7 COUNTRIES | 3 CONTINENTS

18 LICENSES

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

WORKFORCE

911

SHARE PRICE DEVELOPMENT

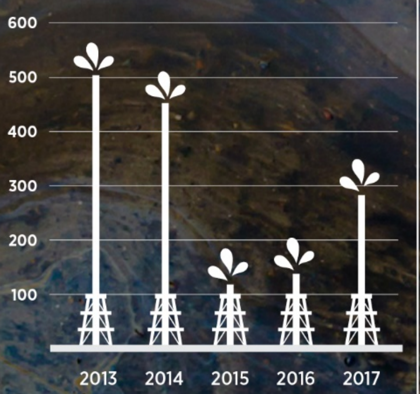
DNO ASA

ANNUAL REPORT AND ACCOUNTS

2017

REVENUES (USD million)

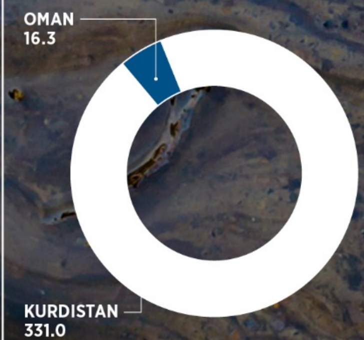
347.4



OPERATING PROFIT (USD million)

521.1

REVENUES (USD million)

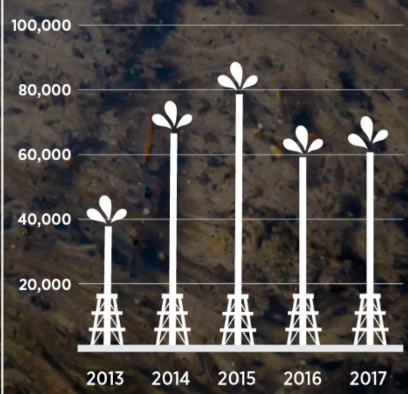


"We are agile. We are flexible. We are stubbornly resilient. We are DNO."

Bijan Mossavar-Rahmani,
DNO's Executive Chairman

CWI PRODUCTION (boepd)

73,678



CWI 2P RESERVES (MMboe)

384.1

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Highlights

DNO ASA ("DNO") recorded annual 2017 revenues of USD 347 million, up 72 percent from 2016 levels of USD 202 million on the back of higher oil prices and regular export payments in the Kurdistan region of Iraq.

Operated production in 2017 was 113,500 barrels of oil equivalent per day (boepd), up from 112,600 boepd during 2016. The Company's production continues to be driven by the flagship Tawke field in Kurdistan, where output in 2017 averaged 105,500 barrels of oil per day (bopd). The Peshkabir field, also within the Tawke license, came onstream during 2017, producing an average of 3,600 bopd over the course of the year. At end-2017, Peshkabir was producing over 15,000 bopd.

The Company received 12 monthly Kurdistan export payments during 2017 totaling USD 380 million net to DNO. The landmark August 2017 Receivables Settlement Agreement, which increased DNO's stake in the Tawke and Peshkabir fields from 55 percent to 75 percent and allocated three percent of gross license revenues over five years to DNO, contributed to higher export revenues.

Looking ahead to 2018, the Company plans to hike year-on-year Kurdistan operational spend by more than 50 percent to USD 250 million – up more than three times 2016 levels. A total of 11 wells are planned at the Tawke license, of which six will be at the Peshkabir field and five at the Tawke field. At Peshkabir, DNO plans to reach 30,000 bopd by mid-2018 and continue to ramp up production from the field in the second half of the year.

Key figures

USD million	2017	2016
Key financials		
Revenues	347.4	201.8
Gross profit	145.2	73.1
Profit/-loss from operating activities	521.1	6.1
Net profit/-loss	495.0	-35.3
EBITDA	735.6	95.4
Netback*	231.8	93.8
Acquisition and development costs	130.4	36.4
Exploration costs expensed	33.0	20.3
Reserves and production		
Gross production (boepd)	113,530	112,624
Company Working Interest production (boepd)	73,678	69,188
Company Working Interest 2P reserves (MMboe)	384.1	368.3
Key performance indicators		
Lifting costs (USD/boe)	3.6	2.7
Netback (USD/boe)	8.6	3.7

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

Board of Directors

Bijan Mossavar-Rahmani
Executive Chairman

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

Mr. Mossavar-Rahmani serves concurrently as Executive Chairman of Oslo-listed RAK Petroleum plc, DNO's largest shareholder. He is a Trustee of the New York Metropolitan Museum of Art and a member of Harvard University's Global Advisory Council. He has published more than ten books on global energy markets and was decorated Commandeur de l'Ordre National de la Côte d'Ivoire for services to the energy sector of that country. Mr. Mossavar-Rahmani is a graduate of Princeton (AB) and Harvard Universities (MPA). He is a member of the nomination and remuneration committees.

Lars Arne Takla
Deputy Chairman

Lars Arne Takla has extensive experience from various managerial, executive and board positions in the international oil and gas industry.

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

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

Gunnar Hirsti
Director

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

Mr. Hirsti was Chief Executive Officer of DSND Subsea ASA (now Subsea 7 S.A.) for a period of six years. He also served as Executive Chairman of the Board of Blom ASA, 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 and remuneration committees.

Shelley Watson
Director

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

Subsequently she held management positions with Novus Petroleum, Indago Petroleum and RAK Petroleum PCL where she served as General Manager until 2014. She was appointed as Chief Operating Officer of RAK Petroleum plc in February 2017 and Chief Financial Officer in May 2017. Ms. Watson holds a First Class Honours degree in chemical engineering and a Bachelor of Commerce degree from the University of Melbourne. She has served on DNO's Board of Directors since 2010 and is a member of the audit committee.

Board of Directors' report

Introduction

2017 full-year results highlights

- Operated production in 2017 of 113,530 boepd, up from 112,624 boepd in 2016;
- Gross output at Tawke license in Kurdistan averaged 109,047 bopd, of which 108,245 bopd were delivered for pipeline export through Turkey;
- Company Working Interest (CWI) production of 73,678 boepd, up from 69,188 boepd in 2016;
- Revenues of USD 347 million in 2017, up from USD 202 million in 2016;
- Kurdistan revenues totaled USD 331 million and Oman revenues totaled USD 16 million;
- Operating profit of USD 521 million, up from USD 6 million in 2016, on back of recognition of USD 556 million of historical receivables under a 2017 settlement;
- Operational spend of USD 259 million, up from USD 125 million in 2016;
- Yearend cash balance of USD 430 million, up from USD 261 million at end-2016; and
- CWI proven and probable reserves (2P) of 384 million barrels of oil equivalent (MMboe), up from 368 MMboe at end-2016.

Our vision and strategic priorities

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

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

Production strength and capacity

DNO reported operated production in 2017 of 113,530 boepd, up from 112,624 boepd in 2016. DNO's CWI production stood at 73,678 boepd in 2017, up from 69,188 boepd in 2016.

With CWI 2P reserves totaling 384 MMboe across its portfolio, DNO has the asset base to sustain long-term production growth.

Organic reserves and resource growth

Done in a structured manner, successful exploration can be one of the most cost-efficient methods of delivering significant reserves growth and associated value creation. At DNO, we focus our efforts on areas where we have in-depth knowledge of the subsurface, playing to our technical and operational strengths as a fractured carbonate specialist. And we benchmark each prospect so that capital deployed to exploration is only allocated to those opportunities that meet our technical, financial and strategic requirements. Looking ahead, we will continue to actively pursue opportunities in high potential basins across the Middle East and the North Sea, with the goal of transforming resources into reserves at a low unit cost.

Operational control and financial flexibility

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

During 2017, the Company achieved an average lifting cost of USD 3.6 per barrel of oil equivalent (boe).

Encouraging an entrepreneurial culture

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

Mergers and acquisitions

In addition to organic growth, we continuously evaluate new assets and take an opportunistic approach to potential acquisitions.

Corporate responsibility and managing risk

One of our priorities is to ensure that DNO is a responsible and transparent enterprise. We are committed to the highest standards of corporate governance and business conduct. Recognizing that the success of an oil and gas company is directly linked to how well risks are managed, we seek to improve our systems designed to identify and manage risks effectively. We are also committed to the health, safety and security of our employees, contractors and the communities in which we operate, as well as to responsible environmental practices. Please refer to the Corporate Social Responsibility Highlights 2017 and Country-by-Country Report 2017 for more information on activities in the areas in which we operate. Both reports are available on our website www.dno.no.

Operations review

Annual Statement of Reserves and Resources

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

As of 31 December 2017, DNO's CWI proven reserves (1P) stood at 239.8 MMboe, up from 219.2 MMboe at yearend 2016, after adjusting for production during the year, technical revisions and an increase in DNO's interest to 75 percent in the Tawke license plus three percent of aggregate license revenues until 31 July 2022 pursuant to the Receivables Settlement Agreement with the Kurdistan Regional Government in August 2017. On a 2P basis, DNO's CWI reserves stood at 384.1 MMboe, up from 368.3 MMboe at yearend 2016. On a proven, probable and possible (3P) basis, DNO's CWI reserves climbed to 665.7 MMboe from 520.7 MMboe at yearend 2016. DNO's CWI contingent resources (2C) were estimated at 98.9 MMboe, down from 161.3 MMboe at yearend 2016, following reclassification of certain contingent resources to reserves.

DNO's yearend 2017 Reserve Life Index (R/P) stood at 8.9 years on a 1P reserves basis, 14.3 years on a 2P reserves basis and 24.8 years on a 3P reserves basis.

The ASRR report for 2017 is available on the Company's website.

Kurdistan region of Iraq

APPRAISAL AND FIELD DEVELOPMENT

Tawke license

The Company has fast tracked the development of the Peshkabir field, bringing the Peshkabir Cretaceous discovery on production in less than six months and tripling sales to 15,000 bopd in late 2017. Output has been steady from Peshkabir-2 (5,600 bopd) and Peshkabir-3 (10,000 bopd) for cumulative production of more than 2 million barrels to date. A total of six Peshkabir wells are planned this year with field production expected to reach 30,000 bopd by summer and continue to ramp up in the second half of the year.

At the Tawke field, plans are being finalized to drill four wells in 2018, in addition to the Tawke-48 well which completed at end-February 2018. The Company is initiating engineering studies for injection of Peshkabir gas for enhanced oil recovery at Tawke.

Erbil license

The Company re-entered and sidetracked the Hawler-1 well to appraise the Benenan heavy oil field in the Erbil license, achieving a technical milestone with the first ever multilateral well and the first ever dual completion in Kurdistan. Estimates of oil-in-place at Benenan stand at more than two billion barrels.

PRODUCTION

Gross production from the Tawke license averaged 109,047 bopd during 2017, of which 108,245 bopd were delivered for pipeline export through Turkey and the balance was processed in the Tawke refinery.

RESERVES

On a CWI basis at yearend 2017, 1P reserves in the Company's two Kurdistan licenses totaled 239.8 MMboe, up from 218.7 MMboe at yearend 2016. 2P reserves stood at 384.1 MMboe compared to 364.7 MMboe at yearend 2016. 3P reserves climbed to 665.7 MMboe from 512.7 MMboe at yearend 2016.

On a gross basis, at yearend 2017, 1P reserves at the Tawke license stood at 348.3 MMboe (352.7 MMboe at yearend 2016), 2P reserves stood at 512.6 MMboe (536.0 MMboe at yearend 2016) and 3P reserves stood at 880.0 MMboe (725.4 MMboe at yearend 2016). 2C resources stood at 91.4 MMboe (211.1 MMboe at yearend 2016).

At the Tawke field, 1P reserves stood at 335.3 MMboe at yearend 2017 (347.6 MMboe at yearend 2016), 2P reserves at 437.5 MMboe (503.8 MMboe at yearend 2016) and 3P reserves at 587.7 MMboe (630.2 MMboe at yearend 2016). 2C resources at the Tawke field were estimated at 91.4 MMboe at yearend 2017 (100.2 MMboe at yearend 2016).

At the Peshkabir field, 1P reserves stood at 13.0 MMboe at yearend 2017 (5.1 MMboe at yearend 2016), 2P reserves at 75.1 MMboe (32.2 MMboe at yearend 2016) and 3P reserves at 292.3 MMboe (95.2 MMboe at yearend 2016). No 2C resources were recorded for the Peshkabir field at yearend 2017 as 110.9 MMboe of 2C resources at yearend 2016 were reclassified to reserves.

At yearend 2017, gross 2P reserves at the Benenan and Bastora fields stood at 57.4 MMboe (26.7 MMboe on a CWI basis) and 10.9 MMboe (5.1 MMboe on a CWI basis), respectively.

Yemen

PRODUCTION

Production start-up at the Yaalen field at Block 47, currently under force majeure, remains on hold.

RESERVES

DNO no longer carries any reserves in Yemen. The Block 47 Yaalen field is classified as holding 2C resources due to the force majeure status of the block.

Oman

PRODUCTION

At Block 8, DNO operates Oman's only producing offshore fields, Bukha and West Bukha, where gross production in 2017 totaled 4,484 boepd (2,242 boepd on a CWI basis).

RESERVES

CWI reserves and contingent resources at Block 8 were written down to zero at yearend 2017 since the Company plans to relinquish the asset prior to expiry of the license on 3 January 2019.

Tunisia

EXPLORATION

The Company's exploration and appraisal program is continuing in Tunisia where the Company holds stakes in two licenses.

Norway

EXPLORATION

In early 2018, the Company was awarded participation in 10 exploration licenses under Norway's Awards in Predefined Areas (APA) 2017 licensing round. Of the 10 licenses, seven are in the North Sea, one in the Norwegian Sea and two in the Barents Sea.

United Kingdom

EXPLORATION

The Val d'Isere prospect on the UK Continental Shelf (22.5 percent working interest) was drilled to 3,638 meters by operator Apache North Sea Limited, but the well encountered no hydrocarbons and was plugged and abandoned.

Somaliland

EXPLORATION

At Block SL 18 onshore Somaliland, a field geological survey and an environmental impact assessment have been conducted, in addition to a gravity-magnetic survey.

Business development

In 2017, DNO re-entered the North Sea by acquiring Origo Exploration Holding AS, with its highly experienced exploration team and an existing portfolio of offshore exploration licenses in Norway and the United Kingdom. Origo was subsequently renamed DNO Norge AS and the portfolio has since expanded through the award of additional exploration licenses in Norway's APA 2017 licensing round.

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

In 2017, three licenses were relinquished as part of the continuous high-grading of the Company's portfolio. This included Saleh and RAK Onshore in the United Arab Emirates and Block 36 in Oman.

Financial performance in 2017

Revenues, profits and cash flow

Total revenues in 2017 stood at USD 347.4 million, up from USD 201.8 million in 2016. Kurdistan revenue stood at USD 331.0 million and Oman revenue at USD 16.3 million.

The Company reported an operating profit of USD 521.1 million, up from USD 6.1 million during 2016. The increase in the operating profit is mainly due to recognition of other income of USD 556 million following the Kurdistan Receivables Settlement Agreement (See Note 24).

The Company ended the year with USD 430.2 million in cash and an additional USD 58.0 million in treasury shares and marketable securities. This was up from USD 261.1 million in cash and USD 21.2 million in treasury shares and marketable securities at end-2016. Operational cash flow for the year was USD 338.8 million, compared to USD 98.7 million in 2016. The difference between the operating profit and operational cash flow in 2017 is mainly due to recognition of historical receivables following the settlement with the Kurdistan Regional Government (KRG) in addition to impairment and depreciation charges.

Cost of goods sold

In 2017, the total cost of goods sold was USD 202.2 million, compared to USD 128.7 million in 2016.

Lifting costs in 2017 totaled USD 96.1 million, compared to USD 68.6 million in 2016. Lifting costs for Kurdistan operations stood at USD 2.8 per barrel in 2017, compared to USD 2.4 per barrel in 2016. Lifting costs in Oman stood at USD 29.0 per boe, compared to USD 8.8 per boe in 2016.

Depreciation, depletion and amortization (DD&A) costs increased to USD 106.1 million in 2017 from USD 60.1 million a year earlier.

Exploration costs expensed

Total expensed exploration costs during 2017 were USD 33.0 million, up from USD 20.3 million in 2016.

Acquisition and development costs

Total capital expenditure stood at USD 130.4 million, compared to USD 36.4 million during 2016. Most of the investments were related to drilling activities in Kurdistan and Oman.

Impairment charges

The Company's total impairment charges of USD 108.4 million in 2017 included USD 59.1 million in Kurdistan, USD 47.8 million in Oman and USD 1.5 million in Tunisia.

Assets, liabilities and equity

At the end of 2017, total assets stood at USD 1.415 billion, compared to USD 969.8 million at the end of 2016. Property, plant and equipment (PP&E) and intangible assets increased to USD 863.3 million mainly due to the Kurdistan Receivables Settlement Agreement. The equity ratio was 61.9 percent, while the ratio between current assets and current liabilities was 4.1.

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.

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, half-year and full-year results and other market presentations and releases.

Equity and dividends

SHAREHOLDERS' EQUITY

It is DNO's policy to maintain a strong credit profile and robust capital ratios. We therefore monitor capital on the basis of our equity ratio, with a policy that this ratio should be 30 percent or higher. As of 31 December 2017, this ratio was 61.9 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 2017.

AUTHORIZATIONS TO THE BOARD OF DIRECTORS
At the 2017 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 2018, but not beyond 30 June 2018. As of 31 December 2017, DNO held 35,000,000 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 2018, but not beyond 30 June 2018.

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.

All transactions between the Company and related parties shall be on arm's length terms. Members of the Board of Directors and executive management are required to notify the board if they have any direct or indirect material interest in any transaction entered into by the Company.

For more information about related party transactions, please see Note 21 in the consolidated financial statements for 2017.

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 2017, the Board of Directors consisted of five members, all of whom have relevant and broad experience. Three 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 (chair), Ms. Shelley Watson and Ms. Elin Karfjell. Its mandate includes ensuring the quality and accuracy of the Company's financial reporting. The committee is also responsible for monitoring internal control and risk evaluation systems.

HSSE COMMITTEE
The 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 and two external members, Ms. Anita Marie Hjerkinn Aarnæs and Mr. Kåre Tjønneland. Its mandate is to propose candidates for the Board of Directors and its various committees to the AGM. It also proposes the level of remuneration for the Board of Directors.

REMUNERATION OF DIRECTORS
The remuneration of the Board of Directors and its committees is decided by the AGM based on a recommendation from the nomination committee. Fees reflect the Board of Directors' responsibility, competence, workload and the complexity of the business and are determined separately for the Executive Chairman, the Deputy Chairman and other 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 2017, 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 the Board of Directors. The Company has an internal audit function that undertakes annual audits of the main business units and a compliance function whose role includes ensuring regulatory requirements and internal policies are followed.

Information and communication

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

DNO's 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 regular market presentations. The DNO investor relations' policy encourages open communication with capital markets and shareholders. In addition to scheduled half-year and full-year presentations, we also regularly hold presentations for investors and analysts.

Takeover

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

Auditor

DNO's external auditor is elected at the AGM, which also approves the auditor's fees for the parent company. The auditor annually presents an audit plan to the audit committee and participates in audit committee meetings to review the Company's internal control and risk management systems. The auditor also participates in board meetings when considered appropriate, with and without executive management present.

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

DNO's external auditor is Ernst & Young AS.

Enterprise risk management

The objective of DNO's risk management is to identify potential exposures that may impact the 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, liquidity risk, concentration risk and credit risk constitute financial risks for the Company. In order to minimize any potentially adverse effects from such risks, financial risk is managed by the group finance function under policies approved by the Board of Directors. For more information about how we manage financial risk, please see Note 9.

Entitlement risk

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

As a result of continuing disagreements between the FGI and the KRG, economic conditions in Kurdistan and limited available export channels, DNO has faced challenges 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 market prices, or that DNO will promptly receive its full entitlement payments for the oil it produces.

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 of interest policy, trade sanctions and other policies focused around the Company's Code of Conduct to ensure regulatory and company expectations are met. A whistleblowing procedure is also in place.

Political risk

Our portfolio is located in 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 2017. In Kurdistan, we continue to closely monitor security conditions although our operations to date have seen minimal impact from regional developments.

Stakeholder risk

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

HSSE performance

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

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

During 2017, the following were key highlights:

- Zero Serious Vehicle Accidents took place despite distances driven of over three million kilometers;
- Greenhouse gas emissions stood at 178,000 tonnes of CO_2 equivalent from 100,032 tonnes in 2016;
- Spills/leaks were reduced to two in 2017 from four in 2016, with total volumes spilled of six barrels from four barrels;
- Security incidents stood at four compared to two in 2016; and
- Safety Critical Equipment maintenance compliance increased to 97 percent, up from 92 percent in 2016.

In September 2017, a third party contractor was fatally injured during civil construction work undertaken by his company at the Erbil license in Kurdistan. The incident was investigated and learnings have been implemented across the Company to avoid similar incidents in the future. The Total Recordable Injury Frequency (TRIF) during 2017 was 1.00, down from 1.48 in 2016. A comprehensive improvement plan to further reduce the number of injuries and high potential incidents has been established.

Sickness absence in 2017 was 1.74 percent compared to 1.57 percent in 2016.

Organization and personnel

At the end of 2017, DNO had a workforce of 911 employees, of which 11 percent were women. Fifty-seven individuals were based at the Company's headquarters in Oslo, Norway and 854 were engaged in our international operations. Our workforce is characterized by strong cultural, religious and national diversity, with some 37 nationalities represented across the Company.

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

Executive remuneration policy

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

Remuneration policy for 2017

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

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

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

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

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

Share-based incentive scheme
The Board of Directors can implement a share-based incentive scheme involving the allocation of options to acquire shares. The principles of the program shall be (i) to align the interests of 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.

Binding sections

Remuneration as it relates to share-based incentive schemes is subject to a separate vote by the AGM and is binding once approved. Other sections of the remuneration policy are non-binding guidelines for the Board of Directors and are therefore only subject to a consultative vote at the AGM.

Executive management

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

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

BRUCE WEBB
Chief Operating Officer
Mr. Webb joined DNO in 2017. Mr. Webb previously served in senior management roles at BP, most recently as Country Manager for Libya and Algeria. He holds a Bachelor’s degree in Chemical Engineering from the University of Edinburgh.

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

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

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

Parent company

The parent company, DNO ASA, reported annual profit of USD 114.0 million compared to an annual loss of USD 119.9 million for 2016. Total assets as of 31 December 2017 were USD 786.3 million, up from USD 704.7 million at end-2016. The long-term intercompany receivables were USD 14.9 million as of 31 December 2017, compared to USD 13.4 million at yearend 2016. The long-term intercompany liabilities were USD 178.3 million, down from USD 201.6 million at yearend 2016. The Company’s cash balance at yearend 2017 was USD 388.5 million, up from USD 252.9 million at yearend 2016. Total shareholder equity at yearend 2017 was USD 221.7 million compared to USD 131.8 million in 2016.

The equity ratio increased to 28 percent from 19 percent in 2016. No ordinary dividend was proposed for 2017 and the Board of Directors proposes that the annual profit of USD 114.0 million is transferred to other equity.

Main events since yearend

On 15 February 2018, the Company received USD 54.73 million from the KRG as payment for November 2017 oil deliveries to the export market from the Tawke license. The funds were shared by DNO and partner Genel Energy plc pro-rata to the companies’ interests in the license. Separately, a payment of USD 4.70 million from the KRG was received net to DNO, representing three percent of gross Tawke license revenues during November, as provided for under last August’s Receivables Settlement Agreement.

On 22 January 2018, the Company received USD 53.71 million from the KRG as payment for October 2017 oil deliveries to the export market from the Tawke license. The funds were shared by DNO and partner Genel Energy plc pro-rata to the companies’ interests in the license. Payment of the three percent of gross Tawke license revenues during October of USD 4.37 million net to DNO was previously paid in December 2017.

Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for the period 1 January to 31 December 2017 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, 14 March 2018

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

USD million	Note	2017	2016
		1 January - 31 December	
Revenues	2, 3	347.4	201.8
Cost of goods sold	4	-202.2	-128.7
Gross profit		**145.2**	**73.1**
Other operating income	25	1.5	18.9
Other income past oil sales	24	556.0	-
Administrative expenses	5	-33.2	-31.0
Other operating expenses	5	-7.0	-5.4
Impairment oil and gas assets	10	-108.4	-29.2
Exploration costs expensed	6	-33.0	-20.3
Profit/-loss from operating activities		**521.1**	**6.1**
Financial income	7	11.8	17.4
Financial expenses	7	-57.9	-56.8
Profit/-loss before income tax		**475.1**	**-33.3**
Tax income/-expense	8	20.0	-2.1
Net profit/-loss		**495.0**	**-35.3**
Other comprehensive income			
Currency translation differences		-0.4	-
Fair value changes available-for-sale financial assets	11	3.4	3.2
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		**3.0**	**3.2**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		-	-
Total comprehensive income, net of tax		**498.0**	**-32.1**
Net profit/-loss attributable to:			
Equity holders of the parent		**495.0**	**-35.3**
Non-controlling interests		**-**	**-**
Total comprehensive income attributable to:			
Equity holders of the parent		**498.0**	**-32.1**
Non-controlling interests		**-**	**-**
Earnings per share, basic	19	0.47	-0.03
Earnings per share, diluted	19	0.47	-0.03

Consolidated statements of financial position

USD million	Note	Years ended 31 December 2017	2016
ASSETS			
Non-current assets			
Deferred tax assets	8	3.5	-
Other intangible assets	10	31.4	86.5
Property, plant and equipment	10	863.3	403.1
Available-for-sale investments	11	17.4	14.0
Other non-current assets	9	0.5	30.3
Total non-current assets		**916.0**	**533.9**
Current assets			
Inventories	4	7.4	57.3
Trade and other receivables	12	27.8	117.4
Tax receivables	8	33.7	-
Cash and cash equivalents	13	430.2	261.1
Total current assets		**499.1**	**435.9**
TOTAL ASSETS		**1,415.1**	**969.8**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	35.0	35.8
Other reserves	14	262.7	286.4
Retained earnings		578.2	79.8
Total equity		**875.9**	**401.9**
Non-current liabilities			
Interest-bearing liabilities	15	372.8	361.7
Provisions for other liabilities and charges	16	45.7	167.3
Total non-current liabilities		**418.5**	**529.0**
Current liabilities			
Trade and other payables	18	99.6	33.1
Income taxes payable	8	0.7	0.4
Current interest-bearing liabilities	15	17.6	-
Provisions for other liabilities and charges	16	2.7	5.3
Total current liabilities		**120.7**	**38.8**
Total liabilities		**539.2**	**567.8**
TOTAL EQUITY AND LIABILITIES		**1,415.1**	**969.8**

Oslo, 14 March 2018

Bijan Mossavar-Rahmani
Executive Chairman

Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Elin Karfjell
Director

Gunnar Hirsti
Director

Bjørn Dale
Managing Director

Consolidated cash flow statement

USD million	Note	2017	2016
		1 January - 31 December	
OPERATING ACTIVITIES			
Profit/-loss before income tax		475.1	-33.3
Adjustments to add (deduct) non-cash items:		-	-
Depreciation of PP&E and other intangible assets	4	106.1	60.1
Impairment oil and gas assets	10	108.4	29.2
Non-cash Kurdistan Receivable Settlement Agreement	24	-556.0	-
Other*		64.4	24.5
Changes in working capital and provisions:			
- Inventories		5.9	10.1
- Trade and other receivables		72.4	13.6
- Trade and other payables		54.1	-19.4
- Provisions for other liabilities and charges		8.4	13.9
Cash generated from operations		**338.8**	**98.7**
Income taxes paid		-2.4	-2.1
Tax refund during the period		33.2	-
Net interest paid	7	-32.3	-34.6
Net cash from/-used in operating activities		**337.4**	**62.0**
INVESTING ACTIVITIES			
Purchases of intangible assets	10	-1.3	-9.4
Purchases of tangible assets	10	-129.1	-27.1
Acquisition of subsidiary net of cash acquired	25	2.6	-
Net cash from/-used in investing activities		**-127.8**	**-36.4**
FINANCING ACTIVITIES			
Proceeds from borrowings		14.5	-
Repayment of borrowings		-30.9	-
Purchase of treasury shares, including options	14	-24.1	-2.1
Net cash from/-used in financing activities		**-40.5**	**-2.1**
			-
Net increase/-decrease in cash and cash equivalents		169.1	23.5
Cash and cash equivalents at beginning of the period		261.1	237.6
Cash and cash equivalents at end of the period	**13**	**430.2**	**261.1**
Of which restricted cash	13	3.9	2.9

* Net interest expense/income from 1 January 2017 is included in the line Other under Cash generated from operations. Also included in Other is provision for obsolescence on inventory during 2017.

Consolidated statements of changes in equity

USD million	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2016		**35.9**	**288.4**	**111.8**	**436.2**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-	3.2	3.2
Other comprehensive income/-loss		**-**	**-**	**3.2**	**3.2**
Profit/-loss for the period		-	-	-35.3	-35.3
Total comprehensive income		**-**	**-**	**-32.1**	**-32.1**
Purchase of treasury shares		-0.1	-2.0	-	-2.1
		-0.1	**-2.0**	**-**	**-2.1**
Balance at 31 December 2016	14	**35.8**	**286.4**	**79.8**	**401.9**

USD million	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2017		**35.8**	**286.4**	**79.8**	**401.9**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-	3.4	3.4
Currency translation differences		-	-0.4	-	-0.4
Other comprehensive income/-loss		**-**	**-0.4**	**3.4**	**3.0**
Profit/-loss for the period		-	-	495.0	495.0
Total comprehensive income		**-**	**-0.4**	**498.4**	**498.0**
Purchase of treasury shares		-0.8	-23.3	-	-24.1
		-0.8	**-23.3**	**-**	**-24.1**
Balance at 31 December 2017	14	**35.0**	**262.7**	**578.2**	**875.9**

Note 1

Summary of IFRS accounting principles applicable for 2017

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 activities are mainly undertaken in the Middle East and the North Sea. The DNO group is included in the consolidated accounts of RAK Petroleum plc, the largest shareholder in DNO, for the year ended 31 December 2017.

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 14 March 2018.

Basis for preparation

The consolidated financial statements have been prepared on a historical cost basis, with the following exemptions: liabilities related to share-based payments and financial assets classified as available-for-sale 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 statement of financial position date.

Estimates

The key sources of estimation uncertainty for the DNO group are:

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

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 two Kurdistan Production Sharing Contracts (PSCs) were entered into with the KRG prior to the adoption of the Iraqi Constitution and the fields were not producing at the time of adoption. A successful attempt by the FGI to revoke or materially alter all PSCs in Kurdistan, including those held by 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 position and prospects.

There remains uncertainty related to the receipt of proceeds from oil exported from Kurdistan. This risk 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 property, plant and equipment (PP&E), financial position and prospects. Considering the uncertainties related to the timing of export payments, revenues are recognized upon receipt of cash payment.

Reserves and resources estimates

DNO's reserve and contingent resource volumes have been classified in accordance with the rules and guidelines of the Society of Petroleum Engineers (SPE). All estimates of oil and gas reserves and resources involve uncertainty. In its estimates, the 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 and gas prices; changes in government regulations; interest rates; and

Note 1

Summary of IFRS accounting principles applicable for 2017

currency exchange rates. Specific parameters of uncertainty related to the field/reservoir include but are not limited to: reservoir pressure and porosity; recovery factors; water cut development; production decline rates; gas/oil ratios; and oil properties.

Analogy to similar fields and reservoirs has been applied when production history and information are limited and/or the field/reservoir has a complex structure. The uncertainty span is larger for fields/reservoirs with limited field information and production history compared to fields/reservoirs with longer production history. The 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 and Peshkabir fields. The group has internally assessed the remaining assets.

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

Contingencies, provisions and litigations

By their nature, contingencies will only be resolved when one or more uncertain future event occurs or fails to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events. Management must use its judgment to evaluate certain provisions and legal disputes in order to ensure the correct accounting treatment. This includes the assessment of future asset retirement obligations, any provisions or contingent payments.

Impairment/reversal of impairment of oil and gas assets

DNO has significant investments in 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 assessments of expected future cash flows and future market conditions, including entitlement production, future oil and gas prices, risk factors (discount rate) and the date of expiration of the licenses. 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 market expectations concerning future oil and gas prices.

Notional corporate income tax/deferred tax liability in Kurdistan

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

Measurement of fair values

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

■ Group accounting and consolidation principles

Basis for consolidation

The consolidated financial statements 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 variable returns from its activities. DNO currently holds a 100 percent interest in all of its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial 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)

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

Under IFRS 11, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities. Oil and gas licenses held by the Company which are within the scope of IFRS 11 have been classified as joint operations.

Note 1

Summary of IFRS accounting principles applicable for 2017

DNO recognizes its investments in joint operations by reporting its share of related revenues, expenses, assets, liabilities and cash flows under the respective items in the Company's financial statements.

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

■ Foreign currency translation and transactions

Functional currency

The consolidated financial statements are presented in 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. Financial assets and financial liabilities in foreign currencies are translated into functional currency at the statement of financial position date exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Those arising in respect of financial assets and liabilities are recorded net as a financial item.

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

Subsidiaries

Statements of comprehensive income and statement of cash flows of subsidiaries and joint operations that have a functional currency different from the parent company are translated into the presentation currency at average exchange rates each month. Statement of financial position items are translated using the exchange rate at reporting date, with the translation differences taken directly to other comprehensive income. When a foreign entity is sold, such translation differences are recognized in profit or loss as part of the gain or loss on sale.

■ Classification in the statement of financial position

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

■ Property, plant and equipment

General

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

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

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

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to profit or loss during the financial period in which they are incurred. The cost of major workovers is included in the asset's carrying amount when it is likely that the group will derive future financial benefits exceeding the originally assessed standard of performance of the existing asset. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets held for sale are reported at the lower of the carrying amount and the fair value, less selling costs.

Borrowing costs

Interest costs directly attributable to the construction phase of PP&E assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs consist of interest and other costs that the group incurs in connection with the borrowing of funds.

Other borrowing costs are expensed when incurred. The capitalization of borrowing costs is recorded based on the average interest rate for the group in the period. The capitalized borrowing costs cannot exceed the actual borrowing costs in each period.

Exploration and development costs for oil and gas assets

The 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 costs

Note 1

Summary of IFRS accounting principles applicable for 2017

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 amount of the license acquisition costs is written off through profit or loss. Upon recognition of proven reserves and internal approval for development, the relevant expenditure is transferred to oil and gas license development asset.

3D seismic cost 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 indirect 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 assets
Capitalized costs for oil and gas assets 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 developed (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.

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

■ Other intangible assets

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

The useful lives of intangibles 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 confirmed, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets classified as intangible are assessed for impairment before reclassification. No amortization is charged during the exploration and evaluation phase.

Other intangible assets
Cost related to acquisition of licenses are capitalized as license acquisition costs and depreciated using the unit-of-production method.

■ Impairment/reversal of impairment

PP&E and other non-current assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Indications of impairment may include a decline in the price of oil and gas, changes in future investments or changes in reserve estimates. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separable identifiable cash inflows. An oil and gas license is defined as a cash generating unit. An impairment loss is recognized when the carrying amount exceeds the recoverable amount of an asset. The recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset.

Cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset. Technical goodwill as a result of deferred tax on excess values is tested as part of the 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.

Note 1

Summary of IFRS accounting principles applicable for 2017

■ Farm-in and farm-out

A farm-in or farm-out of an oil and gas license takes place when the owner of a working interest (the farmor) transfers all or a portion of its working interest to another party (the farmee) in return for an agreed upon consideration and/or action, such as conducting subsurface studies, drilling wells or developing the property. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal. The farmee capitalizes or expenses its costs as incurred according to the accounting method it is using. There are no accruals for future commitments in farm-in/farm-out agreements in the exploration and evaluation phase and no profit or loss is recognized by the farmor. In the development or production phase a farm in/farm-out agreement will be treated as a transaction recorded at fair value as represented by the costs carried by the farmee. Any gain or loss arising on the farm-in/farm-out is recognized in the statement of comprehensive income.

■ Financial instruments

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.

Financial assets

All acquisitions and disposals of financial assets are recognized at fair value at transaction date.

Financial assets classified as available-for-sale (AFS) are those financial instruments that are not designated as:

- Loans and receivables;
- Held to maturity investments; or
- Financial assets as to fair value through profit or loss.

AFS financial assets are measured at fair value. For listed financial instruments the market price is considered fair value. Adjustments to fair value are recognized as other comprehensive income until the financial asset 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 other comprehensive income (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.

Financial assets 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 financial assets carried at amortized cost, gains and losses are recognized in the statement of comprehensive income when the financial assets are derecognized or impaired as well as through the amortization process.

Impairment of financial assets

The group assesses at each statement of financial position 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 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 amount and the present value of future cash flows. The present value of the future cash flows is discounted using the asset's original effective interest rate. If a loan or a receivable 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 repaid.

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.

Trade receivables

Trade receivables are recognized and carried at their anticipated realizable value. A provision for bad debt is recognized when

Note 1

Summary of IFRS accounting principles applicable for 2017

there is objective evidence that the group will not be able to collect the recoverable amount.

Other receivables
Other receivables are 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, 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 from financial instruments are reported as financial income or financial expenses.

■ Inventories
Inventories, other than inventories of oil, are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

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

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

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

Gains or losses are recognized in net profit or loss when the liabilities are derecognized, 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 (the entitlement method). Revenue recognition according to the 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 method is used where revenue is recognized when significant risks and rewards of ownership of the oil have been transferred to the customer. Other recognition criteria from IAS 18 such as probability of any future flow of economic benefit to the entity associated with the revenue and that the revenue can be measured reliably must also be fulfilled in order to recognize revenues.

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

Under the entitlement method, overlift and underlift on the statement of financial position date are valued at net realizable value, while under the sales method it is measured at production cost.

Overlift and underlift positions are a part of the operating cycle and as such classified as other current liabilities/assets.

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

Revenue recognition Kurdistan
DNO generates revenues in Kurdistan through the sale of oil produced from the Tawke license and is mainly exported by pipeline through Turkey by the KRG. In the past, DNO has also sold Tawke license oil into the local market. For export sales, title is considered to have passed on delivery of oil to the export pipeline at Fish Khabur. For local sales, title is considered to have passed on delivery of the oil to the customer at the loading point.

Note 1

Summary of IFRS accounting principles applicable for 2017

Considering the uncertainties related to timing of payments for oil deliveries, revenues are recognized upon receipt of cash payment.

Production Sharing Contracts

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 contractor`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 and gas produced after deduction of government take.

Income taxes

Tax income/-expense consist of taxes receivable/-payable and changes in deferred tax. Taxes payable are calculated based on taxable profits and taxes receivable are calculated based on refundable exploration expenses on the Norwegian Continental Shelf (NCS) at the current tax rates. Deferred tax and deferred tax assets are calculated on all taxable temporary differences, provided that both of the following conditions are satisfied:

- The group is able to control the timing of the reversal of the temporary differences; and
- It is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax 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 the equity to the extent that they relate to items charged directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that the future taxable income will be available against which the asset can be utilized.

The PSCs provide that the income tax to which the contractor is subject is deemed to have been paid to the government as part of the payment of profit oil to the government or its representatives. For accounting purposes, if such notional income tax is to be classified as income tax in accordance with the IAS 12, the DNO group would present this as an income tax expense with a corresponding increase in revenues. This is an accounting presentation issue with no net impact on the statement of comprehensive income statement. Currently this only applies to DNO`s operations in Oman.

Business combinations

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

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

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

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

The estimation of fair value may be adjusted up to 12 months after the acquisition date if new information has emerged about facts and circumstances that existed at the time of the takeover and which, had they been known, would have affected the calculation of the amounts that were included from that date.

Acquisition-related costs, except costs to issue debt or equity securities, are expensed as incurred. Taxes payable and deferred tax are recognized directly in equity to the extent that they relate to items charged directly to equity.

Employee benefits

Pensions

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

Share saving plan

An employee share saving plan was introduced in 2013 through which employees could save a portion of their salary by purchasing synthetic shares at a discount to the Company's share price. The purchase was matched by DNO if these shares were kept for a period of two years and the employee was still employed by 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. In early

Note 1

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2016, the Board of Directors decided to close the plan to new contributions. The plan will be kept open until 31 August 2019 for vesting of restricted synthetic shares and settlement of unrestricted synthetic shares.

Provisions and contingent liabilities

A provision is recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation amount. When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only if the reimbursement is certain. The expense related to any provision is presented in profit or loss, net of any reimbursement. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate.

The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate and a credit premium as the discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as 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 statement of financial position 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 the cost of the asset 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 pricing between the segments and companies are set using the arm's length principle in a manner similar to transactions with third parties.

Earnings per share

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

Related parties

Parties are related if one party has the ability to directly, jointly or indirectly control the other party or exercise significant influence over the party in making financial and operating decisions. Management is also considered to be a related party.

Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged. All transactions between the related parties are recorded at market value.

IFRS 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 using modified retrospective application with recognition of any cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of the reporting period that includes the date of initial application.

- *IFRS 15 Revenues from contracts with customers:*
  The objective of the new 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 evaluated the impact of IFRS 15. Based on an assessment of the group's revenue recognition under the five-step model, the revenue for 2017 and 2016 would have been slightly different. IFRS 15 would have under the five-step model required revenue recognition on the basis of contracts with customers with identifiable performance obligations and allocation of a transaction price to the fulfilled performance obligations. The effect of the changes from the net entitlement method to the new revenue recognition criteria under IFRS 15 would have led

Note 1

Summary of IFRS accounting principles applicable for 2017

to a reduction in revenue of USD 2.1 million in 2017 and an increase in inventory of USD 2.1 million. In 2016, it would have led to a reduction in revenue of USD 4.0 million and an increase in inventory of USD 4.0 million.

- *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 European Commission endorsed IFRS 9 on 22 November 2016. The standard introduces new requirements for classification, measurement, impairment and hedge accounting and is effective for annual periods beginning on or after 1 January 2018.

  The group has evaluated the requirements of IFRS 9 and determined that there is no significant impact on its financial statements. The scope of IFRS 9 remains unchanged from IAS 39 and there are no material changes in the recognition and derecognition criteria of financial instruments. IFRS 9 introduces a new model for classification of financial instruments where the entity's business model and the characteristics of the contractual cash flows are taken into consideration. This has reduced the number of categories for classification of financial instruments to the following three categories:
  - Fair value through profit/loss (FVTPL);
  - Amortized cost; and
  - Fair value through other comprehensive income (FVOCI).

  Based on an assessment of the group's financial instruments in the context of the new classification model, there will be some changes in the classification of the group's financial instruments. Financial assets previously classified as available-for-sale under IAS 39 will be classified as FVTPL under IFRS 9.

  Another important change from IAS 39 is the new impairment model. Financial instruments were previously impaired using the incurred loss model under IAS 39 as opposed to the expected loss model under IFRS 9. Given the size of the trade receivables of USD 2.6 million at yearend 2016 and zero trade receivables at yearend 2017 and the fact that all trade receivables were less than 30 days past due date in both periods, the probability of any material cash shortfalls are deemed to be low. There will accordingly not be any changes in the provisions for impairment of trade receivables under the new requirements under IFRS 9. There are changes in the hedge accounting under IFRS 9. The group does not engage in hedge accounting and the effects from the changes in the standard will be non-existing.

- *IFRS 16 Leases:*
  IFRS 16 was issued 13 January 2016 and replaces IAS 17 leasing. The objective of the new standard is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces new recognition criteria that will apply to all lease contracts with exemptions for leases with underlying assets of low value or leases with possible terms of less than 12 months from commencement date. Contracts subject to the recognition criteria under IFRS 16 are where the lessee conveys the right to use an identified asset and has the right to obtain economic benefits.

  Application of the standard is mandatory for annual reporting periods starting from 1 January 2019 onwards. The group has evaluated the impact of the IFRS 16. Based on an assessment of the group's leasing contracts, several leases are now subject to recognition under IFRS 16. This means that both the right-of-use-asset and the lease liability should be recognized in the statement of financial position on the commencement date. Calculating the net present value of all lease liabilities using the group's incremental borrowing rate would have increased the liabilities in the statement of financial position by USD 15.9 million in 2017. The assets in the statement of financial position would have increased by USD 13.9 million in 2017 due to recognition of the right-to use assets from the lease contracts.

  Under IFRS 16 a lessee shall apply the depreciation requirements in IAS 16 in depreciating the right-of-use assets from lease contracts. The capitalization of the rights-to-use-assets originated from the group's lease contracts would have resulted in a reclassification from lease costs to depreciation costs in 2017. In 2017, lease cost would have been reduced by USD 3.3 million, depreciation costs would have increased by USD 2.2 million and other financial expenses would have increased by USD 2.0 million. The cumulative effect from previous reporting periods recognized in the opening balance as an adjustment to equity would have been a decrease of USD 0.8 million in equity which reduces the equity ratio from 61.9 percent to 61.2 percent.

Note 2
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 oil and gas. Inter-segment sales are based on the arm's length principle and are eliminated at the consolidated level. Segment profit includes profit from inter-segment sales.

The DNO group reports six operating segments: Kurdistan (KUR), Oman (OMAN), Yemen (YEM), Ras Al Khaimah (UAE), Tunisia (TUN) and Norway (NOR). The operating segments equal the reportable segments. During 2017, oil production from Kurdistan was mainly delivered for export by pipeline through Turkey. In Oman, the oil was sold to multiple buyers through a bidding process. During 2017, two licenses in Ras Al Khaimah and one in Oman were relinquished.

On 29 June 2017, DNO finalized and completed the acquisition of 100 percent of the shares in Origo Exploration Holding AS (see note 25). Operations on the Norwegian Continental Shelf (NCS) are reported under the segment Norway and operations on the UK Continental Shelf (UKCS) are reported under the segment "Other".

From 1 January 2014, the Norwegian Accounting Act introduced rules for country-by-country reporting for companies in the extractive industries. The report is available on DNO's website.

USD million

Twelve months ended at 31 December 2017	Note	KUR	OMAN	YEM	UAE	TUN	NOR	Other	Total reported segments	Un-allocated/ Eliminated	GROUP
COMPREHENSIVE INCOME INFORMATION											
External sales	3	331.0	16.3	-	-	-	-	-	347.4	-	347.4
Inter-segment sales		-	-	-	-	-	-0.2	0.6	0.5	-0.5	-
Cost of goods sold	4	-175.4	-23.8	-	-	-0.2	-0.1	-	-199.5	-2.6	-202.2
Gross profit		**155.6**	**-7.5**	**-**	**-**	**-0.2**	**-0.2**	**0.6**	**148.3**	**-3.1**	**145.2**
Other operating income	24	556.0	-	-	-	-	1.5	-	557.5	-	557.5
Administrative expenses	5	-0.1	0.1	-2.4	-0.1	-	-4.7	-1.6	-8.9	-24.2	-33.2
Other operating expenses	5	-5.6	0.7	-2.0	-	-	-	-	-6.9	-	-7.0
Impairment of oil and gas assets	10	-59.1	-47.8	-	0.1	-1.6	-	-	-108.4	-	-108.4
Exploration cost expensed	6	-	0.4	-	-0.2	-5.5	-22.9	-4.7	-32.9	-0.1	-33.0
Segment operating result		**646.8**	**-54.1**	**-4.5**	**-0.3**	**-7.0**	**-26.4**	**-5.7**	**548.7**	**-27.5**	**521.1**
Net finance costs (incl. interest)	7	8.1	10.8	-	-	2.2	-	-	21.1	-67.2	-46.1
Tax income/-expense	8	-	-1.8	-	-	-	22.0	-	20.2	-0.2	20.0
Net profit/-loss		**654.9**	**-45.1**	**-4.5**	**-0.3**	**-4.8**	**-4.4**	**-5.7**	**590.0**	**-94.9**	**495.0**
FINANCIAL POSITION INFORMATION											
Capital expenditures*		551.9	41.7	-	-	-	-	1.3	594.9	0.1	594.9
Non-current assets		888.9	0.4	-	-	0.3	3.8	0.4	893.8	22.2	916.0
Current assets		33.8	24.6	0.2	-	3.0	39.3	2.1	103.1	396.0	499.1
Total segment assets		**922.7**	**24.9**	**0.2**	**-**	**3.4**	**43.1**	**2.6**	**996.9**	**418.2**	**1,415.1**
Total segment liabilities		**78.1**	**22.6**	**7.0**	**-**	**1.6**	**37.2**	**3.9**	**150.3**	**388.8**	**539.2**
OTHER SEGMENT INFORMATION											
Sale of petroleum products		331.0	16.3	-	-	-	-	-	347.4	-	347.4
Lifting costs		-72.6	-23.7	-	-	-	-	-	-96.3	0.2	-96.1
Lifting costs (USD/bbl)		-2.8	-29.0	-	-	-	-	-	-3.6	-	-3.6
Amortization and depreciation		-102.9	-0.1	-	-	-0.2	-0.1	-	-103.3	-2.8	-106.1
Netback**		271.7	-4.5	-4.5	-0.3	-5.5	9.1	-6.3	259.8	-28.0	231.8

* Capital expenditures include changes in estimated asset retirement obligations and recognition of an asset following the Kurdistan Receivables Settlement Agreement.
** Netback is defined as EBITDA adjusted for taxes paid/received. Netback in Kurdistan is adjusted for other income past oil sales and provision for obsolete inventory (see alternative performance measures).

Note 2

Segment information

USD million

Twelve months ended at 31 December 2016	Note	KUR	OMAN	YEM	UAE	TUN	NOR	Other	Total reported segments	Un-allocated/ Eliminated	GROUP
COMPREHENSIVE INCOME INFORMATION											
External sales	3	183.9	17.9	-	-	-	-	-	201.8	-	201.8
Inter-segment sales		-	0.6	-	-	-	-	-	0.6	-0.6	-
Cost of goods sold	4	-114.9	-8.7	-	-1.0	-0.2	-	-	-124.8	-3.9	-128.7
Gross profit		**68.9**	**9.8**	**-**	**-1.0**	**-0.2**	**-**	**-**	**77.5**	**-4.4**	**73.1**
Other operating income		-	18.9	-	-	-	-	-	18.9	-	18.9
Tariffs and transportation		-	-	-	-	-	-	-	-	-	-
Administrative expenses	5	-0.1	-6.2	-0.8	-	-	-	-	-7.1	-23.9	-31.0
Other operating expenses	5	-1.7	-1.8	-1.8	-	-	-	-	-5.3	-	-5.4
Impairment of oil and gas assets	10	-20.6	-5.8	-	-2.8	-	-	-	-29.2	-	-29.2
Exploration cost expensed	6	-	-10.7	-	-0.8	-7.4	-	-1.4	-20.4	-	-20.3
Segment operating result		**46.5**	**4.2**	**-2.6**	**-4.6**	**-7.6**	**-**	**-1.4**	**34.5**	**-28.3**	**6.1**
Net finance costs (incl. interest)	7	12.4	9.5	-0.2	-	1.4	-	-	23.1	-62.5	-39.4
Gain/-loss on sale of shares		-	-	-	-	-	-		-	-	-
Tax income/-expense	8	-	-1.6	-0.5	-	-	-		-2.1	-	-2.1
Net profit/-loss		**58.9**	**12.1**	**-3.3**	**-4.6**	**-6.2**	**-**	**-1.4**	**55.5**	**-90.8**	**-35.3**
FINANCIAL POSITION INFORMATION											
Capital expenditures*		50.9	2.4	-	-	-	-	-0.2	53.3	0.8	54.0
Non-current assets		509.1	2.5	-	-	0.6	-	0.5	512.6	21.3	533.9
Current assets		116.6	35.7	1.1	0.2	19.4	-	0.6	173.5	262.4	435.9
Total segment assets		**625.7**	**38.2**	**1.1**	**0.2**	**20.0**	**-**	**1.0**	**686.1**	**283.7**	**969.8**
Total segment liabilities		**180.6**	**-2.9**	**7.7**	**2.3**	**0.2**	**-**	**-**	**187.9**	**379.9**	**567.8**
OTHER SEGMENT INFORMATION											
Sale of petroleum products		183.9	18.5	-	-	-	-	-	202.3	-0.6	201.8
Lifting costs		-59.1	-8.6	-	-1.0	-	-	-	-68.6	-	-68.6
Lifting costs (USD/bbl)		-2.4	-8.8	-	-	-	-	-	-2.7	-	-2.7
Amortization and depreciation		-55.9	-0.1	-	-	-0.2	-	-	-56.2	-3.9	-60.1
Netback**		123.0	12.1	-2.1	-1.9	-7.4	-	-1.4	122.3	-28.5	93.8

* Capital expenditures include changes in estimated asset retirement obligations.

** Netback is defined as EBITDA adjusted for taxes paid/received.

Note 3
Revenues

USD million	1 January - 31 December 2017	2016
Sale of petroleum products	347.4	201.8
Total revenues	**347.4**	**201.8**

Production from the Tawke license in Kurdistan during 2017 was delivered to the KRG for onward export through Turkey. During 2017, DNO received a total of USD 523.6 million from the KRG as payments for oil deliveries to the export market from the Tawke license, of which USD 380.1 million was net to DNO. Of that amount, USD 331.0 million was recognized as revenue and USD 49.1 million was booked towards the underlift receivable. The remaining underlift receivable was settled through the Kurdistan Receivables Settlement Agreement in August 2017 (see Note 24).

Note 4
Cost of goods sold/inventory

USD million	1 January - 31 December 2017	2016
Lifting costs*	-96.1	-68.6
Depreciation, depletion and amortization	-106.1	-60.1
Total cost of goods sold	**-202.2**	**-128.7**

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

USD million	Years ended 31 December 2017	2016
Spare parts and drilling equipment	7.4	57.3
Total inventory	**7.4**	**57.3**

Of the total inventory of USD 7.4 million, USD 5.9 million is related to Kurdistan and USD 1.5 million to Tunisia. In 2017, spare parts of USD 19.6 million were reclassified to PP&E in Kurdistan. The inventory is not pledged.

Note 5

Administrative/other expenses

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

USD million	1 January - 31 December 2017	2016
Salaries and social expenses*	-10.1	-5.6
General and administration expenses	-23.1	-25.4
Other operating expenses	-7.0	-5.4
Total administrative/other expenses	**-40.2**	**-36.3**

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

Specification of salaries and social expenses

USD million	1 January - 31 December 2017	2016
Salaries, bonuses, etc.	-34.9	-25.9
Employer's payroll tax expenses	-2.4	-1.3
Pensions	-1.7	-1.5
Other personnel costs	-5.1	-4.6
Reclassification of salaries and social expenses to lifting costs and exploration costs	34.0	27.7
Salaries and social expenses	**-10.1**	**-5.6**

Part of the salaries and social expenses is paid in NOK and recorded in USD based on the average exchange rate. The average USD/NOK rate used in 2017 was 8.27, compared to 8.40 for 2016.

DNO has a defined contribution scheme for its Norway-based employees, with USD 1.7 million expensed in 2017 (2016: USD 1.5 million). The group’s obligations are limited to the annual pension contributions. DNO meets the Norwegian legal requirements for mandatory occupational pension (“obligatorisk tjenestepensjon”).

An employee share saving plan was introduced in 2013 through which employees could save up to five percent of their gross base annual salary in synthetic company shares. Conversion to synthetic shares took place the day after the publication of quarterly results and was based on the quoted share price at the close of that business day, including a discount reflecting a 24-month restriction period during which the employee could not settle the shares. At vesting date, the Company matches the number of shares, giving the employee one additional share for each converted share. Following vesting, the employee is free to settle the shares in cash. In the second quarter of 2016, the Board of Directors decided to close the plan to new contributions. The plan will be kept open until 31 August 2019 for vesting of restricted synthetic shares and settlement of unrestricted synthetic shares. As of 31 December 2017, the Company’s total liability under this plan amounted to USD 2.8 million (yearend 2016: USD 2.3 million).

The following table illustrates the number of synthetic shares and movements during the year. Members of the executive management have been awarded synthetic shares during the year as part of the variable remuneration to management. See Note 3 in the parent company accounts regarding remuneration to management.

Movement in synthetic company shares during the year

Number of shares	1 January - 31 December 2017	2016
Outstanding at 1 January	4,005,228	3,941,145
Granted during the year	475,230	1,175,244
Forfeited during the year	-59,130	-215,267
Settled during the year	-1,647,955	-895,894
Expired during the year	-	-
Modified during the year	-	-
Outstanding at 31 December	**2,773,373**	**4,005,228**
Unrestricted at 31 December	1,251,382	1,103,762
Weighted average remaining contractual life for the synthetic shares (in years)	1.66	2.66
Weighted average settlement price for synthetic shares settled during the year in NOK	9.41	8.15
Weighted average settlement price for synthetic shares at the end of the year	9.50	8.48

Note 5

Administrative/other expenses

Remuneration to Board of Directors and executive management

	1 January - 31 December	
USD million	**2017**	**2016**
Managing Director:		
Remuneration	-0.49	-0.49
Pension	-0.02	-0.02
Bonus	-0.19	-
Other remuneration	-0.08	-0.07
Total compensation paid to Managing Director	**-0.77**	**-0.57**
Other executive management:		
Remuneration	-1.29	-1.84
Pension	-0.08	-0.10
Bonus	-0.34	-
Other remuneration	-0.25	-0.33
Total compensation paid to other executive management	**-1.96**	**-2.27**
Total compensation paid to executive management	**-2.74**	**-2.84**
Number of managers included	6	6
Board of Directors	**-1.04**	**-1.01**
Total remuneration to Board of Directors and executive management	**-3.77**	**-3.85**

Total remuneration of USD 1.6 million (not included in the above table) was paid to the following former members of the executive management: Jeroen Regtien, Claes Åbyholm and James Edens. 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, Haakon Sandborg and Nicholas Whiteley.

Shares and options held by directors and executive management

	Years ended 31 December			
	2017		**2016**	
Directors and executive management	**Shares**	**Options**	**Shares**	**Options**
Bijan Mossavar-Rahmani, Executive Chairman*	-	-	-	-
Lars Arne Takla, Deputy Chairman (Takla Energy AS)	30,000	-	10,000	-
Gunnar Hirsti, Director (Hirsti Invest AS)	250,000	-	250,000	-
Elin Karfjell, Director (Elika AS)	33,000	-	-	-
Shelley Watson, Director*	-	-	-	-
Bjørn Dale, Managing Director	-	-	-	-
Haakon Sandborg, Chief Financial Officer	-	-	-	-
Bruce Webb, Chief Operating Officer	-	-	-	-
Ute Quinn, General Counsel	-	-	-	-
Chris Spencer, Commercial Director (Chris`s Corporation AS)	19,000	-	-	-
Nicholas Whiteley, Exploration Director	-	-	-	-

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

No shares or options were held by former members of the executive management Jeroen Regtien, Claes Åbyholm and James Edens at yearend 2017.

Auditor's fees

	1 January - 31 December	
USD million (excluding VAT)	**2017**	**2016**
Auditor's fees	-0.54	-0.49
Other financial auditing	-0.06	-0.05
Tax advisory services	-0.14	-0.09
Other advisory services	-	-0.01
Total fees	**-0.74**	**-0.64**

Note 6

Exploration expenses

	1 January - 31 December	
USD million	**2017**	**2016**
Exploration expenses (G&G and field surveys)	-3.1	-5.5
Seismic costs	-19.7	-
Exploration costs capitalized this year carried to cost	-3.6	-7.6
Other exploration costs expensed	-6.6	-7.3
Total exploration costs expensed	**-33.0**	**-20.3**

Total exploration costs of USD 33.0 million in 2017 are mainly related to acquisition of seismic data in Norway, exploration expenses in Tunisia at the Sfax Offshore Exploration Permit and exploration costs in the United Kingdom. Exploration costs capitalized and carried to cost in 2016 were related to drilling costs in Tunisia at the Sfax Offshore Exploration Permit and at Block 36 in Oman.

Note 7

Financial income and financial expenses

	1 January - 31 December	
USD million	**2017**	**2016**
Interest received	5.5	2.3
Other financial income	4.6	14.8
Exchange rate gain, unrealized items	-	0
Exchange rate gain, realized items	1.7	0.2
Financial income	11.8	17.4
Interest expenses	-36.4	-35.4
Exchange rate loss unrealized items	-	-
Exchange rate loss realized items	-	-0.8
Other financial expenses	-21.5	-20.6
Financial expenses	-57.9	-56.8
Net finance	**-46.1**	**-39.4**

Other financial income is mainly related to net present value effects from the settled underlift receivable in Kurdistan.
Other financial expenses are mainly amortization of transaction fees related to the bond loan and accretion expenses.

Note 8

Taxes

Income tax expenses

USD million	1 January - 31 December 2017	2016
Changes in deferred taxes	2.3	-
Income taxes receivable/-payable	17.7	-2.1
Tax income/-expense	**20.0**	**-2.1**

Income tax receivable/ payable

USD million	Years ended 31 December 2017	2016
Exploration tax refund - NCS	33.7	-
Income taxes payable	-0.7	-0.4
Total tax receivable/-payable	**33.1**	**-0.4**

Reconciliation of the year's income tax

USD million	1 January - 31 December 2017	2016
Profit/-loss before income tax	**475.1**	**-33.3**
Expected income tax according to nominal tax rate 24% (25% in 2016)	-114.9	8.3
Expected income tax according to nominal tax rate 54% (53% in 2016)	15.6	-
Expected income tax according to nominal tax outside Norway	1.5	-
Taxes paid in kind under PSCs	-1.8	-
Foreign exchange variations between functional and tax currency	-15.8	-7.9
Adjustment of previous years	-	-0.5
Adjustment of deferred tax assets not recognized	-15.1	-16.1
Impairment financial assets	-	-
Tax-free dividend from subsidiaries	-	-
Change in previous years	-	-
Other items (other permanent differences)	151.9	16.7
Change in tax rate	-3.7	-2.5
Tax loss carried forward (utilized)	2.3	-
Tax income/-expense	**20.0**	**-2.1**
Effective income tax rate	**-4.2%**	**6.3%**
Taxes charged to equity	-	**-**

Tax effects on temporary differences relate to the following items:

USD million	Years ended 31 December 2017	2016
Tangible assets	-0.0	-0.1
Other temporary differences	-1.2	-0.9
Nondeductible interests carried forward	9.8	3.9
Tax losses carried forward NCS	4.2	-
Tax losses carried forward	94.6	65.0
Deferred tax assets/-liabilities	107.3	67.8
Valuation allowance	-103.9	-67.8
Deferred tax assets/-liabilities	**3.5**	**-**
Recognized deferred tax assets	3.5	-
Recognized deferred tax liabilities	-	-

Total tax income of USD 20.0 million relates to the tax income (USD 21.8 million) refundable under the Norwegian petroleum tax regime, notional corporate income tax expense for Oman Block 8 (USD 1.8 million), tax expense DNO Mena AS (USD 2.3 million) and changes in deferred taxes in the parent company (USD 2.3 million).

Income tax receivable amounting to USD 33.7 million relates to the refund of exploration costs in Norway for 2017. Income taxes payable amounting to USD 0.7 million (2016: USD 0.4 million) relates entirely to the notional corporate income tax in Oman.

DNO Norge AS, a wholly-owned subsidiary of DNO ASA, is subject to the provisions of the Norwegian Petroleum Taxation Act with additional special tax at a rate of 54 percent.

Note 8
Taxes

As the subsidiary is not yet in a tax payable position, it can claim a 78 percent refund of the exploration costs limited to taxable losses for the year. The exploration tax refund is paid out in November-December in the subsequent year.

The tax value of tax losses carried forward of USD 98.7 million at yearend 2017 relates mainly to the parent company and the DNO subsidiaries in the United Kingdom. The unused tax losses can be carried forward indefinitely according to Norwegian and UK tax rules. Recognized deferred tax asset relates to exploration activity on the NCS where carried forward losses can be paid out upon termination of petroleum activity.

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.

Under the terms of the PSCs in Kurdistan, the Company is not required to pay any taxes. The share of profit oil of which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of DNO. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to measure reliably such notional corporate income tax deemed to have been paid on behalf of the Company. This is an accounting presentational issue and there is no tax required to be paid by DNO. For accounting purposes, if such notional corporate income tax was to be classified as income tax in accordance with IAS 12, it would result in a gross up of revenues with a corresponding income tax expense with no net impact on the statement of comprehensive income. Furthermore, it would be assessed whether any deferred tax asset or liability is required to be recognized equal to the difference between book values and the tax values of the qualifying assets and liabilities, multiplied by the applicable tax rate. It is estimated that the tax rate would be between zero percent and 40 percent.

From 2013, profits from foreign oil activities are no longer taxable in Norway in accordance with the General Tax Act, section 2-39. Exploration expenses will no longer be tax deductible. Under these rules only certain financial income and expenses are taxable in Norway. Permanent tax differences related to this are included in “Other items” in the table above.

Note 9
Financial risk management objectives and policies

Overview
The objective of financial risk management is to manage and control financial risk exposures and thereby increase the predictability of earnings and minimize potential adverse effects on the group’s financial performance.

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

Financial risk management is carried out by the group finance function under policies approved by the Board of Directors. Group finance 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.

Market risk
Market risk is the risk that the fair value of financial instruments or cash flows will fluctuate due to changes in market prices. DNO operates in the global oil market and is exposed to market risks including fluctuations in commodity prices, foreign currency rates, interest rates and other price risks that can affect revenues, costs of operating, investing and financing.

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

The following table demonstrates the sensitivity to a possible increase or decrease in the oil price (working interest share of volumes), holding all other variables constant. Oil price fluctuations can also have considerable impact on the group’s future capital expenditures and impairment assessments. See Note 10 for sensitivity analysis on impairment.

Note 9

Financial risk management objectives and policies

	Increase/decrease in oil price USD	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2017	+/- 10%	+/- 34.7	-
2016	+/- 10%	+/- 20.2	-

Currency risk

The group operates internationally and can be exposed to currency risk on commercial transactions, assets and liabilities. Commercial transactions and assets and liabilities are subject to currency risk when payments are denominated in a currency other than the respective functional currency of the group. For more information, see accounting principles on foreign currency translations and transactions (Note 1).

DNO's revenues from the sale of oil and gas are in USD, while corporate operational costs are mainly in USD and NOK. The group's assets and liabilities are mainly denominated in USD, while part of the assets and financial liabilities in the parent company are denominated in NOK. As DNO's functional currency is the USD and because a significant portion of the operations, assets and liabilities are in USD, the exposure to currency risk is limited.

The following table demonstrates the sensitivity regarding financial assets and financial liabilities at the end of the reporting period to a possible increase or decrease in the USD/NOK exchange rate, holding all other variables constant. Other currencies (e.g., IQD, EUR, GBP) are not included as the exposure is deemed immaterial.

	Increase/decrease in NOK	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2017	+/- 10%	+/-1.9	-
2016	+/- 10%	+/-0.5	-

Interest rate risk

DNO has one bond loan maturing in 2020 with a fixed interest rate. The bond loan is not subject to interest rate exposure as the bond loan has a fixed interest rate. In addition to the bond loan, DNO has an exploration financing facility with a floating rate. This loan is subject to interest rate exposure. The terms of the bond loan and the exploration financing facility are described in Note 15. The below sensitivity analysis shows the effects related to changes in the interest rate for the exploration finance facility. As of 31 December 2017, DNO has no interest rate hedging instruments.

	Increase/decrease in basis points	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2017	+/- 100	+/-1.8	-
2016	+/- 100	-	-

Market risk on investments

DNO is exposed to market risks involving prices and foreign exchange rates on investments classified as available-for-sale. 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.

The group's financial investments are currently limited to shares in RAK Petroleum plc. RAK Petroleum plc is listed on the Oslo Stock Exchange. For more information see Note 11. The following table demonstrates the sensitivity to a possible increase or decrease in the share price (in USD), holding all other variables constant. The sensitivity to a possible increase or decrease in the foreign exchange rate (USD/NOK) is included in the market risk and sensitivity below.

	Increase/decrease in share price (USD)	Effect on profit before tax (USD mill)	Effect on OCI (USD mill)
2017	+/- 10%	-	+/- 1.7
2016	+/- 10%	-	+/- 1.4

Note 9

Financial risk management objectives and policies

Liquidity risk

The Company's liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. 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. DNO`s revenues currently derive mainly from production in the Tawke license in Kurdistan, implying concentration risk. The Company actively seeks to reduce such risk through organic growth and asset acquisitions aimed at further diversifying its revenue sources.

The DNO group maintained conservative capital spending throughout 2017 and had an unrestricted cash position of USD 426.4 million at yearend (2016: USD 258.3 million). The increase in the year-to-year cash position was mainly related to net cash from operating activities, including 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 investment programs.

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

USD million At 31 December 2017	**Book value**	**Total cash flow**	**Less than 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**
Interest bearing loans and borrowings*	390.4	539.0	-	53.0	486.0	-
Other liabilities	2.7	2.7	-	2.7	-	-
Taxes payable	0.7	0.7	0.7	-	-	-
Trade and other payables	31.3	31.3	31.3	-	-	-
Total liabilities	**425.1**	**573.7**	**32.0**	**55.7**	**486.0**	**-**

USD million At 31 December 2016	**Book value**	**Total cash flow**	**Less than 3 months**	**3 to 12 months**	**1 to 3 years**	**Over 3 years**
Interest bearing loans and borrowings*	361.7	521.0	-	35.0	70.0	416.0
Other liabilities	5.3	5.3	-	5.3	-	-
Taxes payable	0.4	0.4	0.4	-	-	-
Trade and other payables	4.7	4.7	4.7	-	-	-
Total liabilities	**372.2**	**531.5**	**5.1**	**40.3**	**70.0**	**416.0**

* Face value of the bond loan is USD 400 million.

Credit risk

Credit risk is the risk of counterparties being financially incapable of fulfilling their obligations. 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. DNO deems its maximum credit risk exposure to correspond with the book value of trade and other receivables (see Note 12). The group evaluates the credit risk with respect to trade and other receivables as minimal.

DNO has policies that limit the amount of credit exposure to any financial institution. Cash deposits are primarily maintained with investment grade financial institutions and are spread across different institutions to reduce risk exposure.

Capital management

DNO manages and adjusts its capital structure to ensure that it remains sufficiently funded to support its business strategy and maximize shareholder value. The capital structure may be adjusted through equity or debt transactions, asset restructuring or through a variety of other measures.

One of the key ratios in the assessment of DNO's capital is the equity ratio, which is calculated as book equity divided by total assets. It is the group's policy that this ratio should be 30 percent or higher. The following table below shows the book equity ratio as of end-2017 and end-2016.

There is a covenant requirement related to the bond loan (Note 15) which requires DNO to have a minimum equity ratio of 30 percent.

	Years ended 31 December	
USD million	**2017**	**2016**
Total equity	875.9	401.9
Total assets	1,415.1	969.8
Book equity ratio	**61.9%**	**41.4%**

Note 9

Financial risk management objectives and policies

Financial assets and liabilities
Financial assets and liabilities in the group consist of available-for-sale investments, bank deposits, trade and other receivables, other non-current assets, interest-bearing liabilities, other current and non-current provisions for other liabilities and charges and trade and other payables. Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Fair value hierarchy
Financial instruments measured at fair value are classified by the levels in the fair value hierarchy. Both carrying amount and fair value are shown for all financial instruments.

For financial instruments measured at fair value, the levels in the fair value hierarchy are:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Financial instruments are reclassified between the levels at the date of the event or change in circumstances that caused the transfer.

Note that financial instruments where the carrying amount is a reasonable approximation of fair value (e.g., bank deposits, tax receivables, trade and other receivables, trade and other payables) are not included in the fair value hierarchy.

									Fair value hierarchy		
2017 - USD million	**Notes**	**Financial assets at FVTPL**	**Held to maturity invest-ments**	**Loans and rec-eivables**	**Available for sale invest-ments**	**Financial liabilities at FVTPL**	**Liabilities measured at amort-ized cost**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets											
Bank deposits	13	-	-	430.2	-	-	-	430.2	-	-	-
Available-for-sale investments	11	-	-	-	17.4	-	-	17.4	17.4	-	-
Tax receivables	8	-	-	33.7	-	-	-	33.7	-	-	-
Other financial assets	12	-	-	26.8	-	-	-	26.8	-	-	-
Total financial assets		**-**	**-**	**490.7**	**17.4**	**-**	**-**	**508.1**	**17.4**	**-**	**-**
Financial liabilities											
Borrowings	15	-	-	-	-	-	390.4	390.4	400.1	-	-
Other non-current liabilities	16	-	-	-	-	-	0.7	0.7	-	-	-
Other current liabilities	16	-	-	-	-	-	2.7	2.7	-	-	-
Trade and other payables	18	-	-	-	-	-	31.3	31.3	-	-	-
Total financial liabilities		**-**	**-**	**-**	**-**	**-**	**425.1**	**425.1**	**400.1**	**-**	**-**

									Fair value hierarchy		
2016 - USD million	**Notes**	**Financial assets at FVTPL**	**Held to maturity invest-ments**	**Loans and rec-eivables**	**Available for sale invest-ments**	**Financial liabilities at FVTPL**	**Liabilities measured at amort-ized cost**	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets											
Bank deposits	13	-	-	261.1	-	-	-	261.1	-	-	-
Available-for-sale investments	11	-	-	-	14.0	-	-	14.0	14.0	-	-
Other financial assets	12	-	-	147.7	-	-	-	147.7	-	-	-
Total financial assets		**-**	**-**	**408.8**	**14.0**	**-**	**-**	**422.8**	**14.0**	**-**	**-**
Financial liabilities											
Borrowings	15	-	-	-	-	-	361.7	361.7	355.5	-	-
Other non-current liabilities	16	-	-	-	-	-	0.4	0.4	-	-	-
Other current liabilities	16	-	-	-	-	-	5.3	5.3	-	-	-
Trade and other payables	18	-	-	-	-	-	4.7	4.7	-	-	-
Total financial liabilities		**-**	**-**	**-**	**-**	**-**	**372.2**	**372.2**	**355.5**	**-**	**-**

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

2017 - USD million	Development assets	Assets in operation	Total oil & gas assets	Other PP&E	Total
At 1 January 2017					
Costs	181.8	1,735.1	1,916.9	21.0	1,937.9
Accumulated impairments	-181.8	-368.3	-550.2	-0.1	-550.3
Accumulated depreciation	-	-971.6	-971.6	-12.9	-984.5
Net book amount	**-**	**395.2**	**395.2**	**8.0**	**403.1**
Period ended 31 December 2017					
Opening net book amount	-	395.2	395.2	8.0	403.1
Exchange differences	-	-	-	-	-
Additions*	-	593.6	593.6	0.2	593.8
Transfers**	-	68.5	68.5	0.2	68.8
Disposals cost price	-139.7	-528.2	-667.9	-0.3	-668.2
Disposals depreciation/impairments	139.7	528.2	667.9	0.3	668.2
Impairments	-	-102.6	-102.6	-	-102.6
Depreciation charges	-	-96.6	-96.6	-3.2	-99.9
Closing net book amount	**-**	**858.1**	**858.1**	**5.2**	**863.3**
At 31 December 2017					
Costs	42.1	1,869.1	1,911.1	21.1	1,932.3
Accumulated impairments	-42.1	-286.1	-328.2	-0.1	-328.3
Accumulated depreciation	-	-724.9	-724.9	-15.8	-740.7
Net book amount	**-**	**858.1**	**858.1**	**5.2**	**863.3**
Depreciation method		UoP***		3-7 years linear	

* Additions includes recognition of an asset following the Kurdistan Receivables Settlement Agreement (see Note 24) and an estimated change on asset retirement obligation (see Note 16).
** Transfers include reclassification of exploration assets (intangible assets) to assets in operation. In 2017, the book value of USD 49.0 million related to Peshkabir, previously classified as exploration asset (intangible asset), was reclassified to assets in operation. In addition, the book value of USD 19.6 million related to spare parts, previously classified as inventory, was reclassified to assets in operation.
*** Unit-of-production method.

Of the Net book amount of USD 863.3 million at yearend 2017, USD 858.0 million is related to Kurdistan.

Note 10

Property, plant and equipment/intangible assets

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

INTANGIBLE ASSETS

2017 - USD million	License interest	Exploration assets	Total
At 1 January 2017			
Costs	102.5	60.0	162.5
Accumulated impairments	-18.4	-11.0	-29.4
Accumulated depreciation	-46.6	-	-46.6
Net book amount	**37.5**	**49.0**	**86.5**
Period ended 31 December 2017			
Opening net book amount	37.5	49.0	86.5
Exchange differences	-	-	-
Additions	1.3	-0.2	1.1
Transfers	-	-49.0	-49.0
Disposals cost price	-3.9	-	-3.9
Disposals impairments/depreciations	3.9	-	3.9
Impairments	-1.3	0.2	-1.1
Depreciation charges	-6.2	-	-6.2
Closing net book amount	**31.4**	**-**	**31.4**
At 31 December 2017			
Costs	103.8	10.8	114.6
Accumulated impairments	-19.7	-10.8	-30.5
Accumulated depreciation	-52.8	-	-52.8
Net book amount	**31.4**	**-**	**31.4**
Depreciation method	UoP*		

* Unit-of-production method.

There is no pledge over the oil and gas assets within property, plant and equipment.

Note 10

Property, plant and equipment/intangible assets

PROPERTY, PLANT AND EQUIPMENT

2016 - USD million	Development assets	Assets in operation	Total oil & gas assets	Other PP&E	Total
At 1 January 2016					
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	-8.5	-959.1
Net book amount	**-**	**385.4**	**385.4**	**11.3**	**396.6**
Period ended 31 December 2016					
Opening net book amount	-	385.4	385.4	11.3	396.6
Exchange differences	-	-	-	-	-
Additions	-	43.9	43.9	1.0	44.8
Transfers	-	35.8	35.8	-	35.8
Disposal cost price	-	-	-	-	-
Disposal impairments/depreciations	-	-	-	-	-
Impairments	-	-19.9	-19.9	-	-19.9
Depreciation charges	-	-50.0	-50.0	-4.3	-54.3
Closing net book amount	**-**	**395.1**	**395.1**	**7.9**	**403.1**
At 31 December 2016					
Costs	181.8	1,735.1	1,916.9	21.0	1,937.9
Accumulated impairments	-181.8	-368.0	-549.8	-0.1	-549.9
Accumulated depreciation	-	-972.0	-972.0	-12.9	-984.9
Net book amount	**-**	**395.1**	**395.1**	**7.9**	**403.1**
Depreciation method		UoP*		3-7 years linear	

INTANGIBLE ASSETS

2016 - USD million	License interest	Exploration assets	Total
At 1 January 2016			
Costs	102.5	96.9	199.4
Accumulated impairments	-14.5	-11.0	-25.5
Accumulated depreciation	-40.8	-	-40.8
Net book amount	**47.2**	**85.9**	**133.2**
Period ended 31 December 2016			
Opening net book amount	47.2	85.9	133.2
Exchange differences	-	-	-
Additions	-	9.2	9.2
Transfers	-	-46.1	-46.1
Disposal cost price	-	-	-
Disposal impairments/depreciations	-	-	-
Impairments	-3.9	-	-3.9
Depreciation charges	-5.8	-	-5.8
Closing net book amount	**37.5**	**49.0**	**86.5**
At 31 December 2016			
Costs	102.5	60.0	162.5
Accumulated impairments	-18.4	-11.0	-29.4
Accumulated depreciation	-46.6	-	-46.6
Net book amount	**37.5**	**49.0**	**86.5**
Depreciation method	UoP*		

* Unit-of-production method.

Note 10

Property, plant and equipment/intangible assets

Impairment testing

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

Below is an overview of the key assumptions applied for impairment testing purposes as of 31 December 2017. All impairment testing during 2017 has been based on value in use.

Oil prices

Future oil price level is a key assumption and has significant impact on the net present value. Forecasted oil prices are based on management's estimates and available market data. Information about market prices in the near future can be derived from the futures contract market. The information about future prices is less reliable on a long-term basis, as there are fewer observable market transactions going forward. DNO has used an oil price based on the forward curve for Brent crude as of 31 December 2017, as published by the Intercontinental Exchange (ICE), adjusted for any discounts in oil quality applicable to each field. Considering that as of end-2017 the monthly price goes forward to March 2025, a method of linear prediction (extrapolation) beyond this date has been applied. An average Brent price of USD 62.6 per barrel has been applied for 2018. Thereafter the Brent forward curve is applied through December 2021 followed by a long-term oil price starting at USD 58.2 per barrel.

Oil and gas reserves

Future cash flows are based on management's best estimate and are calculated on the basis of expected production profiles (P50 estimates). The recoverable amount is sensitive to changes in reserves. For more information about the determination of the reserves, reference is made to Note 1 about important accounting assessments, estimates and assumptions.

Discount rate

The discount rate is derived from the Company's WACC. WACC is weighted based on the debt and equity to enterprise value ratios at yearend. Cost of equity is calculated on a country-by-country basis using the Capital Asset Pricing Model (CAPM) and adding a country risk premium. Cost of debt is based on yield-to-maturity on DNO's outstanding bond with an upward adjustment to reflect a potential longer maturity. The relevant pre-tax discount rates used in the impairment assessments as of end-2017 are as follows: 16.5 percent (2016: 17.3 percent) for the Kurdistan assets and 11.0 percent (2016: 11.0 percent) for the assets in Oman.

Impairment charge and reversal

The following table shows the recoverable amount and carrying amount for the cash generating units which have been impaired in 2017 and 2016. The recoverable amounts/carrying amounts have changed due to consumption of spare parts.

IMPAIRMENTS	2017		2016	
USD million	Impairment (-)/ reversal (+)	Recoverable/ carrying amount	Impairment (-)/ reversal (+)	Recoverable/ carrying amount
Erbil, Kurdistan	-59.1	20.7	-26.7	74.7
Dohuk, Kurdistan	-	-	6.0	-
Block 8, Oman	-47.8	-	-	4.9
Oman Ltd, Oman	-	0.1	-1.2	0.1
Block 36, Oman	-	-	-4.4	-
Block, 47 Oman	-	-	-0.2	-
Sfax Offshore Exploration Permit, Tunisia	-1.6	1.5	-	3.6
Assets in United Arab Emirates	0.1	-	-2.8	0.0
Assets in Yemen	-	-	-	-
Total	**-108.4**	**22.3**	**-29.2**	**83.3**

Of the total impairment charge of USD 108.4 million, USD 102.1 million was recognized on PP&E.

Note 10

Property, plant and equipment/intangible assets

During 2017, the net impairment charge of USD 108.4 million was related to operations in Kurdistan (USD 59.1 million), Oman (USD 47.8 million) and Tunisia (USD 1.6 million). The impairment in Kurdistan during 2017 was mainly due to a negative revision of the oil price discount in the Erbil license, while the impairment in Oman was due to negative development in the production profile.

During 2016, the net impairment charge of USD 29.2 million was related to operations in Kurdistan (USD 26.7 million), Oman (USD 5.8 million) and Ras al Khaimah (UAE) (USD 2.8 million). In addition, a reversal of impairments (USD 6.0 million) was recognized related to equipment and spare parts booked under the Dohuk license in Kurdistan. The value of these materials was impaired in 2014 but can be used at the Tawke field and was transferred to the Tawke PSC at cost. The impairment in Kurdistan during 2016 was mainly due to the increased WACC discount rate.

Sensitivities

A sensitivity analysis for the Erbil license shows that a decrease in oil price of 10 percent would reduce the value in use (recoverable amount) by USD 18.6 million. An increase in the WACC by one percent would reduce the recoverable amount by USD 5.5 million, while a drop in 2P reserves for the Erbil license by 10 percent would reduce the recoverable amount by USD 12.5 million. None of the change in assumptions would increase the impairment charge. The sensitivity is for indicative purposes only and has been established on the assumption that all other factors would remain unchanged. The expected cash flows from the Tawke license in Kurdistan are substantially higher than the carrying amount and the same sensitivity tests performed for the Erbil license would only cause minor changes to the surplus and would not lead to any impairment charges.

License expiry

In Kurdistan, the Tawke license expires in 2036 and the Erbil license expires in 2041, following five-year extensions at each license. In Oman, Block 8 expires in 2019. In Yemen, Block 47 expires in 2031, subject to force majeure adjustments.

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.

	Years ended 31 December	
USD million	**2017**	**2016**
Beginning of the period	14.0	10.8
Reversal of impairment	3.4	3.2
End of the period	**17.4**	**14.0**
Non-current portion	17.4	14.0

DNO has a total of 15,849,737 shares (4.8 percent of total issued Class A shares) in RAK Petroleum plc. All shares were acquired in open market transactions. RAK Petroleum plc is listed on the Oslo Stock Exchange. Reversal of impairment of non-monetary items are recognized in other comprehensive income with USD 3.4 million in 2017 and USD 3.2 million in 2016.

RAK Petroleum plc, through its subsidiary RAK Petroleum Holdings B.V., is the largest shareholder in DNO with 40.45 percent of the total issued shares as of 31 December 2017 (see Note 14).

Note 12
Trade and other receivables

USD million	Years ended 31 December 2017	2016
Underlift, entitlement method	7.8	66.5
Other short-term receivables	20.0	50.9
Total trade and other receivables	**27.8**	**117.4**

During 2017, DNO received USD 49.1 million from the KRG toward the booked underlift receivable. The remaining underlift receivable was settled through the Kurdistan Receivables Settlement Agreement in August 2017 (see Note 24).

The outstanding underlift receivable as of 31 December 2017 is related to Block 8 in Oman. Other short-term receivables relate to items of working capital in oil and gas licenses.

Note 13
Cash and cash equivalents

USD million	Years ended 31 December 2017	2016
Cash and cash equivalents, restricted	3.8	2.9
Cash and cash equivalents, non-restricted	426.4	258.3
Total cash and cash equivalents	**430.2**	**261.1**

Restricted cash consists of employees' tax withholdings, deposits for rent, savings related to the employee share saving plan and restricted cash related to the revolving exploration facility (see Note 15). Non-restricted cash is entirely related to bank deposits as of 31 December 2017.

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

Note 14
Equity

SHARE CAPITAL

USD million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
At 1 January 2016	**1,079,814**	**36.0**	**-0.1**	**35.9**
Treasury shares purchased/sold	-3,700.0	-	-0.1	-0.1
Share issues	-	-	-	-
At 31 December 2016	**1,076,114**	**36.0**	**-0.2**	**35.8**

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

Total outstanding shares are 1,048,814 at par value NOK 0.25 per share as of 31 December 2017. All shares have equal rights.

At the Annual General Meeting (AGM) in 2017, 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 2018 or the AGM in 2018 (whichever is earlier), replacing the authorization granted to the Board of Directors at the AGM in 2016. 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 2017, the Board of Directors was also authorized to buy treasury shares with a total nominal value of up to NOK 27,095,354 (108,381,416 own shares). The maximum amount to be paid per share is NOK 100 and the minimum amount is NOK 1.

Note 14

Equity

Purchases of treasury shares are made on the Oslo Stock Exchange. The authorization is valid until 30 June 2018 or the AGM in 2018 (whichever is earlier), replacing the authorization granted to the Board of Directors at the AGM in 2016. At 31 December 2017, the Company held 35,000,000 treasury shares.

At the AGM in 2017, the Board of Directors was also authorized to raise convertible bonds with an aggregate principal amount of up to USD 300,000,000. Upon conversion of bonds issued pursuant to this authorization, the Company's share capital may be increased by up to NOK 40,643,031. The authorization is valid until 30 June 2018 or the AGM in 2018 (whichever is earlier), replacing the authorization granted to the Board of Directors at the AGM in 2016.

Other reserves

USD million	Share premium	Other paid-in capital	Other reserves	Currency translation	Total
Balance at 1 January 2016	**247.7**	**56.6**	**19.3**	**-35.1**	**288.4**
- Sale of treasury shares	-	-	-	-	-
- Purchase of treasury shares	-	-	-2.0	-	-2.0
Issue of share capital	-	-	-	-	-
Currency translation differences - Group	-	-	-	-	-
Balance at 31 December 2016	**247.7**	**56.6**	**17.3**	**-35.1**	**286.4**
Balance at 1 January 2017	**247.7**	**56.6**	**17.3**	**-35.1**	**286.4**
- Sale of treasury shares	-	-	-	-	-
- Purchase of treasury shares	-	-	-23.3	-	-23.3
Issue of share capital	-	-	-	-	-
Currency translation differences - Group	-	-	-	-0.4	-0.4
Balance at 31 December 2017	**247.7**	**56.6**	**-6.0**	**-35.5**	**262.7**

The Company's shareholders at 31 December 2017	Shares	% interest
RAK Petroleum Holdings B.V.	438,379,418	40.45%
Verdipapirfondet DNB Norge (IV)	12,824,172	1.18%
JPMorgan Chase Bank, N.A., London (Nominee)	12,232,818	1.13%
JPMorgan Chase Bank, N.A., London (Nominee)	11,927,263	1.10%
Verdipapirfondet Pareto Investment	11,155,000	1.03%
JPMorgan Chase Bank, N.A., London (Nominee)	11,000,000	1.01%
Clearstream Banking S.A. (Nominee)	9,782,245	0.90%
State Street Bank and Trust Comp (Nominee)	9,628,999	0.89%
Credit Suisse Securities (Europe) (Nominee)	9,510,879	0.88%
JPMorgan Chase Bank, N.A., London (Nominee)	8,730,095	0.81%
The Bank of New York Mellon SA/NV (Nominee)	8,576,113	0.79%
Société Générale (Nominee)	8,120,751	0.75%
State Street Bank and Trust Comp (Nominee)	7,462,875	0.69%
Nordnet Bank AB (Nominee)	6,643,289	0.61%
JPMorgan Chase Bank, N.A., London (Nominee)	6,137,900	0.57%
The Bank of New York Mellon SA/NV (Nominee)	5,590,284	0.52%
Morgan Stanley & Co. Int. Plc. (Nominee)	5,159,237	0.48%
Avanza Bank AB (Nominee)	5,068,836	0.47%
Nordea Bank AB (Nominee)	4,727,488	0.44%
State Street Bank and Trust Comp (Nominee)	4,317,086	0.40%
Avanza Bank AB (Nominee)	451,839,413	41.69%
Total number of shares excluding treasury shares	1,048,814,161	96.77%
Treasury shares at 31 December 2017 (DNO ASA)	35,000,000	3.23%
Total number of shares including treasury shares	**1,083,814,161**	**100%**

No dividend was distributed in 2017.

Note 15

Interest-bearing liabilities

USD million	Ticker OSE	Currency	Amount	Interest	Maturity	Effective interest rate	Fair value 2017	Fair value 2016	Carrying amount 2017	Carrying amount 2016
Interest-bearing liabilities:										
Bond loan (ISIN NO0010606197)	DNO01	USD	400.0	8.75%	18.06.2020	12.5 %	400.1	355.5	400.0	400.0
Borrowing issue costs									-27.2	-38.3
Exploration financing facility		NOK	500.0	see below	see below	3.6 %	17.6	-	17.6	-
Total interest-bearing liabilities							**417.7**	**355.5**	**390.4**	**361.7**

USD million	Years ended 31 December 2017	2016
Non-current		
Bonds	400.0	400.0
Capitalized borrowing issue costs (bonds)	-27.2	-38.3
Exploration financing facility (long term portion)	-	-
Total non-current interest-bearing liabilities	**372.8**	**361.7**
Current		
Exploration financing facility (current portion)	17.6	-
Total current interest-bearing liabilities	**17.6**	**-**
Security and pledges		
Exploration tax refund	33.7	-
Restricted cash	0.7	-
Total book value of assets pledged	**34.4**	**-**

On 19 June 2015, DNO completed the placement of USD 400 million of a five-year senior unsecured bond with a fixed coupon rate of 8.75 percent and an issue price of 87.5 percent of par value. The bond loan includes 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 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 2017, DNO satisfies all loan agreement requirements.

The bond loan matures on 18 June 2020 and there are no principal installments to be paid until maturity.

The bond loan was registered on the Oslo Stock Exchange on 9 November 2016 with the ticker DNO01 and the fair value is based on the last trades made as of end-December 2017.

DNO Norge AS has available a revolving exploration facility in an aggregate amount of NOK 500 million (equivalent to USD 60.9 million as of 31 December 2017). Utilization requests need to be delivered for each proposed loan. The aggregate of the proposed loan shall not exceed 95 percent of the tax value of eligible costs which have not already been refunded by the tax authorities. The Company shall repay each loan when the tax refunds have been received. The interest rate equals 3 months NIBOR plus a 1.2 percent margin. The loan balance on the exploration financing facility is scheduled to be repaid by the end of 2018 when the exploration tax refund is received.

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

USD million	At 1 Jan 2016	Cash flows	Non-cash changes Amortization	Total at 31 Dec 2016	Cash flows	Non-cash changes Acquisition	Non-cash changes Amortization	Total at 31 Dec 2017
Bond loan	400.0	-	-	400.0	-	-	-	400.0
Borrowing issue costs	-49.3	-	11.0	-38.3	-	-	11.1	-27.2
Non-current interest-bearing liabilities	**350.7**	**-**	**11.0**	**361.7**	**-**	**-**	**11.1**	**372.8**
Current interest-bearing liabilities	**-**	**-**	**-**	**-**	**-16.4**	**34.0**	**-**	**17.6**
Total liabilities from financing activities	**350.7**	**-**	**11.0**	**361.7**	**-16.4**	**34.0**	**11.1**	**390.4**

Note 16

Provisions for other liabilities and charges

USD million	Years ended 31 December 2017	2016
Non-current		
Asset retirement obligations	31.9	23.2
Other long-term obligations	13.8	144.1
Total non-current provisions for other liabilities and charges	**45.7**	**167.3**
Current		
Other provisions and charges	2.7	5.3
Total current provisions for other liabilities and charges	**2.7**	**5.3**
Total provisions for other liabilities and charges	**48.4**	**172.6**

Asset retirement obligations are related to future well closures, decommissioning and removal expenditures for oil installations in Kurdistan and Oman. Provision for asset retirement obligation is made when the legal obligation arises for the Company, normally taking the form of license conditions, legal regulations or agreements. In accordance with the PSCs, production facilities and operating equipment will be transferred to the government when the fields are no longer commercial or at license expiry.

Provisions for a water purification project (WPP) in the Kurdistan region of Iraq and provision for production bonuses for the Tawke license previously included in other long-term provisions and charges are derecognized as part of the Kurdistan Receivables Settlement Agreement (see Note 24). In 2016, the WPP liability was classified as other long-term obligations.

Provision for a production bonus for the Erbil license is USD 10.9 million.

USD million	Asset retirement obligations	Other non-current	Other current	Total
Balance at 1 January 2016	**4.5**	**92.6**	**70.0**	**167.1**
Charged to consolidated statement of comprehensive income:				
- Accretion expense / income	0.4	-13.2	-	-12.8
- Unused amounts reversed or reclassified	-	64.7	-64.7	0.0
Incurred and charged against the provision during the period	-	-	-	-
Additional provisions capitalized in statement of financial position	18.4	-	-	18.4
Balance at 31 December 2016	**23.2**	**144.1**	**5.3**	**172.6**
Charged to consolidated statement of comprehensive income:				
- Accretion expense / income	1.2	0.7	-	1.8
- Unused amounts reversed or reclassified	-	1.0	-1.0	-
Incurred and charged against the provision during the period	-2.3	-135.3	-3.1	-140.7
Additional provisions capitalized in statement of financial position	9.8	3.3	1.5	14.6
Balance at 31 December 2017	**31.9**	**13.8**	**2.7**	**48.4**

Note 17

Commitments and contingencies

Lease obligations

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

USD million	2018	2019	2020	2021	2022	All periods thereafter	Total
Lease of properties	5.0	3.6	3.1	2.9	2.9	6.1	23.6
Lease of equipment	1.2	0.1	-	-	-	-	1.3
Lease of other	4.4	-	-	-	-	-	4.4
Total lease obligations	**10.6**	**3.7**	**3.1**	**2.9**	**2.9**	**6.1**	**29.3**

Legal disputes

During the normal course of its business, the Company can be involved in disputes. DNO has made accruals for probable liabilities related to litigation and claims based on the management's best judgment and in line with IAS 37 and IAS 12.

As of 31 December 2017, DNO is a defendant in the following material legal cases and disputes:

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

Contractual obligations/license commitments

USD million	2018	2019	2020	2021	2022	All periods thereafter	Total
Contractual commitments	8.9	0.3	-	-	-	-	9.2
Total contractual commitments/license commitments	**8.9**	**0.3**	**-**	**-**	**-**	**-**	**9.2**

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

Guarantees at 31 December 2017

DNO ASA has issued parent company guarantees on behalf of its subsidiaries, DNO Norge AS and DNO Exploration UK Ltd, to the authorities in Norway and the United Kingdom in connection with participation in licenses in these countries. 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.

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 2017	2016
Trade creditors	24.5	1.6
Public duties payable	1.7	0.8
Debt to employees and shareholders	5.0	2.2
Other accrued expenses	68.4	28.4
Total trade and other payables	**99.6**	**33.1**

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

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	1 January - 31 December 2017	2016
Net profit attributable to ordinary equity holders of the parent	495.0	-35.3
Weighted average number of ordinary shares (excluding treasury shares)	1,059.3	1,076.2
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,059.3	1,076.2
Earnings per share, basic	**0.47**	**-0.03**
Earnings per share, diluted	**0.47**	**-0.03**

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

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

Note 20

Group companies

USD million	Business address	Ownership and voting interest (in %)	Company's equity
DNO Yemen AS	Oslo	100.0	-50.7
DNO UK Ltd	London	100.0	-0.1
DNO Invest AS	Oslo	100.0	0.3
DNO Tunisia AS	Oslo	100.0	14.2
DNO Iraq AS	Oslo	100.0	937.6
DNO Mena AS	Oslo	100.0	37.1
DNO Oman AS	Oslo	100.0	-14.1
DNO Somaliland AS	Oslo	100.0	-2.0
DNO Technical Services AS	Oslo	100.0	6.4
DNO Iran AS	Oslo	100.0	-4.0
DNOILCO AS	Oslo	100.0	-1.1
Northstar Exploration Holding AS	Stavanger	100.0	4.0

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 and Tunisia. Northstar Exploration Holding AS (including subsidiaries such as DNO Norge AS and DNO Exploration UK Ltd) was acquired in June 2017 (see Note 25) and has operations both on the NCS and the UKCS.

DNO Invest AS is a dormant investment company, while DNO UK Ltd is a company with no operations. DNO Technical Services AS provides technical support and services to the various companies in the group.

Note 21

Related party disclosure

The following table provides details of the group's related party transactions in 2017. See also Note 5 on remuneration.

Related party (USD million)	Transaction	1 January - 31 December 2017	2016
RAK Petroleum plc	Service agreement	-1.3	-1.0
Total related party transactions		**-1.3**	**-1.0**

Note 21
Related party disclosure

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 also serves as Executive Chairman of 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 2017 was USD 1.3 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 are charged to the subsidiaries based on allocation of hours provided by the parent company.

Note 22
Significant events after the reporting date

Export payments from Kurdistan
On 15 February 2018, the Company received USD 54.73 million from the KRG as payment for November 2017 oil deliveries to the export market from the Tawke license. The funds were shared by DNO and partner Genel Energy plc pro-rata to the companies' interests in the license. Separately, a payment of USD 4.70 million from the KRG was received net to DNO, representing three percent of gross Tawke license revenues during November, as provided for under last August's Receivables Settlement Agreement.

On 22 January 2018, the Company received USD 53.71 million from the KRG as payment for October 2017 oil deliveries to the export market from the Tawke license. The funds were shared by DNO and partner Genel Energy plc pro-rata to the companies' interests in the license. Payment of the three percent of gross Tawke license revenues during October of USD 4.37 million net to DNO was previously paid in December 2017.

DNO Receives 10 Awards in Norway's APA Licensing Round
On 16 January 2018, the Company announced that its wholly-owned subsidiary DNO Norge AS was awarded participation in 10 exploration licenses under Norway's Awards in Predefined Areas (APA) 2017 licensing round. Of the 10 licenses, seven are in the North Sea, one in the Norwegian Sea and two in the Barents Sea.

Update on the Val d'Isere prospect
The Val d'Isere prospect on the UKCS (22.5 percent working interest) was drilled to 3,638 meters by operator Apache North Sea Limited, but the well encountered no hydrocarbons and has been plugged and abandoned.

Note 23

Company Working Interest and net entitlement reserves (unaudited)

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

	KURDISTAN												OMAN			DNO GROUP		
	Tawke license						Erbil license						Block 8 license Bukha & West Bukha					
	Tawke field			Peshkabir field			Benenan field			Bastora field								
MMboe	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**
1 January 2016	**239.9**	**336.6**	**414.9**	**3.1**	**20.0**	**59.0**	**0.0**	**26.9**	**55.2**	**0.0**	**5.3**	**7.8**	**0.9**	**2.7**	**9.0**	**243.9**	**391.5**	**545.8**
Production	-24.3	-24.3	-24.3	-	-	-	-	-	-	-	-	-	-1.0	-1.0	-1.0	-25.3	-25.3	-25.3
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New developments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	0.0	0.1	0.2	0.0	0.0	0.0	-	0.1	-0.0	-	0.1	0.0	0.6	1.9	0.0	0.6	2.1	0.2
31 December 2016	**215.5**	**312.4**	**390.7**	**3.1**	**20.0**	**59.0**	**0.0**	**27.0**	**55.2**	**0.0**	**5.4**	**7.8**	**0.5**	**3.6**	**8.0**	**219.2**	**368.3**	**520.7**
Production	-25.2	-25.2	-25.2	-0.9	-0.9	-0.9	-	-	-	-	-	-	-0.8	-0.8	-0.8	-26.9	-26.9	-26.9
Acquisitions**	22.8	28.9	37.8	1.1	5.6	19.5	-	-	-	-	-	-	-	-	-	23.8	34.5	57.3
Divestments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extensions and discoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
New developments**	-	-	-	8.0	42.4	175.7	-	-	-	-	-	-	-	-	-	8.0	42.4	175.7
Revision of previous estimates	17.6	-15.9	-1.1	-2.2	-14.9	-52.6	-	-0.3	0.0	-	-0.3	-0.2	0.3	-2.8	-7.2	15.7	-34.2	-61.1
31 December 2017	**230.7**	**300.2**	**402.2**	**9.1**	**52.1**	**200.7**	**0.0**	**26.7**	**55.2**	**0.0**	**5.1**	**7.6**	**0.0**	**0.0**	**0.0**	**239.8**	**384.1**	**665.7**

* Reserves according to the Annual Statement of Reserves and Resources released 15 March 2018, classification as in Norwegian Petroleum Directorate class 1-3. International petroleum consultants DeGolyer and MacNaughton (D&M) carried out the annual independent assessment of the Tawke and Peshkabir fields in Kurdistan. The Company internally assessed the remaining licenses. All figures reflect pre-tax shares, net to DNO after royalty and reflect DNO's additional share of cost oil covering its advances towards the government carried interest (if any).
** The Kurdistan Receivables Settlement Agreement, which increased DNO's interest in the Tawke license to 75 percent plus three percent of aggregate license revenues until 31 July 2022, is reported as an acquisition. The Peshkabir Cretaceous appraisal in 2017 following its discovery in 2016 is reported as a new development.

The estimation of oil and gas reserves involves uncertainty. The figures above represent management's best judgment of the most likely quantity of economically recoverable oil and gas estimated at yearend 2017, given the information at the time of reporting. The estimates have a large spread especially for fields for which there is limited data available. The uncertainty will be reduced as more information becomes available through production history and reservoir appraisal. In addition, for fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a significant impact on the profitability and hence the economic cut-off for production.

At yearend 2017, DNO's CWI proven reserves (1P) stood at 239.8 MMboe, up from 219.2 MMboe at yearend 2016, after adjusting for production during the year, technical revisions and an increase in DNO's interest to 75 percent in the Tawke license plus three percent of aggregate license revenues until 31 July 2022 pursuant to the Kurdistan Receivables Settlement Agreement. On a proven and probable (2P) basis, DNO's CWI reserves stood at 384.1 MMboe, up from 368.3 MMboe at yearend 2016. On a proven, probable and possible (3P) basis, DNO's CWI reserves climbed to 665.7 MMboe, from 520.7 MMboe at yearend 2016.

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

DNO's operated production in 2017 averaged 113,530 barrels of oil equivalent per day (boepd), up from 112,624 boepd in 2016. DNO's CWI production in 2017 averaged 73,678 boepd, up from 69,188 boepd in 2016.

DNO's yearend 2017 Reserve Life Index (R/P) stood at 8.9 years on a CWI 1P reserves basis, 14.3 years on a CWI 2P reserves basis and 24.8 years on a CWI 3P reserves basis.

Note 23

Company Working Interest and net entitlement reserves (unaudited)

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

	KURDISTAN												OMAN			DNO GROUP		
	Tawke license**						Erbil license**						Block 8 license					
	Tawke field			Peshkabir field			Benenan field			Bastora field			Bukha & West Bukha					
MMboe	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**	**1P**	**2P**	**3P**
31 December 2016	97.0	121.8	137.3	1.7	7.3	17.9	-	16.1	25.9	-	3.2	3.7	0.4	3.1	6.6	99.1	151.4	191.3
31 December 2017	**115.0**	**137.3**	**152.2**	**4.6**	**24.2**	**76.4**	**-**	**18.8**	**31.4**	**-**	**3.6**	**4.3**	**-**	**-**	**-**	**119.6**	**183.9**	**264.3**

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

** Net entitlement (NE) reserves in Kurdistan include reserves attributable to the notional corporate income tax that is deemed to have been paid on behalf of DNO by the government according to the PSCs. At yearend 2017, such NE reserves attributable to the notional corporate income tax in Kurdistan were 30.1 MMboe on a 1P basis, 46.0 MMboe on a 2P basis and 72.9 MMboe on a 3P basis. The NE proven developed reserves for the Tawke license were 62.6 MMboe at yearend 2017, of which 16.8 MMboe was attributable to the notional corporate income tax. The corresponding figure at yearend 2016 was 66.1 MMboe, of which 18.8 MMboe was attributable to the notional corporate income tax.

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

Note 24

Kurdistan Receivables Settlement Agreement

On 24 August 2017, DNO and the KRG completed a settlement of outstanding receivables owed to DNO for past oil deliveries. The settlement had an effective date of 1 August 2017. Under the settlement agreement, DNO was assigned the 20 percent interest in the Tawke license previously held by the KRG, bringing DNO's operated interest to 75 percent. In addition to the 20 percent interest, the Company will receive three percent of gross license revenues each month from the KRG over a five-year period. The KRG has also discharged DNO from certain payment obligations, including those for production bonuses, license fees and a water purification project. In addition, the KRG has exercised its Tawke license audit rights to its satisfaction for the period up to the effective date and has no adjustment claims.

In addition to internal assessments, DNO engaged an external valuation advisor to prepare a fair value assessment of the 20 percent assigned interest and the three percent of gross license revenue it received under the agreement. This was used as the basis for the accounting of the settlement in the financial statements. The relevant discount rate (WACC) used in the valuation was 17.1 percent. The settlement results in a recognition of an asset (PP&E) equal to the estimated fair value of the 20 percent assigned interest and the three percent of gross license revenue. DNO is of the opinion that the value of the settlement can be reliably measured and as such a corresponding revenue has been recognized as other income in the statement of comprehensive income in the consolidated accounts for 2017.

The removal of the liabilities under the settlement agreement resulted in a recognition of revenue equal to the book value of the liability as recognized in the financial statement as of the effective date. The remaining book value of the underlift receivable (see Note 12) was considered settled. The accounting effects for the Kurdistan Receivables Settlement Agreement are shown below:

USD million	
Property, plant and equipment	457.5
Trade and other receivables	-46.5
Total assets	**411.0**
Retained earnings	556.0
Provisions for other liabilities and charges (non-current)	-145.0
Total equity and liabilities	**411.0**
Other income past oil sales	556.0
Net profit/-loss	**556.0**

For comparison purposes, assuming that the agreement had been completed in the beginning of 2017, it is estimated that revenues would have been USD 71.7 million higher and gross profit USD 29.5 million higher this year. The estimated effects are based on internal calculations and assumes cash payments from the KRG in accordance with the terms of the agreement.

Note 25

Business combination Norway

On 29 June 2017, DNO finalized and completed the acquisition of 100 percent of the shares in Origo Exploration Holding AS (Origo), after obtaining approval by regulatory authorities in both Norway and the United Kingdom and the boards of both companies. The payable of USD 2.6 million (NOK 22.1 million) to the former shareholders of Origo can be adjusted based on the final cost of the Val d`Isere well.

The acquisition was part of DNO's return to the North Sea and gave DNO stakes in 11 licenses offshore Norway and the United Kingdom.

The acquisition is regarded as a business combination and accounted for using the acquisition method in accordance with IFRS 3. A purchase price allocation (PPA) was performed to allocate the consideration to fair value of assets and liabilities of Origo as of the acquisition date.

Acquired assets and liabilities assumed were recognized at acquisition-date fair values and are as follows:

USD million	Fair value at acquisition-date
Deferred tax asset	3.4
Property, plant and equipment	0.2
Long-term tax receivables	11.3
Tax receivables (current)	32.3
Trade and other receivables	1.5
Cash and cash equivalents	2.6
Total assets	**51.3**
Interest-bearing liabilities (non-current)	30.6
Provisions for other liabilities and charges (non-current)	0.6
Current interest-bearing liabilities	3.4
Trade and other payables	12.6
Total liabilities	**47.1**
Total identifiable net assets at fair value	4.2
Consideration payable on acquisition	2.6
Gain from a bargain purchase arising on acquisition	**-1.5**

The consideration payable is included in provisions for other liabilities and charges under current liabilities in the DNO consolidated balance sheet. The gain of USD 1.5 million is mainly due to the application of measurement requirements of IFRS 3 as part of the transaction. The gain from a bargain purchase is included in other operating income.

Since the acquisition, DNO has included in its consolidated statement of comprehensive income a loss of USD 10.3 million and no revenue. If the business combination had occurred in the beginning of 2017, DNO would have included in its consolidated statement of comprehensive income a loss of USD 16.2 million and no revenue.

Note 26

Oil and gas license portfolio

The Company's oil and gas license portfolio as of 31 December 2017:

Country of operation	License	Participating interest	Operator	Partners
Kurdistan region of Iraq	Tawke	75%	DNO Iraq AS	Genel Energy International Ltd.
Kurdistan region of Iraq	Erbil	40%	DNO Iraq AS	Gas Plus Erbil Ltd., Kurdistan Regional Government
Norway	PL248 F	20%	Wintershall Norge AS	DNO Norge AS, Petoro AS
Norway	PL248 GS	20%	Wintershall Norge AS	DNO Norge AS, Petoro AS
Norway	PL248 HS	20%	Wintershall Norge AS	DNO Norge AS, Petoro AS
Norway	PL293 B	20%	Statoil Petroleum AS	DNO Norge AS, Idemitsu Petroleum Norge AS
Norway	PL811	20%	Spirit Energy Norge AS	DNO Norge AS, Aker BP ASA, Faroe Petroleum Norge AS
Norway	PL812	20%	Statoil Petroleum AS	DNO Norge AS, MOL Norge AS, Fortis Petroleum Norway AS
Norway	PL824	30%	Point Resources AS	DNO Norge AS, Concedo ASA
Norway	PL889	20%	VNG Norge AS	DNO Norge AS, Concedo ASA
Oman	Block 8	50%	DNO Oman Block 8 Limited	LG International Corp.
Somaliland	Block SL18	50%	DNO Somaliland AS	Petrogas (Gibraltar) Limited, Republic of Somaliland
Tunisia	Sfax Offshore Exploration Permit and Ras El Besh Concession	87.5%	DNO Tunisia AS	Eurogas International Ltd., Atlas Petroleum Exploration Worldwide Ltd.
Tunisia	Hammamet Offshore Exploration Permit	46%	Medco Ventures International	DNO Tunisia AS
UK	P1982	35%	Apache Beryl I Limited	DNO Exploration UK Limited, Enterprise Oil Limited
UK	P1998	22.5%	Apache North Sea Limited	DNO Exploration UK Limited, Euroil Exploration Limited
UK	P2074	25%	Chrysaor CNS Limited	DNO Exploration UK Limited, Ineos UK SNS Limited
Yemen	Block 47	64%	DNO Yemen AS	The Yemen Company, Geopetrol Hadramaut Inc.

Parent company accounts

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Income statement

USD thousand	Note	1 January - 31 December 2017	2016
OPERATING REVENUES			
Operating revenues	2, 19	10,707	6,795
Total operating revenues		**10,707**	**6,795**
OPERATING EXPENSES			
Ordinary depreciation	7	-2,248	-3,078
Payroll and payroll-related expenses	3	-13,654	-13,758
Other operating expenses	4	-16,940	-18,189
Total operating expenses		**-32,842**	**-35,025**
OPERATING PROFIT/-LOSS		**-22,135**	-28,230
Net other financial items	5	133,852	-91,695
PROFIT/-LOSS BEFORE INCOME TAX		**111,717**	**-119,925**
Income tax expenses	6	2,319	-
ANNUAL PROFIT/-LOSS		**114,036**	**-119,925**
Transferred from/to other equity		114,036	-119,925
Total allocations		**114,036**	**-119,925**
Earnings per share, basic	18	0.11	-0.11
Earnings per share, diluted	18	0.11	-0.11

Balance sheet

ASSETS

USD thousand	Note	Years ended 31 December 2017	2016
FIXED ASSETS			
Tangible fixed assets			
Property, plant and equipment	7	3,632	5,788
Total tangible assets		**3,632**	**5,788**
Financial fixed assets			
Shares in subsidiaries	8	342,112	411,120
Intercompany receivables	19	14,912	13,365
Other long-term receivables		207	-
Investment in shares	8	17,385	13,993
Total financial fixed assets		**374,616**	**438,478**
Total fixed assets		**378,248**	**444,266**
CURRENT ASSETS			
Trade and other receivables	9	2,673	2,314
Intercompany receivables	9	16,835	5,244
Cash and cash equivalents, restricted	10	2,915	2,852
Cash and cash equivalents, unrestricted	10	385,587	250,073
Total current assets		**408,010**	**260,483**
TOTAL ASSETS		**786,258**	**704,749**

EQUITY AND LIABILITIES

USD thousand	Note	Years ended 31 December 2017	2016
Paid-in capital			
Share capital		35,991	35,991
Treasury shares		-1,022	-220
Share premium account		247,743	247,743
Other paid-in capital		22,937	46,206
Total paid-in capital	**11**	**305,649**	**329,720**
Retained earnings			
Retained earnings		-83,922	-197,958
Total retained earnings	**11**	**-83,922**	**-197,958**
Total shareholders' equity	**11**	**221,727**	**131,762**
Non-current liabilities			
Intercompany liabilities	19	178,301	201,598
Interest-bearing liabilities	13	372,765	361,723
Other non-current liabilities		-	636
Total non-current liabilities		**551,066**	**563,957**
Current liabilities			
Provisions for other liabilities and charges	14	12,811	8,252
Intercompany liabilities		654	779
Total current liabilities		**13,465**	**9,031**
Total liabilities		**564,531**	**572,988**
TOTAL EQUITY AND LIABILITIES		**786,258**	**704,749**

Oslo, 14 March 2018

Bijan Mossavar-Rahmani
Executive Chairman

Lars Arne Takla
Deputy Chairman

Shelley Watson
Director

Elin Karfjell
Director

Gunnar Hirsti
Director

Bjørn Dale
Managing Director

Cash flow statement

USD thousand	Note	1 January - 31 December 2017	2016
OPERATING ACTIVITIES			
Profit/-loss before tax		111,717	-119,925
Taxes paid	6	-	-
Depreciation and impairment of tangible and intangible assets	7	2,248	3,078
Impairment/Reversal of impairment of financial assets	5	82,490	29,227
Changes in net assets and other accruals*		4,960	144,330
Net interest paid		-31,684	-34,325
Net cash flow from operating activities		**169,731**	**22,385**
INVESTING ACTIVITIES			
Payments made for investments in other assets	7	-92	-954
Payments made for acquisitions of bonds, shares, including capital increase in subsidiaries		-9,984	-
Net cash flow from investing activities		**-10,076**	**-954**
FINANCING ACTIVITIES			
Purchase of treasury shares and options	11	-24,078	-2,066
Net cash flow -used in/from financing activities		**-24,078**	**-2,066**
Effects of change in currency (cash and cash equivalents)		**-**	**392**
Cash and cash equivalents 1 January		252,925	233,168
Net change in cash and cash equivalents		135,577	19,757
Cash and cash equivalents 31 December	10	**388,502**	**252,925**
Of which restricted cash		2,915	2,852

* Net interest expense/income from 1 January 2017 is included in the line Changes in net assets and other accruals.

Note 1

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

■ Valuation and classification of balance sheet items
Current assets and short-term liabilities include items due less than one year from draw-down and items related to the operating cycle. Other assets or liabilities are classified as fixed assets or long-term liabilities.

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

■ Property, plant & equipment (PP&E)
PP&E is carried at cost less accumulated depreciation and impairment charges.

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

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

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

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

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

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

■ 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 2

Operating revenues

USD thousand	1 January - 31 December 2017	2016
Operating revenues	10,707	6,795
Total operating revenues	**10,707**	**6,795**

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

Note 3

Salaries, pensions, remuneration, shares, options and severance

USD thousand	1 January - 31 December 2017	2016
Payroll expenses		
Salaries, bonuses, options etc.	-9,196	-8,704
Employer's payroll tax expense incl. payroll tax on options	-1,958	-1,262
Pensions	-1,455	-1,512
Other personnel costs	-1,217	-2,850
Reclassification of payroll and payroll-related expenses to exploration and production costs	172	570
Payroll and payroll-related expenses	**-13,654**	**-13,758**
Average number of man-labor years	50	47

Salaries and social expenses are paid in NOK and recorded in USD based on the average annual exchange rate. The average USD/NOK rate used in 2017 was 8.27, compared to 8.40 for 2016.

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 its Norway-based employees. DNO meets the Norwegian requirements for mandatory occupational pensions ("obligatorisk tjenestepensjon").

Remuneration to Board of Directors and executive management

Remuneration to Board of Directors (USD thousand)	2017	2016
Bijan Mossavar-Rahmani, Executive Chairman, member of the nomination and remuneration committees	787.1	775.0
Lars Arne Takla, Deputy Chairman, Chair of the HSSE committee	65.9	64.9
Gunnar Hirsti, Director, Chair of the audit committee and member of the remuneration committee	72.5	56.3
Shelley Watson, Director, member of the audit committee	55.9	55.1
Elin Karfjell, Director, member of the audit committee	55.9	55.1
Total	**1,037.3**	**1,006.3**

Total remuneration to the board members consist of regular fees (USD 987,500) and fees for participation in board`s committees (USD 49,900). In addition, a total of USD 6,000 was paid as fees to Kåre Tjønneland and Anita Marie Hjerkinn Aarnæs for their work on the nomination committee.

Remuneration to Managing Director and executive management (USD thousand) *	Salary	Bonus	Pension	Other	Total	Outstanding loan balance
Bjørn Dale, Managing Director	493.0	185.3	19.5	76.3	774.1	-
Haakon Sandborg, Chief Financial Officer	349.7	34.5	19.5	25.7	429.6	-
Bruce Webb, Chief Operating Officer (from May 2017)**	195.7	100.0	-	135.0	430.7	27.5
Ute Quinn, General Counsel (from September 2017)***	137.0	102.8	19.5	7.9	267.2	179.8
Chris Spencer, Commercial Director (from May 2017)	255.4	-	19.5	1.6	276.6	-
Nicholas Whiteley, Exploration Director	354.9	101.5	19.5	83.5	559.4	-

* Total remuneration of USD 1.6 million was paid to the following former members of the executive management: Jeroen Regtien, Claes Åbyholm and James Edens.
** Loan amount is to be repaid over 12 months of equal installments through salary deductions.
*** Loan amount is to be repaid over 24 months including interest through salary deductions. The interest rate equals the Norwegian statutory rate applicable to employee loans (interest rate 2.2 percent as per end-2017).

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

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

Movement in synthetic Company shares during the year

Number of shares	Out-standing at 1 Jan	Movements 1 January - 31 December Granted	Forfeited	Settled	Expired	Modified	Out-standing at 31 Dec	Unrestricted at 31 Dec	Weighted average price*
Bjørn Dale, Managing Director	12,272	177,591	-	-9,034	-	-	180,829	3,238	7.92
Haakon Sandborg, Chief Financial Officer	56,291	-	-	-	-	-	56,291	44,051	-
Bruce Webb, Chief Operating Officer	-	-	-	-	-	-	-	-	-
Ute Quinn, General Counsel	-	122,951	-	-	-	-	122,951	-	-
Chris Spencer, Commercial Director	-	-	-	-	-	-	-	-	-
Nicholas Whiteley, Exploration Director	40,584	74,788	-	-40,584	-	-	74,788	-	9.91

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

The weighted average settlement price for synthetic shares at the end of the year was NOK 9.50. The weighted average remaining contractual life for the synthetic shares was 1.66 year.

Former members of the executive management Jeroen Regtien, Claes Åbyholm and James Edens have total outstanding synthetic shares of 455,275 as of 31 December 2017 (total of 22,457 unrestricted). Total synthetic shares settled for the year by these former members of executive management were 181,636. The range of weighted average settlement prices for the year was between NOK 9.35 to NOK 12.17.

The synthetic share awards are normally subject to a two-year vesting period and normally require continued employment in the Company for a period of two years after the grant date. Following vesting, the employee is free to settle the shares in cash. Payments in cash for the year are included in "Other" remuneration above. For shares and options held by directors and executive management at yearend 2017, see Note 5 in the consolidated accounts.

Severance agreements
Severance payment agreements (up to two times annual salary) apply to the following members of executive management: Bjørn Dale, Haakon Sandborg and Nicholas Whiteley. Severance payments during the year are included in salary expenses.

Auditor’s fees

All figures are exclusive of VAT (USD thousand)	1 January - 31 December 2017	2016
Auditor's fees	-293	-264
Other financial auditing	-59	-46
Total auditing fees	**-352**	**-310**
Other assistance	-	-
Tax assistance	-130	-89
Total auditor's fees	**-482**	**-399**

Declaration regarding determination of salary and other remuneration to the Managing Director and other executive management

The board’s declaration for 2017
According to the Norwegian Public Limited Liability Companies Act section 6-16a cf. section 5-6 third paragraph, the Board of Directors present a declaration regarding determination of salary and other remuneration to the Managing Director and executive management for the coming financial year to the AGM.

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

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

Note 3

Salaries, pensions, remuneration, shares, options and severance

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

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

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

Pensions
DNO ASA has a contribution-based pension system under which Norway-based employees are entitled to a pension contribution of 12.5 percent of their annual salary. Any excess of the maximum legally allowable pension contribution is paid out to the employees as an additional salary.

Share-based incentive scheme
The Board of Directors can implement a share-based incentive scheme involving the allocation of options to acquire shares.
The principles of the program shall be (i) to align the interests of 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 parts of this declaration
Remuneration as it relates to the employee share saving plan or the options-based incentive scheme must be subject to a separate vote by the AGM and is binding once approved. Other sections of the remuneration policy are non-binding guidelines for the board and are therefore only subject to a consultative vote at the AGM.

Management remuneration in 2017
Management remuneration for 2017 was in accordance with the directives approved by the AGM in 2017.

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 4
Other operating expenses

Other operating expenses (USD thousand)	1 January - 31 December 2017	2016
Lease expense-buildings and equipment	-2,265	-2,179
Other office expenses	-66	-78
IT-expenses	-3,246	-2,696
Travel expenses	-917	-494
Legal expenses	-579	-2,084
Consultant fees	-3,928	-3,197
Other general and administrative costs	-5,939	-7,461
Total other operating expenses	**-16,940**	**-18,189**

Note 5
Net other financial items

USD thousand	1 January - 31 December 2017	2016
Dividend received from group companies	281,647	-
Interest received	3,316	1,075
Interest received from group companies	1,298	265
Other financial income	-	12
Gain on foreign exchange	2,558	224
Reversal impairment of financial assets	3,393	-
Total financial income	**292,212**	**1,576**
Interest expenses	-35,000	-35,421
Interest expenses group companies	-25,610	-16,549
Loss on foreign exchange	-775	-814
Impairment of financial assets	-85,882	-29,227
Other financial expenses	-11,093	-11,260
Total financial costs	**-158,360**	**-93,271**
Net finance items	**133,852**	**-91,695**

Impairment of financial assets (shares and receivables) in 2017 was related mainly to DNO Tunisia AS (USD 39.6 million), DNO Mena AS (USD 23.5 million), Northstar Exploration Holding AS (USD 8.4 million) DNO Somaliland AS (USD 1.0 million), DNO Yemen AS (USD 4.3 million), DNO Tunisia Ltd (USD 0.3 million), DNO Oman AS (USD 0.5 million), DNO Iran AS (USD 3.9 million) and Al Khaleej Ltd (USD 2.4 million). A reversal of impairment of USD 3.4 million is recognized for the shares in RAK Petroleum plc.

Impairment of financial assets (shares and receivables) in 2016 was related mainly to DNO Oman AS (USD 16.8 million), DNO Tunisia AS (USD 6.2 million), DNO Somaliland AS (USD 2.0 million), DNO Yemen AS (USD 4.2 million) and Al Khaleej Ltd (USD 2.4 million). A reversal of impairment of USD 3.2 million is recognized for the shares in RAK Petroleum plc.

Note 6

Taxes

Income tax expenses

USD thousand	1 January - 31 December 2017	2016
Changes in deferred taxes	2,319	-
Income taxes receivable/-payable	-	-
Tax income/-expense	**2,319**	**-**

Reconciliation of the year's income tax

USD thousand	1 January - 31 December 2017	2016
Profit/-loss before income tax	**111,717**	**-119,925**
Expected income tax according to nominal tax rate of 24% (25% in 2016)	-26,812	29,981
Foreign exchange variations between functional and tax currency	-10,060	-1,634
Adjustment in previous years	-	-
Adjustment of deferred tax assets not recognized	-15,401	-22,384
Impairment financial assets	-15,269	-8,275
Tax-free dividend from subsidiaries	70,412	-
Change in previous years	-	-
Other items	574	4,433
Change in tax rate	-3,444	-2,121
Tax loss carried forward (utilized)	2,319	-
Tax income/-expense	**2,319**	**-**
Effective tax rate (including change in deferred taxes)	**-2%**	**0%**

Tax effects of temporary differences and losses carried forward:

USD thousand	Years ended 31 December 2017	2016
Other current items	-	-
Property, plant & equipment	-28	-148
Other temporary differences	-454	-877
Nondeductible interests carried forward	9,614	3,908
Tax losses carried forward	70,712	56,708
Deferred tax assets/-liabilities	79,844	59,591
Valuation allowance	-79,844	-59,591
Deferred tax assets/-liabilities	**-**	**-**
Recognized deferred tax assets	-	-
Recognized deferred tax liabilities	-	-

The corporate tax rate was 24 percent in 2017. Effective from 1 January 2018 the corporate tax rate is 23 percent. Tax rates effective from 1 January 2018 have been used to calculate deferred taxes.

The tax value of tax losses carried forward is USD 70.7 million (23 percent of USD 307.4 million) as of yearend 2017. The carrying forward period for the unused losses in Norway is indefinite.

Note 7

Property, plant and equipment

USD thousand	Other tangible/ intangible assets	Total PP&E
Costs 1 January 2017	12,959	12,959
Additions 2017	92	92
Cost 31 December 2017	**13,051**	**13,051**
Accumulated depreciation 1 January 2017	-7,171	-7,171
Depreciation 2017	-2,248	-2,248
Accumulated depreciation & impairments 31 December 2017	**-9,419**	**-9,419**
Book value 31 December 2017	**3,632**	**3,632**
Book value 31 December 2016	**5,788**	**5,788**

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.

Note 8

Investment in shares

Subsidiaries owned by DNO ASA	Company's business address	Owner-ship and voting interest	Company's share capital in 1,000	Company's equity in USD 1,000	Company's profit/ -loss in USD 1,000	Book value in USD 1,000
DNO Yemen AS	Oslo	100%	NOK 291,000	-50,673	-4,458	-
DNO UK Ltd	London	100%	GBP 100	-75	-12	0
DNO Iraq AS	Oslo	100%	NOK 1,200	937,599	654,931	279,848
DNO Tunisia AS	Oslo	100%	NOK 2,500	14,221	-5,035	14,221
DNO Invest AS	Oslo	100%	NOK 2,075	321	-3	308
DNO Mena AS	Oslo	100%	NOK 2,000	37,095	-66,105	37,095
DNO Oman AS	Oslo	100%	NOK 202	-14,068	241	-
DNO Somaliland AS	Oslo	100%	NOK 202	-1,963	-1,290	-
DNO Technical Services AS	Oslo	100%	NOK 200	6,415	1	6,402
DNO Iran AS*	Oslo	100%	NOK 101	-3,953	-3,670	-
DNOILCO AS	Oslo	100%	NOK 30	-1,068	-1,108	-
Northstar Exploration Holding AS	Stavanger	100%	NOK 70,347	4,035	-10,322	4,239
Total				**927,886**	**563,170**	**342,112**

* The functional currency of DNO Iran AS is EUR.

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

In 2016, the value in shares in subsidiaries was written off by USD 10.4 million. The write off was mainly related to DNO Tunisia AS (USD 6.2 million), DNO Oman AS (USD 2.9 million) and DNO Somaliland AS (USD 0.7 million).

Other investments
Other investments by DNO ASA in 2017 and 2016 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.

During both 2017 and 2016, the market value of this investment increased and there was a reversal of impairment losses of USD 3.4 million and USD 3.2 million, respectively.

Note 9
Trade and other receivables

USD thousand	Years ended 31 December 2017	2016
Intercompany receivables	16,835	5,244
Prepayments and accrued income	2,656	2,314
Other short-term receivables	17	-
Trade and other receivables	**19,508**	**7,558**

Note 10
Cash and cash equivalents

USD thousand	Years ended 31 December 2017	2016
Cash and cash equivalents, restricted	2,915	2,852
Cash and cash equivalents, non-restricted	385,587	250,073
Total cash and cash equivalents	**388,502**	**252,925**

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
Shareholder's 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 2016	35,991	4,000	-115	247,743	48,167	-78,033	253,753
Purchase of treasury shares	-	3,700	-105	-	-1,961	-	-2,066
Sale of treasury shares	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-119,925	-119,925
Shareholders' equity on 31 December 2016	**35,991**	**7,700**	**-220**	**247,743**	**46,206**	**-197,958**	**131,762**
Shareholders' equity on 1 January 2017	35,991	7,700	-220	247,743	46,206	-197,958	131,762
Purchase of treasury shares	-	27,300	-802	-	-23,269	-	-24,071
Sale of treasury shares	-	-	-	-	-	-	-
Share issue	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	114,036	114,036
Shareholders' equity on 31 December 2017	**35,991**	**35,000**	**-1,022**	**247,743**	**22,937**	**-83,922**	**221,727**

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 other 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 2017	2016
Trade creditors	1,977	644
Public duties payable	1,320	825
Accrued expenses and other current liabilities	9,514	6,783
Total trade and other payables	**12,811**	**8,252**

Included in accrued expenses and other current liabilities is a 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 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 yearend with subsidiaries.

Note 17
Contingencies and events after the balance sheet date

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

Note 18
Earnings per share

USD thousand	1 January - 31 December 2017	2016
Net profit/-loss attributable to ordinary equity holders of the parent	114,036	-119,925
Weighted average number of ordinary shares (excluding treasury shares)	1,059,312	1,076,246
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	1,059,312	1,076,246
Earnings per share, basic	0.11	-0.11
Earnings per share, diluted	0.11	-0.11

Note 19

Intercompany

Long-term intercompany receivables/liabilities

USD thousand	Functional Currency	Receivables 2017	Receivables 2016	Liabilities 2017	Liabilities 2016
		Years ended 31 December			
DNO Iraq AS	USD	-	-	98,179	124,206
DNO Tunisia AS	USD	-	-	13,570	28
DNO Oman Block 30 Limited	USD	436	381		
DNO Oman Block 31 Limited	USD	238	-		
DNO Oman Block 8 Limited	USD	-	-	66,552	76,965
DNO Oman Limited	USD	141	305		
DNO Somaliland AS	USD	-	34		
DNO Mena AS	USD	14,097	12,645	-	399
Total long-term intercompany receivables and liabilities		**14,912**	**13,365**	**178,301**	**201,598**

Intercompany receivables and liabilities are interest bearing with an average interest rate of 12.5 percent for both 2017 and 2016. Reduced intercompany liabilities are mainly due to cash calls to subsidiaries and dividend from DNO Iraq AS partly offset by payments in Kurdistan transferred from DNO Iraq AS to DNO ASA.

Intercompany sales/purchases

USD thousand	Functional Currency	Sales 2017	Sales 2016	Purchases 2017	Purchases 2016
		1 January - 31 December			
DNO Iraq AS	USD	6,355	4,373	-	-
DNO Tunisia AS	USD	340	522	-8	-
DNO Yemen AS	USD	94	231	-	-
DNO Al Khaleej Ltd	USD	35	382	-	-
DNO Technical Services AS	USD	325	-	-5,414	-6,140
DNO Oman Block 8 Limited	USD	209	398	-	-
DNO Oman AS	USD	228	443	-	-
DNO Somaliland AS	USD	223	414	-	-
DNOILCO AS	NOK	824	-		
DNO Iran AS	EUR	1,453	-		
DNO Norge AS	NOK	523	-		
Other	USD	98	32	-	-
Intercompany sales/purchases		**10,707**	**6,795**	**-5,422**	**-6,140**

DNO ASA's other related parties consist of subsidiaries of the group. DNO ASA sells and buys services from these companies.

Intercompany interest income/expenses

USD thousand	Functional Currency	Interest income 2017	Interest income 2016	Interest expenses 2017	Interest expenses 2016
		1 January - 31 December			
DNO Technical Services AS	USD	-	21	-	-
DNO Iraq AS	USD		-	-13,777	-6,858
DNO Tunisia AS	USD	-	-	-1,035	-107
DNO Yemen AS	USD	-	181	-	-
DNO Mena AS	USD	1,220	-	-	-63
DNO Oman Limited	USD	43	63	-	-
DNO Oman Block 8 Limited	USD			-10,857	-9,522
Other	USD	35	-	59	-
Intercompany interest income/expenses		**1,298**	**265**	**-25,610**	**-16,549**

See Note 5.

Auditor's report 2017

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNO ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNO ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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Kurdistan Receivable Settlement

DNO entered into a settlement agreement with the Kurdistan Regional Government (KRG) on 24 August 2017. The settlement agreement resulted in recognition of USD 556.0 million as other income, an addition to PP&E of USD 457.5 million, and a reversal of liabilities of USD 145.0 million. The settlement agreement with the KRG is a key audit matter due to the size and nature of the settlement, and the high degree of management's judgment and use of estimates in determining the fair value of the transaction.

We obtained Management's internal and external fair value assessments of the settlement. We evaluated data used in fair value assessments, including testing of forecasted future cash flows. Further we agreed assumptions on production volumes, oil price, capital expenditure and weighted average cost of capital to external and internal supporting evidence. In addition, we evaluated the professional qualifications and objectivity of the external valuation advisor used by Management, and we tested the mathematical accuracy of the models.

Refer to the Company's disclosures included in Note 24 Kurdistan receivable settlement.

Revenue recognition Kurdistan

Total revenue recognized in Kurdistan in 2017 was USD 331.0 million. DNO has interests in the Tawke, Peshkabir and Erbil fields in Kurdistan through Production Sharing Contracts (PSCs). The payments received for oil sales in Kurdistan has historically not followed the PSC terms. Considering the uncertainties related to the timing of payments, DNO recognizes revenue from local sales and export sales upon receipt of cash payments.

The alternative interpretation of the accounting policies for revenue recognition in Kurdistan requires judgment and is therefore a key audit matter.

We obtained an understanding of the process for revenue recognition in Kurdistan and evaluated the accounting principles applied by Management. We tested a sample of sales by agreeing recognized revenue to payments received.

Refer to the Company's disclosures included in Note 1 Summary of IFRS accounting principles applicable for 2017 and Note 3 Revenues.

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

Oil & gas assets in Kurdistan (property, plant, equipment and intangible assets) amount to USD 858.0 million at year-end 2017 after an impairment charge of USD 59.1 million in 2017. During 2017 the political uncertainty in Kurdistan has continued, resulting in uncertain future cash flows from the licenses. Management's judgment and estimates in the value in use model makes impairment of oil & gas assets in Kurdistan a key audit matter.

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

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

Refer to the Company's disclosures included in Note 1 Summary of IFRS accounting principles applicable for 2017 and Note 10 Property, plant and equipment/intangible assets.

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Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

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

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

Opinion on registration and documentation

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

Oslo, 14 March 2018
ERNST & YOUNG AS

Asbjørn Rødal
State Authorised Public Accountant (Norway)

Independent auditor's report - DNO ASA

A member firm of Ernst & Young Global Limited

Alternative performance measures

DNO discloses alternative performance measures as a supplement to the financial statements prepared in accordance with IFRS. Such performance measures are frequently used by securities analysts, investors and other interested parties and are meant to provide insight into the operation, financing and future prospects of the Company.

EBITDA

USD million	2017	2016
Revenues	347.4	201.8
Lifting costs	-96.1	-68.6
Exploration expenses	-33.0	-20.3
Administrative expenses	-33.2	-31.0
Other income past oil sales (Note 24)	556.0	-
Other operating income/expenses	-5.4	13.6
EBITDA	**735.6**	**95.4**

Netback

USD million	2017	2016
EBITDA	735.6	95.4
Provision for obsolete inventory (Note 4)	19.0	-
Other income past oil sales (Note 24)	-556.0	-
Taxes received/paid	33.2	-1.7
Netback	**231.8**	**93.8**

	2017	2016
Netback (USD million)	231.8	93.8
Company Working Interest production (MMboe)	26.9	25.3
Netback (USD/boe)	**8.6**	**3.7**

Lifting costs

	2017	2016
Lifting costs (USD million)	-96.1	-68.6
Company Working Interest production (MMboe)	26.9	25.3
Lifting costs (USD/boe)	**3.6**	**2.7**

Operational spend

USD million	2017	2016
Lifting costs	-96.1	-68.6
Exploration expenses	-33.0	-20.3
Capital expenditures	-130.4	-36.4
Operational spend	**-259.5**	**-125.4**

Equity ratio

USD	2017	2016
Equity	875.9	401.9
Total assets	1,415.1	969.8
Equity ratio	**61.9%**	**41.4%**

Free cash flow

USD million	2017	2016
Cash generated from operations	338.8	98.7
Purchases of intangible assets	-1.3	-9.4
Purchases of tangible assets	-129.1	-27.0
Free cash flow	**208.4**	**62.3**

Net debt

USD	2017	2016
Cash and cash equivalents	430.2	261.1
Bond loan	400.0	400.0
Net cash/-debt*	**30.2**	**-138.9**

* Exploration financing facility has been excluded as it is covered by the exploration tax refund booked as an asset in the statement of financial position (see Note 15 in the consolidated accounts)

Reserve Life Index (R/P)

	2017	2016
Company Working Interest production (MMboe)	26.9	25.3
1P reserves	239.8	219.2
2P reserves	384.1	368.3
3P reserves	665.7	520.7
1P Reserve Life Index (R/P in years)	**8.9**	**8.7**
2P Reserve Life Index (R/P in years)	**14.3**	**14.5**
3P Reserve Life Index (R/P in years)	**24.8**	**20.6**

Glossary and definitions

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

boe
Barrels of oil equivalent

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

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

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/IFRS
International Financial Reporting Standards

KRG
Kurdistan Regional Government

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

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 received/paid

NCS
Norwegian Continental Shelf

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

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

SPE
Society of Petroleum Engineers

UKCS
United Kingdom Continental Shelf

WPP
Water Purification Project

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