

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

## **Crude oil or oil**

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

## **D&M**

DeGolyer and MacNaughton

## **DD&A**

Depreciation, depletion and amortization

## **DNO**

DNO ASA

## **DNO group**

The company and its consolidated subsidiaries

## **EBITDA**

Earnings before interest, tax, depreciation and amortization

## **Farm-in**

To acquire an interest in a license from another party

## **Farm-out**

To assign an interest in a license to another party

## **FDA cost**

Finding, developing and acquisition cost

## **Finding cost**

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

## **HSSE**

Health, safety, security and environment

## **Hydrocarbons**

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

## **IAS**

International Accounting Standards

## **KRG**

Kurdistan Regional Government

## **LIBOR**

London inter-bank offered rate

## **License or permit**

Area of specified size licensed to a company by the government for production of oil or gas

## **MENA**

Middle East and North Africa

## **MMbbl, MMbbls**

Million barrels

## **MMboe**

Million barrels of oil equivalent

## **MMcfd**

Million cubic feet of gas per day

## **MMscf**

Million standard cubic feet

## **Natural gas or gas**

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

## **Net entitlement**

The portion of future production (and thus resources) legally accruing to a contractor under the terms of the development and production contract

## **Net entitlement reserves**

Reserves based on net entitlement production

**Netback**

EBITDA adjusted for taxes paid

**NIBOR**

Norwegian inter-bank offered rate

**Operator**

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

**Oslo Stock Exchange**

Oslo Børs ASA

**PP&E**

Property, plant and equipment

**Production Sharing Contract (PSC)**

An agreement between a contractor and a host government, whereby the contractor bears all exploration costs, risks, development and production costs in return for a stipulated share of the production resulting from this effort

**Profit oil**

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

**Prospective resources**

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

**Reserves**

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

**Royalty**

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

**Seismic data**

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

**SPE**

Society of Petroleum Engineers

**Spud or Spudding**

Initiation of drilling operations

**STOIIP**

Stock tank oil initially in place

**Tcf**

Trillion cubic feet of gas

