DNO INTERNATIONAL ASA
ANNUAL REPORT AND ACCOUNTS 2009

DNO

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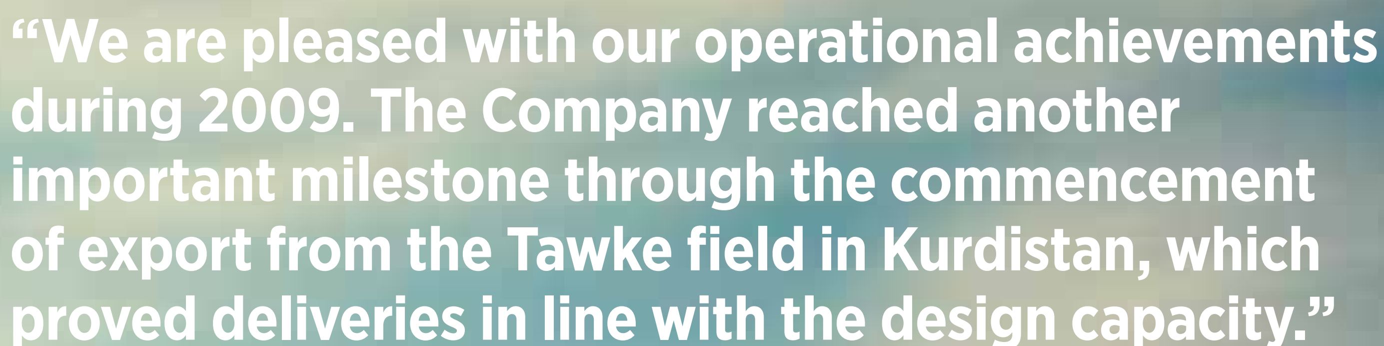

"We are pleased with our operational achievements during 2009. The Company reached another important milestone through the commencement of export from the Tawke field in Kurdistan, which proved deliveries in line with the design capacity."

Helge Eide, Managing Director

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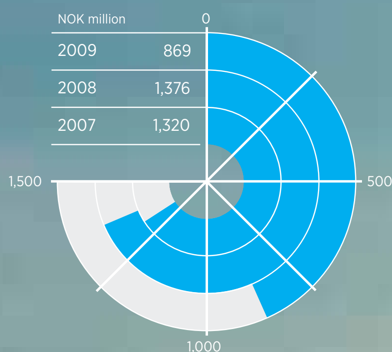
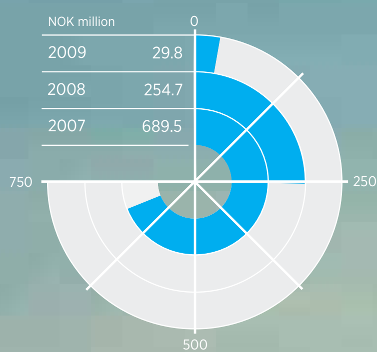
REVENUE NOK million

869



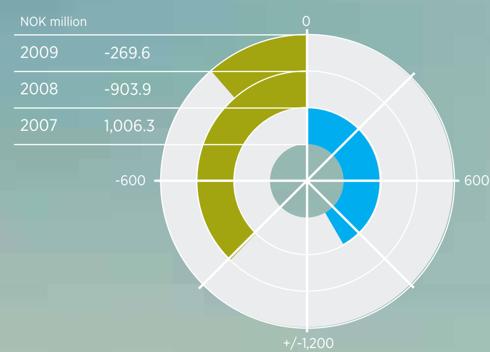
NETBACK NOK million

29.8

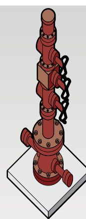


NET LOSS NOK million

269.6



In Short



The tie-in of the Tawke field in Kurdistan to Iraq's Northern pipe line system was completed successfully.

WORKING INTEREST PRODUCTION INCLUDING EXPORT (BOPD)

21,511

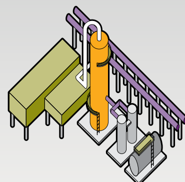
LIFTING COST (USD/BBL)

13.05

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

Helge Eide, Managing Director

The Tawke field proved deliveries in line with the design capacity.



Successful infill drilling and optimization work within our producing assets, and production build-up from completion of the Bayoot field contributed to maintaining oil production volumes from Yemen in line with plans for the year.

"We will continue to focus on our trademark approach of low cost/ fast track operations."

A strengthened DNO

"2009 has been a demanding year for the company. The manner in which we have solved our challenges has, however, made our company stronger", says Managing Director Helge Eide.

1. How would you, as Managing Director, briefly summarize 2009?

Operationally this has been a good year for the Company. We reached a major milestone when the capacity of our installations on the Tawke field in Kurdistan was confirmed. We are also pleased that we have had a stable production in Yemen. And finally, we can refer to favourable key figures in health, safety and the environment relating to our extensive activities.

When it comes to the financial results for 2009, we are not satisfied, even if this to a large extent is due to conditions in Kurdistan, where we have delivered oil for which we have not received payment.

The beginning of the year was characterised by the global financial crisis, but we have kept strict control of our capital, and have emerged with our cash reserves intact. We have every reason to be satisfied with this; it proves that we are able to quickly adapt to changes in the markets.

2. There was a lot of media attention last autumn in connection with the so-called Oslo Stock Exchange issue. In what way has this influenced the company?

It lead to a challenging situation where we had to make certain priorities. We put a lot of energy and efforts into restoring the situation in Kurdistan as quickly as possible - and succeeded. Our experiences during this period serve as a valuable lesson for the future, and there is definitely room for improvement. I would also like to highlight the strong sense of solidarity we experienced in the organisation during this turbulent period. It confirms an important aspect of the Company's values, and we are proud of it.

3. How do the disturbances in Yemen impact DNO's business activities?

DNO has been in Yemen for over ten years, and we have experienced security related situations before. This has never had an impact on our activities, but of course we monitor the situation closely. In addition, DNO operates in a part of Yemen which only to a limited degree has been influenced by the disturbances in other parts of the country.

4. DNO's share price has fluctuated substantially in 2009. Why?

The liquidity of DNO's shares is good, and many investors see this as positive. On the other hand, this may easily result in more speculations relating to our shares than for less liquid shares. We often see large share fluctuations in connection with rumours and speculations in the media.

There are many factors influencing the market and DNO's share price that are beyond our control. As a company, we must therefore focus on the business and the long-term creation of values, and communicate correct and relevant information to the market in line with current conditions and rules. This is the way in which we, as a company, can contribute towards value creation for our shareholders over time.

5. What are the most important focus areas for DNO's management?

In the short term, it is important to continue delivering a stable production in Yemen, and we also consider starting a new development project in 2010. In Kurdistan we are ready to increase the production as soon as export can be restored and a payment scheme is in place, and if we succeed in discovering oil in Mozambique in 2010, this could be a new growth area for the company.

Our future growth will be realised through a more diversified portfolio. This means that we have to grow in other areas. Our focus now is primarily on Eastern and Northern Africa, in addition to the Middle East, but we do not rule out other areas, including offshore.

We will continue to focus on our trademark approach of low cost/fast track operations. We will continue to build on our excellent ability to obtain access to, and develop oil reserves quickly and at low costs for future projects.

6. What was the most important issue for you in 2009?

The start-up of the export from the Tawke field in Kurdistan was an important milestone both for the Company and the KRG. I consider this to be the highlight of 2009.

7. How do you hope to be able to sum up 2010?

We are now ready to increase our oil production substantially without further investments. We also have a good exploration drilling programme for 2010. I therefore hope that 2010 will be a year when the Company's production and reserves increase considerably.

Provided we get the anticipated oil price, this would entail that our financial results as well as our financial capacity will improve considerably in 2010. This is the summary I hope to give, and one that I am sure our shareholders would like to hear in a year's time.

NORWAY

DNO restructured its operations on the Norwegian Continental Shelf (NCS) in 2007, where DNO's subsidiary Det norske oljeselskap ASA (DETNOR), merged with Pertra ASA. DNO currently has no operations in Norway, but participates on the NCS through its 11.66% shareholding in Det norske oljeselskap ASA.

UK

DNO has a broad experience on the UK Continental Shelf (UKCS), having served as operator on the mature Heather/Broom and Thistle fields. These assets were divested in 2004 as part of a change in the Company's strategy. DNO re-entered the UKCS in May 2005 taking a 50% working interest and operatorship in P1067 (Block 211/22b) located in the northern North Sea.

EQUATORIAL GUINEA

DNO entered Equatorial Guinea in 2003 through participation in exploration of an offshore block. Block P is operated by GE Petrol and DNO holds 5%. A plan for development and operation (PDO) for Block P was submitted to the authorities by the former operator Devon in August 2007. The PDO will be revised in 2010.

YEMEN

DNO entered Yemen in 1998 and was approved as Operator later that year. The company quickly expanded the operations in the country through successful exploration and fast-track development. Since then DNO has further expanded its operations in Yemen, and is currently holding interests in seven assets all located in the prolific Sayun-Masila Basin. Oil has become an important part of Yemen's economic basis and DNO is working closely with the authorities to further develop the oil resources in the country. The company will continue looking for new opportunities to further grow its presence in Yemen.

KURDISTAN REGION OF IRAQ

In June of 2004, DNO entered into production sharing contracts with the Kurdistan Regional Government (KRG) in Northern Iraq. As one of the first international oil companies to enter this highly prospective region, DNO holds a key position in developing the local oil industry. DNO participates in three licenses and is the operator for the areas covered by the contracts. DNO has completed a fast-track field development. Export of crude oil from the Tawke field commenced 1 June 2009, marking another important milestone to DNO and KRG.

MOZAMBIQUE

DNO holds 100% in the 10,715 sq km Inhaminga Block. DNO was awarded the Exploration and Production Contract (EPC) in 2003 for a total of eight years. The current period, the last and fourth exploration period, is running to 30 June 2011. DNO is preparing for the drilling of a commitment well in 2010.

The Inhaminga Block is stretching from the port city of Beira and North towards the Zambesi River. A newly re-opened railway line is running through the license with less than 200 km to Beira. The roads in the nearby vicinity are of good standard and well fitted for heavy transport.

KURDISTAN REGION OF IRAQ
ERBIL
DUBAI
YEMEN
SANA'A
MOZAMBIQUE
MAPUTO
EQ. GUINEA

Looking for more oil

The production in Yemen remained stable during 2009.

Exploration

In Yemen, the exploration activity during 2009 has primarily focused on prospect evaluation and maturing prospects for drilling. In Block 72, a basement lead has been matured in the north-western part of the block along the southern shoulder of the prolific Masila Basin. It represents a new play in this block, but can be considered as an analogue to the producing fields Kahrir and Bayoot along the northern shoulder of the basin. Farm-in negotiations with a new partner are ongoing.

The exploration well Raoq #1 (Block 53) was drilled in end of 2008 and showed movable oil. The Raoq #1S (sidetrack) was drilled in July 2009 and also confirmed movable oil in Cretaceous and Jurassic carbonates; however the wells failed to produce oil at commercial rates and were therefore expensed as dry wells in 2009. The exploration well Harad #1 (Block 52) was drilled in August 2009 and had minor oil shows in the Qishn sandstone reservoir, but was also concluded as dry well in 2009.

DNO will continue to focus on exploring the deeper targets in Yemen, where we see an interesting potential.

Appraisal and field development

The combined exploration and production well Nabrajah #10-S/S2 was drilled as a horizontal well of about 1000 meters in the Shuqra formation, which is believed to be the producing formation in Nabrajah #5. The well has confirmed movable oil 186 meters vertically deeper than Nabrajah #5, and thereby opens up for improved recovery from this formation. The well was completed as a producer with gas-lift in the beginning of 2010. Work will be undertaken to further evaluate the results from the Nabrajah #10S/S2 well and its impact on estimated reserves and production potential.

A re-evaluation of the Sharnah and Yaalen discovery (Block 47) has been undertaken in 2009. The total resource potential of this discovery is 10 million barrels. The appraisal well (Yaalen #3) commenced drilling in the end of March 2010. A feasibility study for a phased development of the Sharnah-Yaalen discovery is initiated, and DNO considers this to be a new possible fast-track development project.

During 2009, the infill wells Tasour #25 and #26 were completed and put on production.

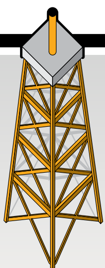
The development of permanent remote process and export facilities at the Bayoot field (Block 53) was completed during 2009. Drilling of the infill well Bayoot #7 was completed as a basement producer in early 2010. The development of the Bayoot field has steadily increased the production from the field. Further development drilling is planned in 2010, with Bayoot #8 as the first of a four well development drilling program.

Production

The production in Yemen remained stable during 2009, as a result of several initiatives undertaken in 2008. The production from the Bayoot field (Block 53) improved towards the end of 2009, mainly due to successful infill drilling, well optimization work and increased contribution from the fractured basement reservoir. The total working interest production from Yemen in 2009 was 7,749 bopd, a decrease from 9,330 bopd in 2008.

"In Yemen, successful infill drilling, optimization work and the production build-up from completion of the Bayoot field resulted in stable production throughout the year."

Helge Eide, Managing Director



Production Sharing Agreements (PSAs) in 7 blocks, hereof 3 producing blocks and 4 exploration blocks

Total wells drilled to date:
145

Wells drilled in 2009:
6
2 exploration wells
4 development wells

Production 2009 (Working interest incl. diesel):
7,749 (bopd)

Success in Kurdistan

The Tawke field has proved deliveries in line with the design capacity.

Exploration

The exploration work during 2009 has been related to technical studies for maturing the Peshkabir (Tawke PSC) and Summail (Dohuk PSC) strategic leads/prospects for possible drilling in 2010. These two wells are part of the commitment work program within the licenses. No exploration wells have been drilling in any of the PSCs in 2009. Towards the end of the year, the Sindi rig was moved to the Erbil PSC area in order to test the Erbil #2 well in the Benenan structure, where oil was confirmed in 2008. The testing of this well was completed in March 2010. Evaluation of all test results will be presented in an updated appraisal program and forward plan for the Erbil license, which will be filed with the Ministry of Mineral Resources by June 2010.

Appraisal and field development

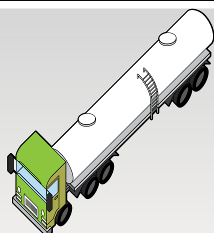
The tie-in of the Tawke field to Iraq's northern pipe line system was successfully completed early in 2009 and enabled the field to deliver full scale production. In May 2009, DNO was given formal notice by the Kurdistan Regional Government (KRG) to commence the export of crude oil from the Tawke field starting on 1 June 2009. The commencement of crude oil from the Tawke field marked another important milestone to DNO and to the KRG. Fine–tuning and adjustments of the facilities were undertaken including step-wise increase in production and maximum deliveries were 56,000 bopd. The work was performed in close cooperation with KRG and the operator of the Iraq Turkey pipeline, North Oil Company (NOC). Towards the end of 2009, the Tawke #11 well was connected with flow-line to Tawke #8 for onward flow to the Central Processing Facility (CPF). Flow-lines to the remaining wells (Tawke #3, #12 and #15) will be installed when the export recommences and a payment mechanism is in place.

Production

The export of crude oil from the Tawke field proved deliveries in line with the design capacity. On 22 September 2009, KRG suspended all of DNO's operations in the Kurdistan region following negative media articles related to DNO's sale of treasury shares. The export of crude oil ceased soon thereafter. All issues with respect to the suspension were resolved on 5 October 2009, and DNO's rights to its production sharing contracts were reinstated.

Total exported volume from Tawke in the period 1 June to 22 September was 3.74 million barrels, of which DNO's share was 3.37 million barrels. The production delivered to the local market in Kurdistan averaged 4,537 bopd during the year, and show large variations depending on the domestic demand for crude oil. The deliveries of crude oil to the Tawke refinery (topping plant) started on 17 November and are considered as part of the local sales from that date. Until an export payment mechanism is in place, DNO is focusing on deliveries to the local market.

The tie-in of the Tawke field to Iraq's Northern pipe line system was successfully completed early in 2009



3 Production Sharing Contracts

Total wells drilled to date: **14**

Discoveries to date: **2** (Tawke and Benenan)

DNO working interest production 2009 (mboe, incl. diesel): **1.65**
4,537 (bopd)

DNO working interest export production 2009 (mboe incl. diesel): **3.37**
9,226 (bopd)

Building a balanced portfolio

DNO is targeting East Africa, a high potential onshore area.

Mozambique

In 2009, DNO entered into the 4th and last exploration period for the Inhaminga block which expires 30 June 2011, with a work commitment of one exploration well and 2D seismic. The block is located in a favourable position onshore and relatively close to port and infrastructure.

Geological field work and acquisition of 560 km of 2D seismic in the unexplored Urema Graben were performed towards the end of 2009, just before the rainy season. This was a large field operation in a remote area which involved a significant number of people, including many local workers. Processing and interpretation of the seismic data are ongoing and the results will form the decision basis for the remaining commitment well planned to be drilled in late 2010.

DNO has identified several oil prospects and leads in the block. Currently 6 of the structures in the Urema Graben and at the graben margin have been classified as drillable prospects. In case of a discovery, this could be a potential new growth area to the Company. Upon approval of a development plan, the exploration and production contract will be extended for 20-30 years over the discovery area with favourable contract terms.

DNO currently has a 100% interest in the Inhaminga block. A farm-out process is ongoing in order to reduce the ownership interest and secure funding for the planned drilling of the commitment well.

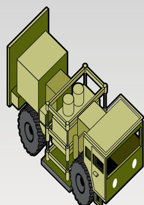
UK

DNO's license P1067 on the UK Continental Shelf, is located in a mature area of the Northern North Sea in 150 meter of water. In 2008, DNO completed a re-evaluation of well 211/22-2 with respect to the Brent reservoir and identified an opportunity now named Mulle. During 2009 the license group has continued focusing on maturing the Mulle discovery, including a possible appraisal well to high grade the resource potential. This work will continue in 2010.

New ventures

DNO is continuously looking for new opportunities with ongoing work related to regional geological studies and monitoring of the transaction market. DNO is targeting East Africa, North Africa and the Middle East as these are all considered as high potential onshore areas, and fits well with the DNO strategy of achieving new fast track development at low cost. Entry into new offshore areas will also be considered.

In case of a discovery in Mozambique, this could be a new growth area to the Company.



Acquired 567 km of 2D seismic in virgin territory, Mozambique

567 km

Bringing forward the Mulle-discovery in a mature area, UK North Sea

High grading emerging plays in North and East Africa

Responsible business

DNO's objective is to build a sustainable business through the development of reserves, people and the societies in which we operate. We want to foster a healthy and creative workforce capable of facing forthcoming challenges.

Our corporate responsibility goes far beyond our operations as we recognize that the relation between our employees, business associates and the communities in which we operate are keys to our success.

Our corporate culture represents a carrier in the way we manage and develop these relations, and our staff is ambassadors for the implementation of the DNO culture. The management of our corporate culture is governed by our Corporate Governance principles and our QHSE Policy, HR Policy and Code of Conduct.

QHSE and the working environment

DNO has during the past years invested significant resources in a management system which governs our day to day operations. A formalized approach to Health, Safety and the Environment makes significant contributions to a positive and innovative working environment where management of risk is intrinsic. In order to support business continuity and organizational needs, we have over the past years developed robust systems and relevant competence which produce outstanding HSE results. Our approach to Health and wellbeing has produced strong results as the sick leave percentage pr 31.12.09 were at 1.9 % - down from 2.4% in 2008. Our goal for 2010 is 1.5%.

BUSINESS ETHICS AND SOCIETY ETHICS

Maintaining a high ethical standard is a prerequisite within our industry. Our business opportunities are influenced by our record, corporate culture and reputation.

Our reputation is shaped by individual and organizational values, and governed by our systems which serve as a directional framework to our staff. Living up to these values is sometimes a challenge, and we are constantly seeking to improve our standards.

Rating agencies and non-governmental organizations

Rating agencies and non-governmental organizations continue to provide important input to our corporate responsibility efforts. In 2009, DNO established fruitful relations to several important organizations and we continue to work hard in order to meet stakeholder expectations.

During 2009 we continued to focus on the following areas:

- Compliance with NUES and industry practice for good corporate governance
- Acknowledgement and implementation of the principles in the Global Compact
- Improve the management of third parties
- Transparency in reporting through formalized participation in the EITI initiative
- Extensive dialogue with local communities
- Organizational competence and communication

In the effort of a securing successful implementation we have developed a designated competence development program that will be rolled out in 2010.

DNO AND SOCIETY – HIGHLIGHTS 2009

DNO strives to conduct business responsibly in the communities in which we operate.

Our policies, strategy and plans are approved by the Board of Directors and implemented at the business unit level by use of corporate and local plans. These plans are designed to secure compliance with internal and external expectations and is finally governed by our Audit Plan and Audit Committee.

To aid us in the process of defining, prioritizing and implementing sustainable initiatives, we have an active dialogue with external expertise where necessary. Identifying local needs and discussing with local communities has also become a key component for DNO in its operations throughout the world. This secures long-term profitable business operation, and helps us to invest in the projects that are most beneficial to our local stakeholders.

Mozambique

Our business unit in Mozambique has developed a strong commitment to corporate responsibility and a close relationship to the Norwegian embassy and local authorities (INP). This cooperation has produced several initiatives supporting local schools, business ethics workshops, student exchange programs for geophysicists and development of local labour condition and supplier-requirements.

Yemen

DNO's close cooperation with the authorities in Yemen has from the beginning established a strong focus on development of local competence.

A close relation to the local authorities has continued to play an important role during seasonal crisis where lives have been put at risk. DNO resources and emergency capabilities have supported local governments during the rescue and recovery of people and assets. Availability and access to water is perhaps one of the critical challenges in Yemen. Lack of water may cause political problems and riots and must be resolved in order to sustain or improve people's health and safety. During geological activities, such as drilling, DNO combines the development of geological models and simulations to help to secure access to water.

We also try to maximize the potential for synergy effects throughout our operations. Many of the initiatives that take place in Yemen are initiated locally. During 2009 this led to a joint cooperation with several communities where:

- Using our equipment, we replace water pipes where these get washed away
- Roads and infrastructure needed for seismic and drilling activities are built with the clear intention of benefitting local communities also after DNO has completed its operations
- DNO helped funding new concepts of transportation of children to schools

Iraq

Our main CR-objective in 2009 has been to help set up important infrastructure and to develop competencies and capacities needed to further rebuild the Kurdish region. Last year DNO committed to funding 150 million dollar in a water treatment plant in the Dohuk area and has continuously invested in competence development programs promoting local professionals. This includes the promotion of female labour in a Middle East culture, which traditionally has been a patriarchal society.

DNO promotes a strong presence of local competence capable of developing their own resources and infrastructure. Bringing international standards into this process is one of DNO's key objectives.

Concrete initiatives are continuously being made to support the communities close to our production and export facilities at Tawke. DNO has in this region assisted the community in securing access to water and transportation and further developed geological models to secure the management of water reservoirs.

The DNO Management team pools more than 150 years of experience from the oil industry.

Sven Erik Lie (1954)

MANAGING DIRECTOR DNO YEMEN AS,
has been conducting all of DNO's activities in Yemen since 1998, and has more than 20 years of experience from the oil industry, holds a Master of Science in Geology.

Magne Harold Normann (1948)

MANAGING DIRECTOR DNO IRAQ AS
Executive Vice-President for DNO's international activities from 1999 to 2003 and has since then been in charge of DNO's activities in Kurdistan region of Iraq, has more than 30 years of experience from the oil industry,

Erik Syrdalen (1962)

BUSINESS UNIT MANAGER UK & AFRICA,
has been with DNO since 2005, more than 20 years of experience from the oil industry, holds a Masters degree in Geophysical Engineering.

Ole-Andreas Isdahl (1962)

QHSE MANAGER,
has been with DNO since 2006, has extensive experience from Norwegian and international operations in the oil and gas industry.

Helge Eide (1954)

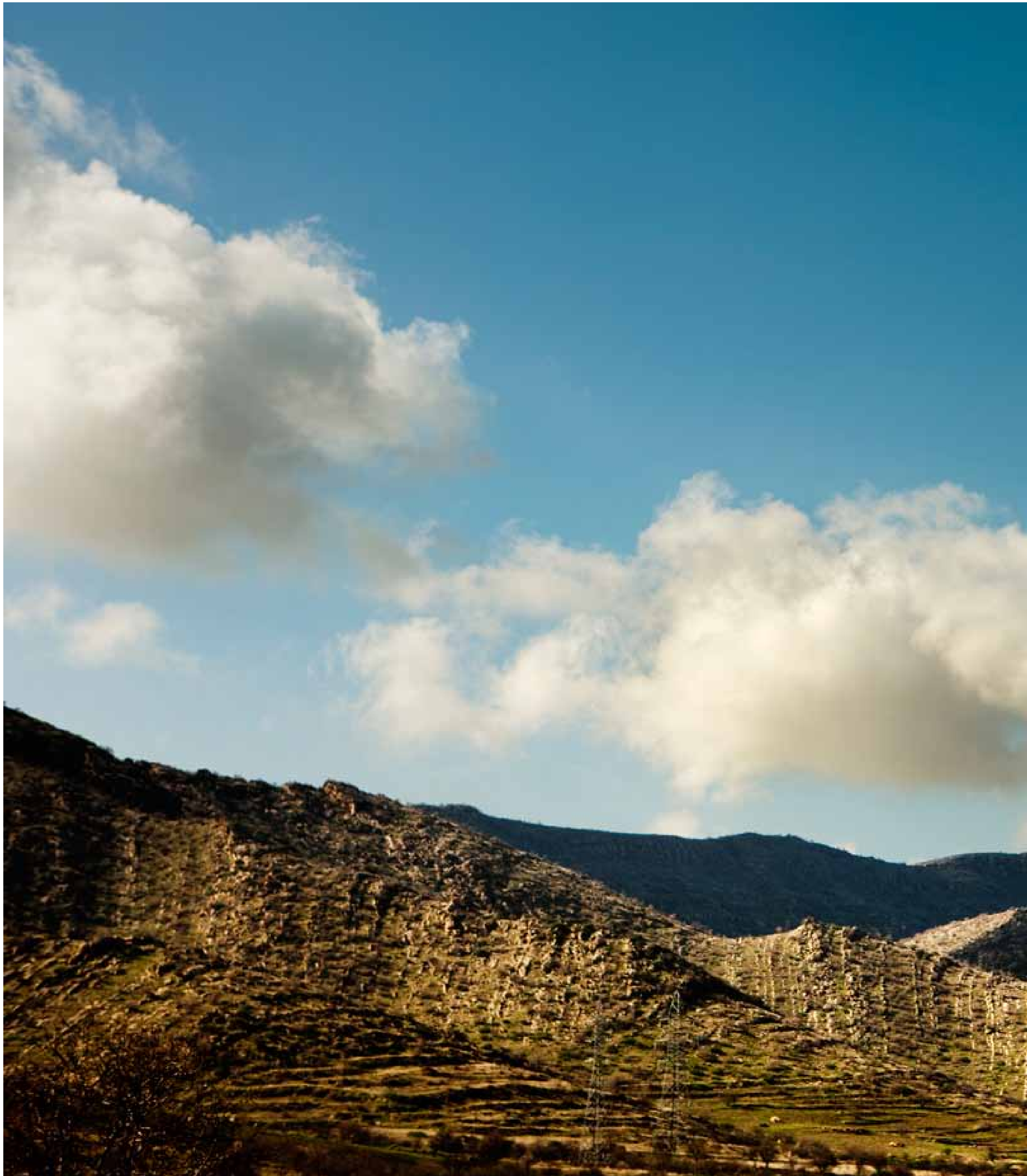
PRESIDENT AND MANAGING DIRECTOR,
has served as Managing Director since 2000, has more than 30 years of experience from the oil industry, he holds a Bachelors Degree in Petroleum Engineering.

Tore Lilloe-Olsen (1956)

CORPORATE HEAD OF EXPLORATION,
has been with DNO since 2007, he has over 20 years of experience from the oil industry, holds a Master of Science in Geology and Geophysics.

Haakon Sandborg (1958)

CHIEF FINANCIAL OFFICER,
joined DNO in 2001, and has more than 25 years of experience from financial positions in the oil industry and in banking, he holds a Masters Degree in Business Administration.



“DNO’s main objective is sustainable growth and value creation through smart and selective exploration activities, efficient transformation of resources to reserves at low cost, and high margin production. The current license portfolio is located in three regions: Middle East, Africa and Northern Europe.”

Board of Directors report

INTRODUCTION

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

The Company currently holds oil and gas assets in Yemen, the Kurdistan region of Iraq, the UK North Sea, Mozambique and Equatorial Guinea. At 31 December 2009, DNO has an 11.66% ownership share in Det norske oljeselskap ASA (DETNOR), operating on the Norwegian Continental Shelf (NCS).

DNO has over the last years followed an exploration focused strategy that has delivered strong growth in reserves at low cost, supported by high margin production funding a major part of the investments. The Company's activities have been focused on low cost, high potential areas, avoiding long-term future capital commitments, as well as securing a favourable debt structure.

HIGHLIGHTS 2009

During 2009, DNO reached another important milestone with tie-in of the Tawke field in the Kurdistan region to Iraq's Northern pipeline system and commencement of the export of crude oil from Tawke on 1 June. The export continued to 22 September and proved deliveries in line with the design capacity of the facilities. DNO's operations were suspended by KRG on 22 September, but all issues related to the suspension were resolved on 5 October and DNO's rights to its production sharing contracts were fully reinstated. However, until an export payment mechanism is in place, DNO is focusing on local sales of crude oil from the Tawke field.

Successful infill drilling and optimization work within our producing assets, and production build-up from completion of the Bayoot field contributed to maintaining oil production volumes from Yemen in line with plans for the year.

The Company has maintained its cash position during 2009 through tight capital discipline, reduced investment levels and divestments of shares in DETNOR.

OPERATIONAL REVIEW 2009

Exploration
Two exploration wells were drilled during the year, both in Yemen. The Raoq #1 well in Block 53 and the Harad #1 in Block 52 both had minor oil shows, but were concluded as dry wells.

The remaining exploration work undertaken during 2009 was seismic acquisition and technical studies in preparation for drilling in 2010.

In Kurdistan such technical studies was undertaken for both the Peshkhabir Lead and the Summail prospect as part of the commitment work program within the licenses. The drilling rig under contract to DNO is currently on a sublet to another company, and the timing for recommencement of exploration drilling operations is pending the return of the rig to DNO.

In Yemen, mapping of the deep structures and the prospect potential related to a basement play in Block 72 was undertaken. An interesting basement structure has been identified in the Northwestern part of the block, along the Southern shoulder of the Masila Basin.

In Mozambique, DNO has entered into the 4th and last exploration period on the Inhaminga license. Acquisition of 600 km 2D seismic in the unexplored Urema Graben was successfully completed in 2009. This was a large field operation involving substantial manpower. The processing and interpretation of the seismic data is ongoing. The results of this work will form the decision basis for the remaining commitment well, likely to be drilled in late 2010.

Screening of new opportunities is continuously ongoing through regional geological studies and monitoring of the transaction market, targeting East Africa, North Africa and the Middle East. Selected countries in these regions are considered to be attractive to DNO, and fits well with the DNO strategy of achieving new fast track development at low cost, primarily in onshore areas

Appraisal and Field development
In Kurdistan, all remaining work related to the tie-in of the Tawke field to Iraq's Northern pipeline system was completed in the first quarter of 2009. During the export period, the Tawke production and export increased in line with the plan agreed with the KRG. Work to connect remaining wells to the Central Processing Facility (CPF) continued throughout the year. Additional investments will be considered once export recommences and a payment mechanism is in place.

Preparatory work was also undertaken for the Erbil-2 well testing, which was carried out in January 2010. Following the test results an Appraisal Report will be delivered to the ministry of natural resources by June 2010.

In Yemen, the development of permanent remote process and export facilities at the Bayoot field in Block 53 was completed during 2009. Additional wells are planned to be drilled in the Bayoot field during 2010.

Infill drilling at the Tasour field in Block 32 recommenced during 2009 and in Block 43 the drilling of the combined exploration and production well Nabrajah #10S/2S started in fourth quarter. The well confirmed movable oil, 186 m vertically deeper than Nabrajah #5, which has produced from the same reservoir for more than 4 years. Alternative options for improving oil production and recovery from this formation are being evaluated.

During 2009 a re-evaluation of the Sharnah and Yaalen discovery in Block 47 was undertaken with positive results leading to a decision to drill an appraisal well to the Yaalen#1 discovery in 2010. A plan for a fast-track field development of these discoveries may be filed with the Yemen authorities in 2010.

Production
In 2009, DNO's total average (working interest) production increased by 37% to 21,511 bopd from 15,708 bopd the previous year. The figures include 9,226 bopd of crude oil from the Tawke field which was exported in the period 1 June to 22 September. During this period, the maximum delivery achieved was 56,000 bopd, with 50,250 bopd going to export. Payment for exported crude oil from the Tawke field has not been received; hence no revenues were recorded in 2009.

DNO's share of the production from Tawke delivered to the local market in Kurdistan averaged 4,537 bopd during the year, and continues to show large variations depending on the domestic demand for crude oil. The deliveries of crude oil to the Tawke refinery (topping plant) started in November and are considered as part of the local sales from that date.

The average production from Yemen was 7,749 bopd, compared to 9,330 bopd last year. The production from Block 53 increased towards the end of the year primarily as a result of the increased production from the Bayoot development.

Reserves
DNO's total remaining oil reserves (P50) are estimated to 149.4 million barrels of oil equivalents at the end of 2009, compared to 162.6 mboe the year before. The produced reserves in Yemen during 2009 were more than replaced as a result of revisions of previous discoveries.

The total reserves and contingent resources at 31 December 2009 were 172.8 mboe versus 178.4 mboe in 2008.

FINANCIAL PERFORMANCE 2009

Total operating revenues for the year, net of export, were down 36% to NOK 869 million compared to 2008, as a result of lower production and lower achieved oil prices. Achieved oil prices for 2009 averaged 53.45 USD/bbl (working interest). For 2008, the average achieved oil price was 67.86 USD/bbl.

The export of crude oil from the Tawke field in Kurdistan commenced 1 June. As no signed sales agreement were in place, DNO estimated the revenues in Q2 and Q3 interim reports based on estimated sales prices and applicable discounts. The export ceased on 22 September. At year-end, no payment for the exported volumes of oil had been received by DNO, and a signed sales agreement was still not in place. The criteria for revenue recognition under IFRS were thereby not satisfied and DNO has not recognized the revenues related to the exported volumes of crude oil from the Tawke field in Kurdistan in its annual accounts. The production costs (lifting costs and depreciation) of NOK 143 million related to the exported volumes have been capitalized as inventory at year-end, and will be charged as cost of goods sold when the revenues can be recognized. Revenue recognition will take place when a final sales agreement is in place and payment is received.

DNO Iraq AS (DNOI), a subsidiary of DNO International ASA (DNO) is involved in arbitration proceedings related to certain third party interests in Kurdistan. Such third parties were not approved to be part of nor have any rights in the Production Sharing Contracts (PSC) signed by DNOI following the reviews which were completed in March 2008.

DNOI has rejected the basis for any claims from such third parties, which could relate to up to 10 % beyond DNO's interest in the PSC. The first part of the arbitration ruled the right to seek compensation for damages from DNOI. The arbitration proceedings are therefore continuing and a final award with respect to possible compensation for damages is expected during May 2010. The claimants' submission is USD 144 million. DNO has retained the internationally acknowledged experts NERA UK Ltd and Beicip Franlab, and the conclusion from these experts is considered by the corporate management and the Board of Directors to represent the best estimate for the potential damages. Consequently a provision of USD 12 million has been recorded in the financial statements at 31 December 2009. However, as is the case for any arbitration proceedings, there is a high degree of uncertainty as to the final outcome. The range of the parties' submissions related to the arbitration proceedings has been presented in stock exchange disclosures by DNO. Should the final outcome of the arbitration differ from the recorded provision, this may affect the financial statements accordingly.

Net loss for 2009 was NOK 269.6 million compared to a loss of NOK 903.9 million for 2008. DNO has shown a strong net cash flow over the last years, but for 2009 the net cash flow from operating activities was significantly down reflecting lower revenues and cost provisions. The net cash flow from operating activities for 2009 was NOK -53.3 million (2008: 745.5 million) and cash flow after tax, as shown by netback, was NOK 30 million (2008: NOK 255 million). Total investments in 2009 were NOK 673 million, of which the non-cash liability related to the water purification project in Kurdistan amounts to NOK 537 million. Netback before exploration of NOK 186 million funded a major part of the Company's cash investments in 2009.

DNO's cash balance was maintained during 2009, mainly due to the divestments of shares in DETNOR and the reduced level of investments during the year. Cash at year-end was NOK 303.4 million, which together with financial assets are considered sufficient for the investment program planned for 2010.

All DNO's assets have been reviewed for impairment at year-end 2009. No impairment is required for the producing assets in Yemen or Kurdistan.

Based on an assessment of DNO's tax position at year-end 2009, a non-cash write-off of the deferred tax asset of NOK 256 million was recorded at year-end, as the criteria for keeping this asset on the balance sheet were not satisfied. This write-off does not affect the substantial tax losses in the parent company, which can be carried forward indefinitely under Norwegian tax rules. The write-off of the deferred tax asset is recorded as tax expense in 2009.

The investment in DETNOR was accounted for as associated company until November 2009, when a sale of 5 million shares reduced DNO's ownership share below 20% and the investment was reclassified to available-for-sale. The impairment of the investment recorded in 2008 has been reversed in 2009 as a result of increasing share price. Total accounting effect of DETNOR transactions in 2009 amounts to NOK 363 million and include net gain on sale of shares, reversal of impairment, share of loss from associate and de-recognition of associate. Following DETNOR's merger with Aker Exploration in December, DNO's ownership interest in DETNOR is 11.66% at 31 December 2009.

Total assets were NOK 4,392.4 million at year-end. The equity ratio was 36% and the ratio between current assets and current liabilities was 265%. Net interest bearing debt was NOK 1,481.9 million. DNO's bond loans mature mainly in 2012.

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

Financial Risk
Risks related to oil price, interest rates and cur-

rency constitute significant financial risks to the Group. Financial risk management is carried out by a central treasury function and seeks to minimize the potential adverse effects on the Group's financial performance. Derivative financial instruments are used to hedge certain risk exposures. In May 2009, DNO settled an interest rate swap maturing 2011. For further information about the financial risk management objectives and policies and other risks, see Note 12 in the consolidated accounts.

NON FINANCIAL INFORMATION

Health, Safety and Environment (HSE)
Strong performance on HSE has supported DNO's business continuity and a safe working environment throughout 2009. During the fourth quarter, DNO delivered a Lost Time Incident at zero. These results appear even stronger considering the fact that our reporting frequency has increased significantly in the same period. The results demonstrate availability of competence, systems and operational experience needed to meet industry HSE standards. Extensive reporting demonstrates ability to identify shortcomings and corrective measures.

As the society and stakeholders continue their environmental stronghold, the oil and gas industry continue to improve. Throughout 2009 DNO has experienced an increased focus on environmental issues as Governments and financial stakeholders relate environmental performance to risk exposure and our reputation. Reporting, performance monitoring and peer ratings produce an increased industrial focus and bring clarity to expectations and industrial standards. DNO has throughout 2009 continued to implement these standards and reported in accordance with the formats provided by the rating agencies.

As we fully acknowledge the standards and focus, we experience a strong effect on the way we operate report and improve. DNO had 11 minor environmental incidents last year, involving discharges of crude oil, caused by pipeline raptures which were contained and disintegrated.

Technical and operational Safety
The Company has established a high operational standard which effectively support business regularity and Business continuity. DNO has established a strong focus on operational regularity and technical integrity as a key success factors. Our QHSE network and resources has become very efficient in their way of supporting these objectives and outstanding results have in this way been achieved.

As the political environment is in constant change we see a continuous need to be on top of political and security related issues. Kurdistan has throughout 2009 had a very positive development despite the continuous presence of domestic disputes. The security situation in Yemen is status quo as domestic challenges remain. DNO has not been exposed to serious security related incidents during 2009.

CR – Corporate Responsibility
DNO has continued its focus and development of CR Management in line with industry and stakeholder expectations. Rating agencies and others have helped significantly in the process of fine-tuning requirements versus implementation and compliance. Financial institutions have developed effective instruments which have proven a strong effect on DNO as well as financial dispositions amongst investors. During 2009 we improved in the way we manage risk and govern our business. DNO has developed consistent CR documentation and plans from the corporate level throughout our Business Units.

Learning points established during the year, lead us to develop a separate CR competence development program with a strong focus on anti corruption and integrity, legal framework, industry standards and framework, transparency and reporting, dilemma training, corporate governance and code of conduct. DNO has continued to develop the relationship to local stakeholders whilst applying company standards with sensitivity to the local environment.

DNO has reported one incident suspecting an ethical breach not conforming to company standards. This incident has been subject to a formal investigation documented and signed out by our legal advisors.

Our People - Diversity and Equal Opportunities
DNO acknowledges international law and standards for human rights, including the OECD guidelines. Our policies are aimed at supporting the belief that all employees and job applicants shall be treated equally, regardless of age, gender, religion or any other factor.

DNO values cultural diversity and a high degree of responsibility amongst staff. The Company fosters a "no blame" culture and stimulate people to learn and utilize their skill base. Our policy is to attract talented people through exposure to a challenging however rewarding environment which motivate the individuals. DNO aims at employing local staff and focuses on competence development. The Company has a strong cultural and national diversity amongst the workforce in the head office in Oslo. Our equal opportunity statistics show that women accounted for 30% of the overall workforce in Norway. DNO International ASA's Board of Directors consists of 40% women at the end of 2009.

Organisation and Personnel
At the end of 2009, DNO had a total workforce of 513 people: 45 are based in Norway and 468 in our international operations. This compares with a total workforce of 496 at the end of 2008.

Work of the Board
The Board of Directors engaged in active discussion and handling of several key strategic and operational issues through 19 meetings in 2009, including:

- Close monitoring of the QS-HSE, operational and financial performance of the group.
- Progress and results of development investments and exploration expenditures in DNO's key projects.
- Tie-in to Iraq's Northern pipeline system and commencement of initial exports from the Tawke field.
- Resolution of issues relating to temporary suspension of DNO's production sharing contracts in the Kurdistan region of Iraq.
- Strategic issues relating to DNO's shareholding in the affiliated company Det norske oljeselskap ASA (DETNOR).
- Preserve financial flexibility through tight capital discipline and sale of financial assets.
- Other measures addressing challenges raised by weak financial markets and oil price decline.
- Strategies to position the Company to engage in new opportunities in the oil and gas industry.

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

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

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

- In March 2010, DNO sold all its treasury shares, providing the Company with NOK 367 million in cash.
- On 21 April 2010, DNO filed the Annual Statement of Reserves, disclosing the hydrocarbon reserves as of 31 December 2009.

Outlook
DNO's business model and strategies stand firm; with our main objective to increase production from a strong reserve base. In addition, we will build reserves through high potential exploration in selected areas.

We have a balanced work program for 2010 and plan to step up exploration drilling in all business units. Our cash position at year end together with the cash flow from our producing assets is considered sufficient to fund our planned investments in 2010.

In Yemen, DNO will aim for maintaining a stable production level also in 2010 through continued development- and infill drilling programs, and we will continue to pursue new field development opportunities. We hope that the Yaleen/Sharnah will be our next fast track and low cost field development in Yemen.

At the Tawke field in Kurdistan, focus will remain on local sales until an export payment mechanism is in place. The results from the testing of Benenan will form the basis for the forward program for this discovery, and exploration drilling is expected to recommence in Q3 2010.

In Mozambique, seismic processing and interpretation will form the decision for the commitment well and DNO is actively promoting a farm-down of parts of its license share prior to drilling. If an oil discovery is made this could form the basis for a fast-track development.

DNO is also undertaking works in several new regions to evaluate opprtunities and new potential entries

Our financial position and capacity remained intact in 2009 – with a stronger cash position at year-end than the previous year. Once payment arrangements are in place for the Tawke field, the Company's cash-flow and financial flexibility will be strengthened, enabling DNO to accelerate current projects as well as increase business development activities.

Parent Company
The Parent Company's net loss for 2009 was NOK 100.7 million. Total assets as of 31 December 2009 were NOK 3,939 million, whereof the long-term intercompany receivables account for NOK 2,105 million. The Company's cash balance at year-end 2009 was NOK 266.6 million compared to NOK 139.8 million for 2008, mainly increased by sale of shares in DETNOR during 2009. Total shareholders equity at 31 December 2009 was NOK 1,563.3 million compared to NOK 1,791.6 at the end of 2008. The equity ratio remained stable at 39% in 2009, the same as in 2008. No ordinary dividend is proposed for 2009 as the Board believe that investment in the Company's exploration and development programme will deliver increased shareholder returns in the future.

The Company's unrestricted equity as of 31 December 2009 totalled NOK 1,169.5 million.

The Board proposes that the annual loss of NOK 100.7 million is transferred from other equity.

Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for the period 1 January to 31 December 2009 have been prepared in accordance with IFRS and give a fair view of DNO's and the Group's assets, liabilities, financial position and results for the period viewed in their entirety, and that the Board of Directors report includes a fair review of any significant events that arose during the period and their effect on the financial report, any significant related parties' transactions, and a description of the significant risks and uncertainties for the Group.

Oslo, 29 April 2010

Berge Gerdt Larsen
Chairman of the Board

Trygve Bruvik
Vice Chairman

Elin Karfjell
Board Member

Marit Instanes
Board Member

Gunnar Hirsti
Board Member

Helge Eide
Managing Director

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Consolidated Statements of Comprehensive Income

		1 January - 31 December	
NOK mill	**Note**	**2009**	**2008**
Sales	2, 3	869.0	1,376.2
Cost of goods sold	4	-659.3	-745.5
Gross profit		**209.7**	**630.7**
Other operating income		8.1	0.1
Tariffs and transportation		-36.9	-33.2
Administrative expense/Other operating expenses	5	-204.3	-34.0
Impairment oil and gas assets	9	-	-197.9
Exploration cost expensed	6	-155.8	-356.8
Net gain/(loss) from sale of PP&E	9	-	-0.1
Profit/(loss) from operating activities		**-179.1**	**8.8**
Share of profit/(loss) from associates	7, 10	-62.9	83.3
Financial income	7	522.3	54.9
Financial expenses	7	-252.4	-836.9
Profit/(loss) before income tax		**28.0**	**-689.9**
Income tax expense	8	-297.6	-214.0
Net profit/(loss)		**-269.6**	**-903.9**
Other comprehensive income			
Currency translation differences		-289.8	609.6
Fair value changes available-for-sale financial assets	11	-10.3	-54.7
Total other comprehensive income, net of tax		**-300.2**	**554.9**
Total comprehensive income, net of tax		**-569.8**	**-349.0**
Net profit/(loss) attributable to:			
Equity holders of the parent		-269.6	-903.9
Total comprehensive income attributable to:			
Equity holders of the parent		-569.8	-349.0
Earnings per share, basic	21	-0.31	-1.02
Earnings per share, diluted	21	-0.31	-1.02

Consolidated Statements of Financial Position

As at 31 December

ASSETS (NOK mill)	Note	2009	2008
Non-current assets			
Deferred income tax assets	8	-	256.0
Other intangible assets	9	851.0	595.3
Property, plant and equipment	9	2,402.4	3,119.6
Investment in associates	10	-	697.5
Available for sale investments	11	478.4	36.8
Derivative financial instruments	12, 13	0.8	20.2
Total non-current assets		**3,732.6**	**4,725.4**
Current assets			
Inventories	4	157.4	50.7
Trade and other receivables	14	197.2	174.1
Derivative financial instruments	12, 13	-	8.0
Other financial assets at fair value through P&L	15	1.8	1.1
Cash and cash equivalents, unrestricted	15	297.2	91.2
Cash and cash equivalents, restricted	15	6.2	84.9
Total current assets		**659.8**	**410.1**
TOTAL ASSETS		**4,392.4**	**5,135.5**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	213.7	225.2
Other reserves		80.6	42.6
Retained earnings		1,284.4	1,854.2
Total equity		**1,578.7**	**2,122.0**
Non-current liabilities			
Interest-bearing liabilities	17	1,785.3	2,052.6
Deferred income tax liabilities	8	94.2	160.8
Provisions for other liabilities and charges	18	685.8	128.9
Total non-current liabilities		**2,565.3**	**2,342.3**
Current liabilities			
Trade and other payables	20	191.0	388.9
Income taxes payable	8	-	7.3
Current interest-bearing liabilities	17	-	54.5
Provisions for other liabilities and charges	18	57.3	220.5
Total current liabilities		**248.4**	**671.2**
TOTAL EQUITY AND LIABILITIES		**4,392.4**	**5,135.5**

Oslo, 29 April 2010

Berge G. Larsen
Chairman of the Board

Trygve Bruvik
Vice Chairman

Elin Karfjell
Board Member

Marit Instanes
Board Member

Gunnar Hirsti
Board Member

Helge Eide
Managing Director

Consolidated Cash Flow Statements

		Years ended 31 December	
NOK mill	**Note**	**2009**	**2008**
Operating activities			
Profit/(loss) from operating activities before exploration expenses		-23.2	365.7
- Exploration cost expensed	6	-155.8	-356.8
Profit/(loss) from operations		**-179.1**	**8.8**
Adjustments for:			
Income taxes paid		-92.2	-197.9
Depreciation of PP&E	4	300.9	443.8
Impairment loss on PP&E	9	-	197.9
(Gain)/loss on on sale of PP&E		-	0.1
Fair value gain/(loss) on financial assets	7	-12.4	38.8
Other financial income/(expenses)		-43.4	-26.4
Share of profit/(loss) from associates	10	-62.9	83.3
Exchange gains/(losses)		65.1	149.4
Interest paid		-113.1	-194.8
Changes in working capital:			
- Inventories		20.8	-50.7
- Trade and other receivables		-23.1	88.8
- Other financial assets at fair value through P&L		0.4	68.1
- Trade and other payables		-203.1	283.6
Other*		288.8	-147.4
Net cash (used in)/from operating activities		**-53.3**	**745.4**
Investing activities			
Purchases of PP&E	9	-215.7	-1,250.3
Proceeds from sale of PP&E		-	-
Purchases of available-for-sale financial assets		-	-
Proceeds from sale of available-for-sale financial assets		600.8	28.5
Interest received		7.2	36.5
Other investing activities, net		-	-0.9
Net cash (used in)/from investing activities		**392.1**	**-1,186.2**
Financing activities			
Proceeds from borrowings	17	-	-
Repayment of borrowings	17	-55.9	-50.0
Proceeds from issuance of ordinary shares		-	-
Purchase of treasury shares, including options		-1,159.6	-939.6
Proceeds from sale of treasury shares		1,032.1	946.2
Dividends paid		-	-
Net cash (used in)/from financing activities		**-183.5**	**-43.4**
Net increase/(decrease) in cash and cash equivalents		**155.5**	**-484.2**
Cash and cash equivalents at beginning of the period		176.1	691.7
Exchange gain/(losses) on cash and cash equivalents		-28.2	-31.7
Cash and cash equivalents at end of the period	15	**303.4**	**176.1**
Hereof restricted cash		6.2	84.9

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

Consolidated statements of changes in equity

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2008		**221.5**	**-**	**2,203.2**	**2,424.7**
Other comprehensive income/(loss)		-	-	554.9	554.9
Profit/(loss) for the period		-	-	-903.9	-903.9
Total comprehensive income		**-**	**-**	**-349.0**	**-349.0**
Issue of share capital		-	-	-	-
Purchase of treasury shares		-27.3	-930.5	-	-957.8
Sale of treasury shares		31.0	747.6	-	778.6
Derivative contracts treasury shares		-	225.5	-	225.5
		3.7	**42.6**	**-**	**46.3**
Balance at 31 December 2008	16	**225.2**	**42.6**	**1,854.2**	**2,122.0**

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2009		**225.2**	**42.6**	**1,854.2**	**2,122.0**
Other comprehensive income/(loss)		-	-	-300.2	-300.2
Profit/(loss) for the period		-	-	-269.6	-269.6
Total comprehensive income		**-**	**-**	**-569.8**	**-569.8**
Issue of share capital		-	-	-	-
Purchase of treasury shares		-58.0	-1,542.6	-	-1,600.6
Sale of treasury shares		46.5	1,111.9	-	1,158.4
Derivative contracts treasury shares		-	468.8	-	468.8
		-11.5	**38.0**	**-**	**26.5**
Balance at 31 December 2009	16	**213.7**	**80.6**	**1,284.4**	**1,578.7**

Note disclosures

NOTE 1 || Summary of IFRS accounting policies

Principal Activities and Corporate Information

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

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

Statement of Compliance

The consolidated financial statements of DNO have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The Parent Company and all subsidiaries have been prepared in accordance with the Norwegian Accounting Act of 1998. The consolidated financial statements were approved by the Board of Directors on 29 April 2010.

Basis for Preparation

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

- All derivatives, all financial assets and liabilities held for trading, liabilities related to share-based payments, all financial assets that are classified as available-for-sale and inventories as a result of the net entitlement method, are recognised at fair value.

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

Changes in Accounting Policies and Disclosures

The accounting principles adopted are consistent with those of the previous financial year, except for the impact of the adoption of the relevant standards described below.

IFRS 8 Operating Segments. This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures are shown in the segment note.

IAS 1 (revised 2007) Presentation of Financial Statements. The revised standard has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on the reported results or the financial position of the Group.

Significant Accounting Estimates and Assumptions

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

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

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

- the amount, nature and timing of capital expenditures
- the projected drilling of wells
- estimates of proven and probable reserves
- the timing and amount of future production of oil and natural gas
- operating costs, including asset retirement costs, and other expenses
- cash flow, anticipated liquidity and prospects for growth
- deferred tax assets
- impairment considerations
- price agreement/pricing of inventory
- timing of export related to the payment of the Water Purification Project liability
- estimate for arbitration ruling

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

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

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

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

Provisions and litigations - Management must use judgement to evaluate certain provisions and litigations, in order to ensure the correct accounting treatment. This also includes the evaluation of future asset retirement obligations.

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

Important factors that could cause actual results to differ from the estimates include among others: technical, geological and geotechnical conditions, economic and market conditions, oil prices and changes in governmental regulations, interest rates and fluctuations in currency exchange

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

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

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

Group Accounting and Consolidation Principles

Subsidiaries

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

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

Investment in an associate

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

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

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

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

The impairment loss can be reversed in a subsequent period if there is evidence that the impairment no longer exist.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Interest in joint ventures

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

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

Foreign Currency Translation and Transactions

Functional currency

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

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

Transactions and balances

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

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

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

NOTE 1 || Summary of IFRS accounting policies continued

Group companies

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

Balance Sheet Classification

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

Property, Plant and Equipment

General

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

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

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

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

Borrowing costs

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

The basis for the monthly capitalisation is accumulated average capitalised assets for each project. The capitalised borrowing costs can not exceed the actual borrowing costs in each period.

Exploration and development costs for oil and gas properties

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

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

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

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

Oil and gas properties

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

Component cost accounting/decomposition

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

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

Intangible Assets

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

- computer software three to five years
- other intangible assets five to ten years

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 capitalised exploration assets. When technical feasibility and commercial viability of the assets are

demonstrable, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets which are classified as intangible are assessed for impairment before reclassification.

Drilling costs of exploration wells are temporarily capitalised pending the determination of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalised and assessed for impairment at each reporting date.

Other intangible assets

Payments related to acquisition of licenses and subsequent payments are capitalized as license acquisition cost and depreciated over period of production.

Impairment of Long-Lived Assets

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

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

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

Farm In and Farm Out

A farm in/farm out is when the owner of a working interest (the farmor) transfers all or a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed upon action. If the farmee agrees to undertake exploration of a property, drill a well or wells, or develop the property, the farmor transfers all or a portion of the working interest in the property to the farmee.

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

License Swaps/Asset Swaps

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

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

Financial Instruments

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

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

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

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

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

Investments and other financial assets

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

- Investments classified as available for sale are measured at fair value. Adjustments to fair value are recognised as other comprehensive income until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the statement of comprehensive income. Impairment of available for sale investments is recognised in the statement of comprehensive income immediately, but any subsequent reversal of the impairment is not recognised in the statement of comprehensive income, but as a fair value adjustment to other comprehensive income.
- Investments classified at fair value through profit or loss are measured at fair value, with adjustments to fair value recognised immediately in the statement of comprehensive income.
- Investments classified as loans and receivables are measured at amortised cost using the effective interest rate method. This classification is used for non-derivative assets with fixed or determinable payments that are not quoted in an active market. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.
- Held-to-maturity investments are non-derivative financial assets with

NOTE 1 || Summary of IFRS accounting policies continued

fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity. These assets are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

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

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

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that this event has an impact on the estimated future cash flows from the asset that can be reliably estimated.

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

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

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

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

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

Derivative financial instruments and hedging

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

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

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

As of 31 December 2009, the Group has no hedging instruments for accounting purposes.

Other Long-Term Receivables

Other long-term receivables are measured at net present value when the expected payments are long due and these are not interest bearing.

Trade Receivables

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

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

Share capital

ORDINARY SHARES

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

REPURCHASE OF SHARE CAPITAL (TREASURY SHARES)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the result-

ing surplus or deficit on the transaction is transferred to/from retained earnings.

Financial income and expenses

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

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

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

Leases

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

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

Inventories

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

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

Where the Group has lifted and sold less oil or gas than the ownership interest if sales method applies, the production costs are deferred and classified as inventory.

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

Interest-Bearing Liabilities

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

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

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

Revenue Recognition

Revenues from the production of oil and gas properties are recognised on the basis of the Group's net working interest in those properties, regardless of whether the production is sold (the entitlement method). The revenue recognition according to the net entitlement method is based on actual production in the period and revenue is recognised when the title passes from the Group to its customer. To the extent that the entitlement method cannot be applied, the sales criteria from IAS 18 must be fulfilled in order to recognise revenues.

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

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

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

Production Sharing Agreements/Contracts (PSAs/PSCs)

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

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

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

Under a PSA/PSC the government typically receives portions of oil produced in several steps. Normally, there is a fraction of gross oil production (a royalty), before any attribution to cost oil, payable to a governmental body. As described above, the government will also have a specified share

NOTE 1 || Summary of IFRS accounting policies continued

of profit oil and in some instances a governmentally controlled enterprise will have its share as well. The sum of royalties and governmental share of profit oil, including that of a governmentally controlled enterprise, represents the 'government take' of oil produced under a PSA/PSC.

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

Income Taxes

The tax expense consists of taxes payable and changes to deferred tax. Taxes payable are provided based on taxable profits at the current tax rate.

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

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

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

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

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

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

Production Sharing Agreements/Contracts (PSAs/PSCs)

DNO presents its operations governed by PSAs/PSCs according to the net entitlement method. For more information see the description under revenue recognition.

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

Employee Benefits

Pension obligations

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

Share option program

The Group has a synthetic share option programme for its employees. The share options are settled in cash and are recorded at fair value by use of the Black & Scholes method. The share options are expensed over the vesting period.

Provisions and Contingent Liabilities

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

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

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

Asset retirement obligations

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

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

Segment Reporting

The Group identifies and reports its segments based on the information given to the chief operating decision maker. The reportable segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. The Company has identified its reportable segments based on the nature of the risk and return within its business and by the location of the Group's assets and operations.

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

Non-Current Assets Held for Sale

Non-current assets held for sale are classified as held for sale when it is highly probable that their carrying amount will be recovered principally

through a sale transaction rather than through continuing use. Such assets are measured at the lower of the carrying amount and fair value less sales costs.

Discontinued Operations

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

Earnings Per Share

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

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

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

Related parties

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

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

For more information about related parties, see Note 23.

Comparatives

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

IFRS and IFRIC Interpretations Not Yet Effective

The following standards and interpretations are relevant to the Group:

IFRS 3 (R) Business Combinations

Changes in the standard, effective from annual periods beginning on or after 1 July 2009, will affect recognised amount of goodwill and the reported profit, both in the period when the business combination takes place and in future periods. The implications will only have impact prospectively. The changes are not expected to have a major impact on the Group's financial statements.

IAS 27 (R) Consolidated and Separate Financial Statements

The revised standard requires that changes in ownership interest in subsidiaries are accounted for as an equity transaction. The changes are effective from annual periods beginning on or after 1 July 2009. The changes are not expected to have a major impact on the Group's financial statements.

IAS 32 Financial Instruments – Presentation

The changes are effective from annual periods beginning on or after 1 February 2010 and introduce an exception from the liability definition for certain rights, including rights issues, offered in another currency than the functional currency. The changes are not expected to have a major impact on the Group's financial statements.

IAS 39 Financial Instruments – Recognition and measurement

The changes are effective from periods beginning on or after 1 July 2009 and provide further guidance on how the rule for designating parts of cash flows and fair value as hedge item should be applied. The changes are not expected to have a major impact on the Group's financial statements.

Annual improvements from IFRS 2008-2010

The annual improvement project includes several improvements to 12 different standards. The project provides a vehicle for making non-urgent but necessary improvements to IFRSs. Changes apply for annual periods beginning on or after 1 July 2009. The annual improvements are not expected to have a major impact on the Group's financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

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

IFRIC 17 Distributions of Non-cash Assets to Owners

The interpretation is to be applied prospectively and is effective from annual periods beginning on or after 1 November 2009. The interpretation clarifies the accounting for distribution of non-cash assets to owners. including pro rata distribution (all owners are treated equally). Distribution of non-cash assets should be recognized at the fair value of the net assets to be distributed with gain through profit or loss.

The changes are not expected to have a major impact on the Group's financial statements.

DNO does not expect to early adopt any standards, amendments or interpretations.

NOTE 2 || Segment information

DNO identifies and reports its segments based on the information given to the chief decision maker. The reportable segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. DNO has identified its reportable segments based on the nature of the risks and returns within its business and by the location of the Group's assets and operations. Inter-segment sales are based on the principle of "arm's length".

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

The segment Northern Europe (NE) includes operations in the UK. The share of profit or loss from associated company has been included in NE up to November 2009 (see Note 10). The segment Africa (AFR) includes both Equatorial Guinea and Mozambique, where DNO participates in one block in each country. Yemen (YEM) consists of Yemen (7 blocks) and Syria. All oil in Yemen and Kurdistan is sold to one customer, which is responsible for the further distribution.

NOK mill								
Twelve months ended 31 December 2009	**Note**	**NE**	**YEM**	**KUR**	**AFR**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information								
External sales	3	-	702.0	167.0	-	869.0	-	869.0
Inter-segment sales		-	7.5	8.0	2.2	17.7	-17.7	-
Cost of goods sold	4	-	-500.0	-158.7	-0.1	-658.7	-0.6	-659.3
Gross profit		**-**	**209.5**	**16.4**	**2.1**	**228.0**	**-18.3**	**209.7**
Other operating income		-	-	7.8	-	7.8	0.4	8.1
Tariffs and transportation		-	-36.9	-	-	-36.9	-	-36.9
Administrative expenses	5	-1.3	-1.6	-145.2	-	-148.0	-51.9	-199.9
Other operating expenses	5	-	-	-	-2.6	-2.6	-1.8	-4.3
Exploration cost expensed	6	-0.7	-112.3	-10.1	-32.7	-155.8	-	-155.8
Net gain/(loss) from sale of PP&E		-	-	-	-	-	-	-
Finance costs - net (excl. interest. gain/(loss) on sale of shares)		-1.3	-36.9	9.4	-	-28.8	466.8	438.1
Segment result		**-3.3**	**21.9**	**-121.8**	**-33.1**	**-136.3**	**395.2**	**259.0**
Share of profit/(loss) from associates	10	-62.9	-	-	-	-62.9	-	-62.9
Interest - net								-171.1
Gain/(loss) on sale of shares								3.0
Income tax expense	8							-297.6
Net profit/(loss)								**-269.6**

NOK mill								
Twelve months ended 31 December 2009	**Note**	**NE**	**YEM**	**KUR**	**AFR**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Balance sheet information								
Capital expenditures this period		-	39.6	630.5	1.1	671.2	0.4	671.6
Property. plant and equipment		0.6	381.7	1,963.1	55.2	2,400.5	1.8	2,402.4
Inventories		-	-	157.4	-	157.4	-	157.4
Other assets		39.8	271.6	777.4	2.8	1,091.6	741.1	1,832.7
Total segment assets (excl. tax assets. interest-bearing receivables)		**40.4**	**653.3**	**2,897.8**	**58.0**	**3,649.5**	**742.9**	**4,392.4**
Unallocated corporate assets								-
Consolidated total assets								**4,392.4**
Total segment liabilities (excl. tax liabilities. interest-bearing liabilities)		**2.3**	**67.6**	**805.0**	**0.0**	**874.9**	**59.3**	**934.2**
Unallocated corporate liabilities								1,879.5
Consolidated total liabilities								**2,813.7**
Other segment information								
Net entitlement production (mboe)		-	1,955.6	1,108.1	-	3,063.7	-	3,063.7
Sale of oil		-	702.0	167.0	-	869.0	-	869.0
Lifting cost		-	-261.7	-96.6	-	-358.3	-	-358.3
Lifting cost (USD/bbl)		-	-15.3	-9.3	-	-13.0	-	-13.0
Amortisation and depreciation		-	-238.2	-62.1	-0.1	-300.4	-0.6	-300.9
Netback. including asset sale proceeds		-2.0	204.9	-69.1	-33.0	100.7	-71.0	29.8

NOK mill								
Twelve months ended 31 December 2008	**Note**	**NE**	**YEM**	**KUR**	**AFR**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information								
External sales	3	-	1,073.7	288.3	-	1,362.0	14.2	1,376.2
Inter-segment sales		-	22.7	29.9	0.3	53.0	-53.0	-
Cost of goods sold	4	-	-579.8	-165.3	-	-745.1	-0.3	-745.5
Gross profit		**-**	**516.6**	**152.9**	**0.3**	**669.8**	**-39.1**	**630.7**
Other operating income		-	-	0.1	-	0.1	-	0.1
Tariffs and transportation		-	-33.2	-	-	-33.2	-	-33.2
Administrative expenses	5	-6.6	-0.6	-3.5	-	-10.8	-22.6	-33.4
Other operating expenses	5	-0.6	-	-	-	-0.7	-	-0.7
Impairment oil and gas assets	9	-	-197.9	-	-	-197.9	-	-197.9
Exploration cost expensed	6	-1.0	-188.6	-111.6	-53.9	-356.8	-	-356.8
Net gain/(loss) from sale of PP&E		-	-	-	-	-	-0.1	-0.1
Finance costs - net (excl. interest. gain/ (loss) on sale of shares)		-708.6	42.0	-6.5	-	-673.2	38.0	-635.2
Segment result		**-716.8**	**138.3**	**31.3**	**-53.6**	**-602.6**	**-23.9**	**-626.4**
Share of profit/(loss) from associates	10	83.3	-	-	-	83.3	-	83.3
Interest - net								-155.7
Gain/(loss) on sale of shares								9.0
Income tax expense	8							-214.0
Net profit/(loss)								**-903.9**
Balance sheet information								
Capital expenditures this period		-	373.3	874.9	-6.0	1,242.1	1.8	1,243.9
Property, plant and equipment		0.6	628.6	2,422.6	65.7	3,117.5	2.0	3,119.6
Inventories		-	-	50.7	-	50.7	-	50.7
Other assets		779.9	317.1	435.0	5.6	1,538.2	162.9	1,701.1
Total segment assets (excl. tax assets, interest-bearing receivables)		**780.5**	**945.7**	**2,908.3**	**71.2**	**4,706.5**	**165.0**	**4,871.5**
Unallocated corporate assets								264.0
Consolidated total assets								**5,135.5**
Total segment liabilities (excl. tax liabilities, interest-bearing liabilities)		**2.4**	**176.3**	**311.5**	**5.1**	**495.2**	**235.1**	**730.3**
Unallocated corporate liabilities								2,283.2
Consolidated total liabilities								**3,013.5**
Other segment information								
Net entitlement production (mboe)		-	2,174.6	1,753.9	-	3,928.5	-	3,928.5
Sale of oil		-	1,073.7	288.3	-	1,362.0	-	1,362.0
Lifting cost		-	-247.4	-54.3	-	-301.7	-	-301.7
Lifting cost (USD/bbl)		-	-13.3	-4.1	-	-9.5	-	-9.5
Amortisation and depreciation		-	-332.4	-111.0	-	-443.5	-0.3	-443.8
Netback, including asset sale proceeds		-8.2	230.7	148.8	-55.3	316.0	-61.4	254.7

NOTE 3 || Sales

NOK mill	2009	2008
	Years ended 31 December	
Sale of petroleum products	869.0	1,362.0
Other income*	-	14.2
Total sales	**869.0**	**1,376.2**

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

The export of crude oil from the Tawke field in Kurdistan commenced 1 June and halted 22 September 2009. A signed sales agreement is not yet in place and no payment has been received. At year-end 2009, it was concluded that the export sale from Kurdistan in 2009, estimated to approximately NOK 850 million, based on estimated sales prices and applicable discounts, could not be recognized since the criteria in IFRS for revenue recognition were not satisfied at year-end 2009. The revenues from the exported crude oil will be recognized when a final sales and pricing agreement is in place and payment is received. See Note 25 for details.

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

Reconciliation sales - working interest/net entitlement

NOK mill	2009	2008
	Years ended 31 December	
Sale of petroleum products working interest	1,293.1	2,154.1
Government share of production before income tax payable	-424.1	-792.1
Sale of petroleum products net entitlement	**869.0**	**1,362.0**

NOTE 4 || Cost of goods sold/Inventory

NOK mill	2009	2008
	Years ended 31 December	
Lifting costs*	-358.3	-301.7
Depreciation, depletion and amortisation	-300.9	-443.8
Other cost of goods sold	-	-
Total cost of goods sold	**-659.3**	**-745.5**

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

NOK mill	2009	2008
	Years ended 31 December	
Spare parts*	23.5	50.7
Other inventory**	133.9	-
Total inventory	**157.4**	**50.7**

*Spare parts at the Tawke field in Kurdistan are classified as inventory.

**Other inventory of NOK 133.9 million consists of lifting costs of NOK 14.3 million and depreciation costs of NOK 119.6 million related to the exported volumes of crude oil from the Tawke field in Kurdistan. The production costs have been capitalized as other inventory in 2009 as a result of the reversal of revenues. These capitalized costs will be charged as cost of goods sold when revenues can be recognized. See Note 3 and 25 for further details.

NOTE 5 || Administrative/other expenses

This note should be read in conjunction with Note 23 on related parties.

	Years ended 31 December	
NOK mill	**2009**	**2008**
Salaries and social expenses *	-12.7	-19.5
General and administration expenses **	-176.2	-40.5
Reclassification to exploration costs	-11.0	26.6
Other operating expenses	-4.3	-0.7
Total administrative/other expenses	**-204.3**	**-34.0**
Average man-year labour	34	32

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

** Included in General and administration expenses in 2009 are provisions for the potential liability and legal costs related to the ongoing arbitration proceedings. See Note 25 for further information regarding arbitration.

Specification of salaries and social expenses

	Years ended 31 December	
NOK mill	**2009**	**2008**
Salaries, bonuses, etc.	-45.2	-44.4
Employer's payroll tax expenses	-7.5	-7.6
Pensions	-2.4	-3.0
Other personnel costs	-1.7	-3.4
Reclassification of salaries and social expenses to lifting costs and exploration costs	44.0	39.0
Salaries and social expenses	**-12.7**	**-19.5**

Salaries and social expenses in 2009 include an ordinary bonus and a share-based bonus scheme. The total limit for the share-based bonus scheme is NOK 15.9 million (2008: NOK 16.3 million), should the share price equal or exceed NOK 9.57 (2008: NOK 15.60) as of 30 June 2010. The threshold for payments under this scheme is a share price of NOK 7.36 (2008: NOK 12.00). Estimated value recognised as of 31 December 2009 is nil (2008: NOK 0.8 million). All employees are included in the scheme. All other ordinary bonus payments will be deducted in a possible share-based bonus payment. Black & Scholes valuation model is used to determine the value of the option.

Pensions

DNO has a defined contribution scheme for employees in DNO International ASA (parent company). In 2009, a total of NOK 2.4 million was expensed under the scheme.

The corresponding figure for 2008 was NOK 3.0 million. The Group's obligations are limited to the annual contributions. DNO meets the Norwegian requirements for mandatory occupational pension ('obligatorisk tjenestepensjon').

Director and executive remuneration

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

	Years ended 31 December	
NOK mill	**2009**	**2008**
Managing Director:		
Remuneration	3.26	4.17
Pension	0.05	0.05
Bonus	-	-
Other remuneration	0.31	0.25
Total compensation paid to Managing Director	**3.61**	**4.47**
Other key management:		
Remuneration	9.65	10.49
Pension	0.21	0.21
Bonus	-	-
Other remuneration	4.55	5.63
Total compensation paid to other key management	**14.40**	**16.33**
Number of managers included	5	5
Executive Chairman:		
Consulting allowance to Increased Oil Recovery Ltd/AS	4.20	4.20
Total compensation to Increased Oil Recovery Ltd/AS	**4.20**	**4.20**
Board of Directors	**1.28**	**1.31**
Total director and executive remuneration	**23.49**	**26.31**

For further specifications of remuneration to key management, reference is made to Note 3 in the parent company accounts.

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

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

The Executive Chairman has no bonuses, share options, nor severance pay agreement, and the consulting contract can be terminated with one months notice.

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

Shares and Options held by directors, executives and key management personnel as at 31 December 2009

Directors, executives and key management personnel	Shares	Options
Berge G. Larsen, Executive Chairman incl. companies controlled by him	45,302,504	-
Trygve Bruvik, Non-executive Vice Chairman incl. companies controlled by him	1,399,996	-
Elin Karfjell, Board Member	-	-
Marit Instanes, Board Member	18,228	-
Gunnar Hirsti, Board Member	-	-
Helge Eide, Managing Director	1,600,000	-
Tore Lilloe-Olsen, Corporate Head of Exploration	51,000	-
Haakon Sandborg, Chief Financial Officer	-	-
Magne Normann, Managing Director DNO Iraq AS	1,621,996	-
Sven Erik Lie, Managing Director DNO Yemen AS	-	-
Total	**49,993,724**	**-**

Auditors' fees

NOK mill (excluding VAT)	2009	2008
Auditors' fee	2.42	2.45
Other financial auditing	0.08	0.10
Tax advisory services	0.24	0.08
Other advisory services	0.05	0.01
Total fees	**2.78**	**2.64**

NOTE 6 || Exploration expenses

NOK mill	2009	2008
	Years ended 31 December	
Exploration expenses (G&G and field surveys)	-52.9	-195.7
Seismic costs	-32.6	-
Exploration costs capitalised in previous years carried to cost	-	-7.6
Exploration costs capitalised this year carried to cost	-56.2	-150.7
Impairment of capitalised exploration costs	-	-
Other exploration cost expensed	-14.1	-2.9
Total exploration cost expensed	**-155.8**	**-356.8**

Seismic studies have been performed in Yemen (NOK 21.7 million) and in Mozambique (NOK 10.9 million) in 2009. In addition, there has been field studies and geology work in all business segments.

Exploration costs expensed in 2009 include dry well costs related to Raoq#1S (Block 53) and Harad#1 (Block 52) in Yemen with NOK 44 million and NOK 18 million respectively. In addition, there has been an adjustment for previous year of NOK 6 million related to Block 44, reducing the expensed costs. A write-down of NOK 8 million related to the previously capitalized acquisition cost on Block 84 is included in Other exploration costs expensed.

NOTE 7 || Net finance

NOK mill	2009	2008
	Years ended 31 December	
Interest received	7.1	36.5
Other financial income	59.5	13.9
Interest expense	-113.1	-194.8
Capitalised interest	-	2.6
Exchange rate gain/(loss), realised items	-2.3	3.6
Exchange rate gain/(loss), unrealised items	39.1	114.1
Fair value gain/(loss) on financial instruments - net 1)	-12.4	38.9
Share of profit/loss from associates	-62.9	83.3
Impairment of financial assets	-8.7	-765.4
Reversal impairment of financial assets	409.2	-
Other financial expenses	-108.4	-31.3
Net finance	**207.1**	**-698.7**

The decrease in interest expense is mainly due to lower market interest rates and positive effects of converting bond debt from NOK to USD denomination at the end of 2008.

Included in Other financial income is gain on sale on shares of NOK 32 million. Impairment of financial assets relates to available-for-sale shares. Reversal of impairment is related to the investment in associate. For further details on impairment and reversal of financial assets, see Note 10 and 24. Included in Other financial expences are loss on sale of shares (NOK 30 million) and interest on the liability related to the Water Purification Project (WPP) in Kurdistan (NOK 65 million).

1) Fair value gain/(loss) on financial instruments - net

NOK mill	2009	2008
	Years ended 31 December	
Interest rate derivatives	6.3	23.6
Oil price derivatives	-19.4	19.0
Other financial assets at fair value through profit or loss	0.7	-3.8
Fair value gain/(loss) on financial instruments, net	**-12.4**	**38.9**

NOTE 8 || Taxes

Income tax expense

NOK mill	2009	2008
Deferred taxes	-212.7	-48.5
Income taxes payable related to production sharing agreements (PSAs) in Yemen	-84.9	-165.5
Total income tax expense	**-297.6**	**-214.0**

Reconciliation of the year's income tax

NOK mill	2009	2008
Profit/(loss) before income tax	**28.0**	**-689.9**
Expected income tax according to nominal tax rate (28%)	-7.8	174.9
Taxes paid in kind under PSAs exceeding 28%	-47.2	-73.3
Adjustment of previous years	-	-
Adjustment of deferred tax assets not recorded	-322.7	-97.9
Impairment financial assets (reversal of impairment), non deductible for tax purpose	94.7	-214.3
Non-deductible expenses/non-taxable income	-1.5	-6.9
Other items	-13.0	3.4
Total income taxes	**-297.6**	**-214.0**
Effective income tax rate	**1063.6%**	**-31.0%**
Taxes charged to equity	**-**	**-**

Temporary differences relate to the following items:

Tax effect of temporary differences, NOK mill	2009	2008
Tangible assets	-92.1	10.8
Other fixed items (receivables, abandonment, etc.)	90.8	49.9
Losses carried forward	304.3	294.8
Total	302.9	355.6
Deferred tax asset allowance	-397.2	-260.3
Total net deferred taxes	**-94.2**	**95.2**
Capitalised deferred tax assets	-	256.0
Capitalised deferred tax liabilities	-94.2	-160.8

For taxes payable related to production sharing agreements (PSAs), reference is made to Note 1 Accounting principles.

The tax losses carry forward of NOK 304.3 million as of year end is significantly influenced by historical hedging losses related to oil price contracts in the parent company. The unused tax losses can be carried forward indefinitely after Norwegian tax rules. The subsidiary DNO UK Ltd has a tax loss carry forward of approximately £ 10 million.

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

At year-end 2009, the requirements for recognizing a deferred tax asset according to IAS 12 Income Taxes, were not considered to be satisfied. A write-down of the deferred tax asset of NOK 256 million has been recorded as tax expense in 2009. The tax losses carry forward is intact.

DNO has applied for credit deduction (kreditfradrag) for the operations in Kurdistan region of Iraq similar as for the operations in Yemen. To date, DNO has not received confirmation from the authorities on this matter.

DNO is currently subject to several tax audits. See Note 19.

NOTE 9 || Property, plant and equipment/Intangible assets

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

Property, plant and equipment

2009 - NOK mill	Development assets	Assets in operation	Total oil & gas prop.	Other PP&E	Total
At 1 January 2009					
Cost	65.6	4,844.1	4,909.7	20.0	4,929.7
Accumulated impairment	-	-193.7	-193.7	-	-193.7
Accumulated depreciation	-	-1,604.2	-1,604.2	-12.3	-1,616.5
Net book amount	**65.6**	**3,046.2**	**3,111.8**	**7.7**	**3,119.6**
Period ended 31 December 2009					
Opening net book amount	65.6	3,046.2	3,111.8	7.7	3,119.6
Exchange differences	-11.5	-514.8	-526.3	-0.8	-527.1
Additions	0.5	214.1	214.6	1.1	215.7
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Depreciation charge	-	-403.2	-403.2	-2.6	-405.8
Closing net book amount	**54.6**	**2,342.4**	**2,397.0**	**5.4**	**2,402.4**
At 31 December 2009					
Cost	54.6	4,198.2	4,252.8	18.7	4,271.4
Accumulated impairment	-	-193.7	-193.7	-	-193.7
Accumulated depreciation	-	-1,662.1	-1,662.1	-13.2	-1,675.4
Net book amount	**54.6**	**2,342.4**	**2,397.0**	**5.4**	**2,402.4**
Depreciation method	UoP	UoP		3-5 years linear	

Intangible assets

2009 - NOK mill	License interest	Exploration assets	Total
At 1 January 2009			
Cost	76.4	524.2	600.5
Accumulated impairment	-4.2	-	-4.2
Accumulated depreciation	-1.0	-	-1.0
Net book amount	**71.2**	**524.2**	**595.3**
Period ended 31 December 2009			
Opening net book amount	71.2	524.2	595.3
Exchange differences	-24.5	-93.6	-118.1
Additions	485.0	-28.0	457.1
Transfers	-	-	-
Disposals	-	-60.6	-60.6
Impairment	-	-	-
Depreciation charge	-22.7	-	-22.7
Closing net book amount	**509.0**	**342.0**	**851.0**
At 31 December 2009			
Cost	535.6	342.0	877.6
Accumulated impairment	-4.2	-	-4.2
Accumulated depreciation	-22.4	-	-22.4
Net book amount	**509.0**	**342.0**	**851.0**
Depreciation method	UoP	UoP	

Property, plant and equipment

2008 - NOK mill	Development assets	Assets in operation	Total oil & gas prop.	Other PP&E	Total
At 1 January 2008					
Cost	48.1	2,902.3	2,950.4	14.5	2,964.9
Accumulated impairment	-	-	-	-	-
Accumulated depreciation	-	-807.7	-807.7	-8.7	-816.5
Net book amount	**48.1**	**2,094.6**	**2,142.7**	**5.8**	**2,148.4**
Period ended 31 December 2008					
Opening net book amount	48.1	2,094.6	2,142.7	5.8	2,148.4
Exchange differences	14.1	734.3	748.5	1.1	749.6
Additions	3.4	838.3	841.7	2.8	844.5
Transfers	-	14.8	14.8	-	14.8
Disposals	-	-	-	-0.2	-0.2
Impairment	-	-193.7	-193.7	-	-193.7
Depreciation charge	-	-442.1	-442.1	-1.8	-443.9
Closing net book amount	**65.6**	**3,046.2**	**3,111.8**	**7.7**	**3,119.6**
At 31 December 2008					
Cost	65.6	4,844.1	4,909.7	20.0	4,929.7
Accumulated impairment	-	-193.7	-193.7	-	-193.7
Accumulated depreciation	-	-1,604.2	-1,604.2	-12.3	-1,616.5
Net book amount	**65.6**	**3,046.2**	**3,111.8**	**7.7**	**3,119.6**
Depreciation method	UoP	UoP		3-5 years linear	

Intangible assets

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

In 2009, provision for water purification project (WPP) in Kurdistan has been capitalized as license interest on the Tawke license. The WPP is the depreciated over the period of production.

NOTE 9 || Property. plant and equipment/Intangible assets continued

Impairment testing

All assets have been reviewed for impairment as of 31 December 2009. The impairment test compares booked values to values in use. Value in use is calculated as net present value (before tax). The test includes the following parameters: discount rate, forward oil price, remaining reserves, future capital expenditures and lifting costs.

For further information on impairment assessments, see Note 24.

Capitalised interest

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

In accordance with the production sharing agreements, the production facilities and the operating equipment will be transferred to the authorities when the fields are no longer commercial. The producing licenses in Yemen expire in the period 2015 to 2025, Block 53 expire in 2015, Block 32 expire in 2020 and Block 43 expire in 2025, all with the option to apply for 5 years extension.

The Tawke license in Kurdistan expires in 2031 (included 5 years extension).

NOTE 10 || Investment in associate

Up to January 2009. DNO had a 36.9% interest in Det norske oljeselskap ASA (DETNOR). which is a Norwegian independent E&P company. Det norske oljeselskap ASA is listed on the Oslo Stock Exchange.

In January 2009. DNO sold 11.9% of the shares in DETNOR. in line with the integration agreement from 2007. and in May 2009 DNO further sold 1 million shares. In October 2009 DNO entered into a sale and purchase agreement with Aker ASA for the sale of up to 6 million shares in DETNOR. 1 million of the shares were sold immediately. while the remaining 5 million shares were sold on 6 November 2009 after approval from the competition authorities. The sales price was NOK 49.90 per share.

Following the sale of 5 million shares in November 2009. DNO's shareholding in DETNOR decreased below 20% and DNO no longer had significant influence. The use of the equity method thereby ceased with effect from 1 November 2009. The investment was revalued to market price according to IAS 28. and classified as Available-for-sale (AFS) from November (see Note 11).

DNO's share of loss from associate in 2009 of NOK 62.9 million reflects the period January-October.

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

Share of associate's balance sheet:

	Years ended 31 December	
NOK mill	**2009**	**2008**
Current assets	-	922.4
Non-current assets	-	1,006.8
Current liabilities	-	-156.4
Non-current liabilities	-	-385.3
Net assets	**-**	**1,387.5**

Share of associate's revenue and profit:

	Years ended 31 December	
NOK mill	**2009**	**2008**
Revenue	45.8	234.4
Profit/(loss)	-62.9	83.3
Impairment of the investment	-	707.3
Reversal of impairment	409.2	-
Sale of shares 2009	-598.9	-
Share of loss from associate 2009	-62.9	-
Derecognition of associate	-444.9	-
Carrying amount investment in associate	**-**	**697.5**

NOTE 11 || Available-for-sale financial assets

Available-for-sale financial assets are revalued at fair value (market price. where available) at the end of each period. Changes in fair value are included in other comprehensive income and is presented as valuation reserve under equity. Impairment will be charged to the income statement. while reversal of impairment will be taken through other comprehensive income.

	Years ended 31 December	
NOK mill	**2009**	**2008**
Beginning of the period	36.8	165.0
Additions*	460.6	-
Sales/Reclassifications	-	-15.4
Revaluation surplus/deficit transfer to other comprehensive income	-10.3	-54.7
Reclassification of fair value changes from other comprehensive income	-8.7	-58.1
End of the period[1)]	**478.4**	**36.8**
Non-current portion	478.4	36.8
Current portion	-	-

* Additions in 2009 relate to the reclassification of the investment in Det norske oljeselskap (DETNOR) . which previously was classified as investment in associated company. Following DETNOR's merger with Aker Exploration in December 2009. DNO's shareholding is 11.66%. See Note 10.

Impairment charges of NOK 3.7 million for the shares in Petrolia Drilling and NOK 5 million for the shares in Rocksource have been recorded in 2009. Previous fair value changes included in other comprehensive income have been reversed through profit or loss. For further information on impairment. see Note 24.

1) Available-for-sale financial assets include the following:

	Years ended 31 December	
NOK mill	**2009**	**2008**
Listed securities:		
- Petrolia Drilling ASA	8.9	12.7
- Rocksource ASA	31.6	24.1
- Det norske oljeselskap ASA	437.9	-
Total available-for-sale financial assets	**478.4**	**36.8**

NOTE 12 || Financial risk management objectives and policies

Overview

The Group is exposed to a variety of risks from its use of financial instruments. including oil price risk. liquidity risk, currency risk, interest rate risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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

Risk management is carried out by a central treasury function (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies. evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management. as well as written policies covering specific areas. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Oil price Risk

Oil price fluctuations may have considerable impact on the Group's earnings. DNO enters into crude oil derivative contracts to reduce the volatility of the Group's cash flows associated with anticipated sales of oil. DNO's main oil price hedging policy is to use hedging instruments (preferrably put options) to meet strategic goals and to support execution of annual business plans, by focusing on securing defined cash flow levels through use of such instruments. DNO has entered into a put option for 2010 with a strike price of USD 40. At 31 December 2009, the market value of the put option was NOK 0.8 million.

NOTE 12 || Financial risk management objectives and policies continued

Liquidity Risk

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

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

NOK mill					
At 31 December 2009	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Interest bearing loans and borrowings			1,785.3		1,785.3
Other liabilities			685.8		685.8
Taxes payable					
Trade and other payables	191.0				191.0
					2,662.1

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

Currency Risk

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

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

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

	Increase/decrease in USD rate	Effect on profit before tax (NOK mill)	Effect on equity (NOK mill)
2009	-/+ 10%	+/- 29.0	+/- 0.0
2008	-/+ 10%	+/- 31.9	+/- 0.0

That is; a reduction in USD rate (weakening vs NOK) gives a positive effect on the profit.

The net investment in Yemen ceased in 2009 and a total of NOK 26 million was reversed from equity through profit or loss.

Interest Rate Risk

The Group's interest rate risk arises from long-term debt. Debt issued at variable rates exposes the Group to cash flow interest rate risk. The main objective for interest rate risk hedging is to minimise exposure to variability of cash flows arising from changes in interest rates. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps and by fixed interest loans.

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

The interest swap agreement for the period 2007-2012 was settled in May 2009. Under the agreement, DNO received a floating interest rate of 7.215% and paid a fixed interest. NOK 6.2 million has been recognised as financial income for the interest rate swap in 2009.

At 31 December 2009, DNO has two long-term bond loans that mature in 2012, with fixed interest rates of 7.215% and 6.445% respectively.

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

	Increase/decrease in basis points	Effect on profit before tax (NOK mill)	Effect on equity (NOK mill) *
2009	+/- 100	+/- 19.5	+/- 0.0
2008	+/- 100	+/- 18.5	+/- 0.0

* Adjusted for capitalised interest

Credit Risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales are only made to customers with an appropriate credit history. The Group has one customer in Yemen and one customer in Iraq. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. The Group has no historic losses on customers. See Note 14 for details on trade receivables.

Underlift recorded to production cost in accordance with the sales method, is assumed to be recovered when export sales commence.

Market risk investments

DNO is exposed to market risk on investments which are primarily classified as available-for-sale. Adjustments to fair value are recognised in other comprehensive income until the investment is sold. The Group's financial investments are all within the oil and gas sector.

Political Risk

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

Export of crude oil from the Tawke field commenced on 1 June 2009. The Kurdistan Regional Government (KRG) suspended all of DNO's operations in Kurdistan on 22 September and all export halted from this date. All issues regarding the suspension were resolved on 5 October and DNO's rights to its production sharing contracts were fully reinstated. Until a sales agreement and a payment mechanism for the export is in place. DNO will focus on local sales. KRG published DNO's PSCs in January 2010 as a response to the federal government's request to review the contracts. DNO has currently no additional information about the progress in this matter.

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

Capital Management

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

DNO monitors capital on the basis of its book equity ratio. This ratio is calculated as book equity divided by total assets. It is the Group's policy that this ratio be 30% or higher. As of 31 December 2009, the book equity ratio was 35.9% (2008: 41.3%).

	31 December	
NOK mill	**2009**	**2008**
Total equity	1 578.7	2 122.0
Total assets	4 392.4	5 135.5
Book equity ratio	35.9%	41.3%

Financial instruments by category

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

		31 December 2009		31 December 2008	
NOK mill	**Notes**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets					
Bank deposits	15	303.4	303.4	176.1	176.1
Derivative financial instruments (current)	13	-	-	8.0	8.0
Derivative financial instruments (non-current)	13	0.8	0.8	20.2	20.2
Other financial assets at fair value through P&L	15	1.8	1.8	1.1	1.1
Available-for-sale investments	11	478.4	478.4	36.8	36.8
Investment in associate	10	-	-	697.5	697.5
Other financial assets (current)	14	197.2	197.2	174.1	174.1
		981.6	**981.6**	**1,113.8**	**1,113.8**
Financial liabilities					
Current interest-bearing liabilities	17	-	-	54.5	54.5
Derivative financial instruments	13	-	-	-	-
Interest-bearing liabilities (non-current)	17	1,785.3	1,207.9	2,052.6	1,976.2
		1,785.3	**1,207.9**	**2,107.1**	**2,030.7**

NOTE 12 || Financial risk management objectives and policies continued

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

2009 - NOK mill	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
Financial assets						
Bank deposits	15	-	-	303.4	-	303.4
Derivative financial instruments (current)	13	-	-	-	-	-
Derivative financial instruments (non-current)	13	0.8	-	-	-	0.8
Other financial assets at fair value through P&L	15	1.8	-	-	-	1.8
Available-for-sale investments	11				478.4	478.4
Trade and other receivables	14	-	-	197.2	-	197.2
		2.6	**-**	**500.6**	**478.4**	**981.6**

2009 - NOK mill	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortised cost	Non-financial liabilities	Total
Financial liabilities					
Current interest-bearing liabilities	17	-	-	-	-
Derivative financial instruments	13	-	-	-	-
Interest-bearing liabilities (non-current)	17	-	1,785.3	-	1,785.3
Provision for other liabilities and charges (current)	18	-	-	57.3	57.3
Provision for other liabilities and charges (non-current)	18	-	-	685.8	685.8
Trade and other payables	20	-	-	191.0	191.0
		-	**1,785.3**	**934.1**	**2,719.4**

2008 - NOK mill	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
Financial assets						
Bank deposits	15	-	-	176.1	-	176.1
Derivative financial instruments (current)	13	8.0	-	-	-	8.0
Derivative financial instruments (non-current)	13	20.2	-	-	-	20.2
Other financial assets at fair value through P&L	15	1.1	-	-	-	1.1
Available-for-sale investments	11	-	-	-	36.8	36.8
Trade and other receivables	14	-	-	174.1	-	174.1
		29.3	**-**	**350.2**	**36.8**	**416.3**

2008 - NOK mill	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortised cost	Non-financial liabilities	Total
Financial liabilities					
Current interest-bearing liabilities	17	-	54.5	-	54.5
Derivative financial instruments	13	-	-	-	-
Interest-bearing liabilities (non-current)	17	-	2,052.6	-	2,052.6
Provision for other liabilities and charges (current)	18	-	-	220.5	220.5
Provision for other liabilities and charges (non-current)	18	-	-	128.9	128.9
Trade and other payables	20	-	-	388.9	388.9
		-	**2,107.1**	**738.3**	**2,845.4**

NOTE 13 || Derivative financial instruments

NOK mill	2009	2008
	Years ended 31 December	
Non-current assets:		
- Oil price swaps/options	0.8	20.2
- Interest-rate swaps*	-	-
- Other derivative financial instruments	-	-
Total non-current assets	**0.8**	**20.2**
Current assets:		
- Oil price swaps/options	-	-
- Interest-rate swaps	-	8.0
- Other derivative financial instruments	-	-
Total current assets	**-**	**8.0**
Total assets	**0.8**	**28.2**

* The interest-rate swap (IRS) with a principal amount of NOK 300 million maturing on 12 October 2012, was settled in May 2009. The fixed rate was 7.215%. Changes in fair value of the IRS during 2009 was NOK 6.2 million, recognised as financial income. Recognised amounts for derivative financial instruments equal the fair value.

NOTE 14 || Trade and other receivables

NOK mill	2009	2008
	Years ended 31 December	
Trade receivables	68.1	74.4
Less: provisions for impairment of receivables	-	-
Trade receivables - net	**68.1**	**74.4**
Prepayments	9.4	6.5
Underlift, entitlement method	8.1	13.9
VAT receivable	3.0	3.4
Other short-term receivables*	108.6	75.9
Total trade and other receivables	**197.2**	**174.1**

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

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

NOK mill	Total	Neither past due nor impaired	Past due but not impaired			
			<30 days	30-60 days	60-90 days	>120 days
2009	68.1	-	68.1	-	-	-
2008	74.4	-	74.4	-	-	-

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

NOTE 15 || Cash, cash equivalents and other short-term financial assets

NOK mill	2009	2008
	Years ended 31 December	
Cash and cash equivalents, non-restricted	297.2	91.2
Cash and cash equivalents, restricted	6.2	84.9
Total cash and cash equivalents	**303.4**	**176.1**

Restricted cash at 31 December 2008 included a margin call amount of NOK 80 million deposited with ABG Sundal Collier. The margin call was related to option contracts on treasury shares. These contracts have been terminated by DNO in 2009.

Cash held in currency

	31 December 2009		31 December 2008	
NOK mill	**Amount in Currency**	**Amount in NOK**	**Amount in Currency**	**Amount in NOK**
NOK	498.0	498.0	302.9	302.9
EUR	-1.2	-10.1	-0.4	-3.8
USD	-28.4	-164.3	-17.3	-121.1
GBP	-2.1	-20.1	-0.2	-1.9
Total cash and cash equivalents		**303.4**		**176.1**

The negative cash balance in USD for 2009 and 2008 is not classified as liability as DNO has a bank concentration account system.

Shares held-for-trading

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

NOK mill	2009	2008
	Years ended 31 December	
Nordic Mining ASA	1.8	1.1
Other financial assets at fair value through profit or loss	**1.8**	**1.1**

NOTE 16 || Equity

Share capital

2008 - NOK mill	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2008	**904,856**	**226.2**	**-4.7**	**221.5**
Treasury shares purchased/sold	-	-	3.7	3.7
Share issues	-	-	-	-
At 31 December 2008	**904,856**	**226.2**	**-1.0**	**225.2**

2009 - NOK mill	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2009	**904,856**	**226.2**	**-1.0**	**225.2**
Treasury shares purchased/sold	-	-	-11.5	-11.5
Share issues	-	-	-	-
At 31 December 2009	**904,856**	**226.2**	**-12.5**	**213.7**

The total number of Ordinary Shares is 904.856.912 shares with a par value of NOK 0.25 per share. All issued shares are fully paid. All shares have equal voting and dividend rights.

The Board of Directors has been authorised by the annual general meeting to increase the Company's share capital by up to NOK 20.000.000 by issuing up to 80.000.000 shares with a face value of NOK 0.25, at a price and other subscription terms to be stipulated by the Board. The authorisation also covers a capital increase against contributions in kind, including in connection with mergers, and was given for two years from the date of the general meeting.

The Company's Board of Directors has been authorised by the annual general meeting to acquire treasury shares within the framework of the Public Limiteds Companies act. The authorisation may be used to acquire up to 80.000.000 treasury shares within a price range of NOK 1 to NOK 200 per share. The authorisation is valid for a period of 18 months from the date of the general meeting. At 31 December 2009, the Company held 50.000.000 treasury shares. In addition, the Board of Directors has been authorised by the annual general meeting to issue a convertible loan limited to NOK 2.000.000.000 with a maximum capital increase of NOK 40.000.000. The authorisation is valid for two years from the date of the annual general meeting.

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

The Company's shareholders at 31 December 2009	Shares	% interest
Pershing Nominees Limited	90,578,618	10.60%
KAS Depository Trust Company	45,410,861	5.31%
Larsen Oil & Gas AS*	45,263,220	5.29%
JP Morgan Chase Bank, nominee account	29,549,244	3.46%
JP Morgan Chase Bank, nominee account	25,320,551	2.96%
Clearstream Banking S.A	19,501,864	2.28%
JP Morgan Chase Bank Luxembourg S.A	15,540,000	1.82%
Nordnet Bank AB	13,959,426	1.63%
Bank of New York Mellon S.A/N.V	11,162,000	1.31%
Euroclear Bank S.A/N.V	11,157,977	1.31%
HSBC Bank PLC	9,808,712	1.15%
DnB NOR Bank ASA	8,963,997	1.05%
Avanza Bank AB	8,538,200	1.00%
Nordea Bank Denmark AS	8,197,365	0.96%
State Street Bank & Trust CO	8,154,803	0.95%
Danske Bank A/S	6,859,352	0.80%
State Street Bank and Trust CO	6,782,634	0.79%
Ø.H. Holding AS	6,256,000	0.73%
RBC Dexia Investor Services Bank	6,058,870	0.71%
Six Sis AG 25PCT	5,831,551	0.68%
Other shareholders	471,961,667	55.21%
Total number of shares excluding treasury shares	**854,856,912**	
Treasury shares at 31 December 2009	50,000,000	
Total number of shares including treasury shares	**904,856,912**	

* Company controlled by Berge G. Larsen, Excecutive Chairman

No ordinary or extraordinary dividend has been distributed in 2009. No dividend has been proposed for 2009.

NOTE 17 || Interest-bearing liabilities

NOK mill	Ticker OSE	Cur-rency	Amount	Interest	Maturity	Effective interest rate 2009	Fair value 2009	Fair value 2008	Carrying amount 2009	Carrying amount 2008
Non-current interest-bearing bonds:										
Bond loan (ISIN NO0010226574)	DNO03	NOK	25.5	NIBOR + 3.5%	01-06-09	7.07%	-	26.4	-	25.5
Bond loan (ISIN NO0010226582)	DNO04	NOK	29.0	Fixed 7.9%	01-06-09	7.97%	-	30.1	-	29.0
Bond loan (ISIN NO0010270523)	DNO05	USD	85.0	LIBOR + 3.5%	06-06-12	4.50%	316.8	523.5	491.0	594.9
Bond loan (ISIN NO0010283732)	DNO07	NOK	177.0	Fixed 7.215%	12-10-12	7.32%	111.5	149.1	177.0	177.0
Bond loan (ISIN NO0010283724)	DNO06	NOK	286.0	NIBOR + 3.5%	12-10-12	6.53%	187.3	256.7	286.0	286.0
Bond loan (ISIN NO0010302649)	DNO08	NOK	49.0	NIBOR + 2.5%	02-03-11	5.29%	35.1	46.7	49.0	51.0
Bond loan (ISIN NO0010478027)	DNO12	USD	41.8	LIBOR + 4.0%	12-10-12	6.53%	241.5	292.6	241.5	292.6
Bond loan (ISIN NO0010478019)	DNO11	USD	62.4	Fixed 6.445%	12-10-12	5.10%	228.9	436.7	360.5	436.7
Bond loan (ISIN NO0010478001)	DNO10	USD	35.6	LIBOR + 3.0%	02-03-11	3.93%	112.1	249.2	205.7	249.2
Borrowing issue costs							-25.3	-34.7	-25.3	-34.7
Total interest-bearing bonds							**1,207.9**	**1,976.2**	**1,785.3**	**2,107.1**

In June 2009, DNO made a repayment of the loans DNO03 and DNO04 with NOK 54.5 million.

In November 2009, DNO made a buy-back of NOK 2 million of the bond loan DNO08. The buy-back was made at a rate of 72% of par value. The gain has been recorded as financial income.

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

There is one covenant related to the different bond loans, which requires that net interest-bearing debt should not exceed three times the booked equity. At 31 December 2009, DNO satisfies all loan agreement requirements.

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

The revolving credit facility of NOK 100 million with DnB NOR Bank ASA was not renewed in October 2009. The facility was undrawn and has not been used by DNO.

The maturity of interest-bearing liabilities is as follows:

NOK mill	Years ended 31 December 2009	2008
0 - 12 months	-	54.5
Between 1 and 2 years	254.7	-
Between 2 and 5 years	1,530.6	2,052.6
Over 5 years	-	-
Total interest-bearing liabilities	**1,785.3**	**2,107.1**

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

NOK mill	Years ended 31 December 2009	2008
NOK	505.7	559.8
USD	1,279.6	1,547.3
Total interest-bearing liabilities	**1,785.3**	**2,107.1**

NOTE 18 || Provisions for other liabilities and charges

NOK mill	2009	2008
	Years ended 31 December	
Non-current		
Asset retirement obligations*	14.9	14.9
Other long-term obligations**	670.9	114.0
Total non-current provisions for other liabilities and charges	**685.8**	**128.9**
Current		
Withholding tax	-	-
Provisions. derivative contracts treasury shares	-	158.0
Other provisions and charges	57.3	62.5
Total current provisions for other liabilities and charges	**57.3**	**220.5**
Total provisions for other liabilities and charges	**743.2**	**349.4**

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

** Included in other long-term obligations is provision for Water Purification Project (WPP) in Kurdistan. The WPP is capitalized and depreciated over field life. The WPP liability will not be payable until export revenues have been received by DNO. The monthly installments are contingent on defined gross revenue levels and will be fully recovered through cost oil.

On 27 October 2009. DNO exercised a call option to purchase 40.000.000 shares. The liability of NOK 129.8 million related to a written put option was reversed at the same time. DNO has no option contracts on treasury shares at 31 December 2009.

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

NOK mill	Asset retirem. obligation	Other non-current	Prov. treasury shares	Other current	Total
Balance at 1 January 2008	**2.1**	**14.2**	**197.2**	**63.3**	**276.9**
Charged to consolidated income statement:					
- Additional provisions	12.8	-	4.0	-0.8	16.0
- Unused amounts reversed or reclassified	-	-	-3.6	-	-3.6
Charged to equity:					
- Additional provisions	-	-	154.0	-	154.0
- Unused amounts reversed	-	-	-193.6	-	-193.6
- Contracts exercised	-	-	-	-	-
Exchange differences	-	-	-	-	-
Incurred and charged against the provision during the period	-	99.7	-	-	99.7
Balance at 31 December 2008	**14.9**	**114.0**	**158.0**	**62.5**	**349.4**
Charged to consolidated income statement:					
- Additional provisions	1.4	570.0	-	13.2	584.7
- Unused amounts reversed or reclassified	-1.5	-	-4.0	-18.4	-23.8
Charged to equity:					
- Additional provisions	-	-	-	-	-
- Unused amounts reversed	-	-	-154.0	-	-154.0
- Contracts exercised	-	-	-	-	-
Exchange differences	-	-	-	-	-
Incurred and charged against the provision during the period	-	-13.1	-	-	-13.1
Balance at 31 December 2009	**14.9**	**670.9**	**-**	**57.3**	**743.2**

NOTE 19 || Commitments and contingencies

a) Lease obligations

DNO rents the premises at Stranden 1, Aker Brygge. The annual rent is NOK 5.2 million and the agreement expires 30 June 2014.

DNO also rents office premises in Bergen, Annual rent is NOK 2.4 million. The rent agreement expires in 2011.

b) Legal disputes

As reported to the market. DNO is involved in arbitration proceedings related to certain third party interests in the Kurdistan region of Iraq. Both parties have filed their final submissions in January regarding damages based on work undertaken by their respective third party experts. The claimants' submission for damages is approximately USD 144 million, while DNO has responded that the damages should be at a level of USD 0 to 12 million. The arbitration proceedings have continued with a hearing in late February and a final ruling with respect to possible compensation for damages is expected during May 2010. Based on work and advice undertaken by internationally acknowledged third party experts. DNO has made a provision for potential liability relating to the arbitration in the financial statements for 2009. See Note 25 for further details.

c) Contractual obligations/license commitments (NOK million)	2010
Drilling and exploration	275.4
Field development	81.6
Total contractual obligations/license commitments related to future investments	**357.0**

d) Guarantees at 31 December 2009

DNO has issued a guarantee of NOK 0.9 million related to the rented premises at Aker Brygge. In addition, parent company guarantees have been issued to the Kurdistan Regional Government and the Ministry of Oil and Minerals Yemen for PSA obligations. The parent company guarantees that it shall make available to the subsidiaries DNO Yemen AS and DNO Iraq AS, the financial and technical resources necessary for them to fulfill their obligations according to the PSAs.

e) Liability for damages/insurance

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

f) Other

Tax audits
The parent company is subject to ongoing tax audits by the Norwegian IRS for the period 1996 - 2004 and for the period 2006 - 2008. The Board expects no material effects from the audits.

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

NOTE 20 || Trade and other payables

Years ended 31 December

NOK mill	2009	2008
Trade creditors	8.2	6.1
Public duties payable	6.0	5.7
Prepayment from customers	0.9	1.3
Other accrued expenses	176.0	375.8
Total trade and other payables	**191.0**	**388.9**

Other accrued expenses include provision for the potential liability and legal costs related to the ongoing arbitration proceedings. See Note 25 for further information on arbitration. Other accrued expenses also include working capital related to participation in oil and gas licenses.

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms. Other payables are non-interest bearing and have an average term of one to two months.

NOTE 21 || Earnings per share

NOK mill	2009	2008
	Years ended 31 December	
Net profit attributable to ordinary equity holders of the parent	-269.6	-903.9
Weighted average number of ordinary shares (excluding treasury shares)	854.9	885.9
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	854.9	885.9
Earnings per share, basic	**-0.31**	**-1.02**
Earnings per share, diluted	**-0.31**	**-1.02**

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

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

NOTE 22 || Group companies

NOK mill	Business address	Ownership and voting interest (in %)	Share capital
DNO Yemen AS	Oslo	100.0	291.0
DNO UK Ltd	London	100.0	0.0
DNO Invest AS	Oslo	100.0	8.0
DNO Iraq AS	Oslo	100.0	0.6

NOTE 23 || Related party disclosures

The following table provides details of the Group's related party transactions in 2009. See also Note 5 on remuneration.

Related party (NOK mill)	Transaction	2009	2008
		Years ended 31 December	
Increased Oil Recovery Ltd	Business development sub lease of DNO London office (Terminated in 2009)	0.8	1.0
Increased Oil Recovery AS/Ltd	Project consulting agreement	4.2	4.2
Kver AS	Bergen Representative office - rent/administration agreement	2.4	4.6
Other	Coverage of legal costs of tax audit	5.7	3.7
		13.1	**13.5**

Description of transactions with related parties:

Increased Oil Recovery AS (IOR AS) - Related party

At 31 December 2009, Berge G. Larsen indirectly holds approximately 25% ownership interest in Increased Oil Recovery AS, and 49% is owned by a closely related party to Berge G. Larsen, DNO has a consultancy agreement with IOR AS.

IOR Ltd/AS provides DNO with business development project consulting services. For 2008 and 2009 the fees have been accrued for, but not paid. At 31 December 2009 the total outstanding amount is NOK 16.8 million, covering the period 2006-2009.

Kver AS - Closely related party

Berge G. Larsen indirectly owns 51% of Kver AS. DNO has an administrative agreement with the company. Under the agreement DNO pays a share of the office lease. ICT expenses and secretarial and travel expenses in Bergen. The 2008 number includes office rent for fourth quarter 2007 and price regulations for the period 2006-2007. The office lease agreement expires in 2011.

Increased Oil Recovery Ltd (IOR Ltd) - Related party

Berge G. Larsen is part time employed by Increased Oil Recovery Ltd (IOR Ltd) and holds an indirect ownership of 32% in the company. Sub lease of the DNO London office was paid through IOR Ltd. IOR Ltd received a 5% handling fee for administration of the office agreement. The sub lease was terminated in 2009.

Dove Energy Inc. - Network party

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

Other

Coverage of legal costs of tax audit relates to costs incurred by DNO. DNO companies and companies associated with key personnel in DNO, in which DNO pays costs awaiting a conclusion from the tax authorities. A final settlement will be made when the case is closed. DNO has claimed Skatt Vest for reimbursement of incurred legal costs due to breach of confidentiality of the tax legislation.In addition to the above mentioned transactions, there are also transactions between group companies.

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

NOTE 24 || Impairment assessments

DNO has performed impairment tests for its assets at year-end 2009, according to IAS 36 Impairment of Assets. IAS 36.9 requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If such indications exists, the recoverable amount of the asset shall be estimated.

Oil and gas assets have been assessed for impairment at 31 December 2009. Booked values of the oil and gas assets has been compared to expected cash flows from the assets (value in use) calculated as the net present value (before tax) of the assets. DNO has defined field level as the lowest level where separate cash flows can be identified. Field level is thereby the aggregation level for depreciation purposes, and also when assessing impairment. Net present value per field is calculated by discounting the future cash flows and comparing them to the booked value. The following assumptions have been used in calculating net present value; the oil price is based on the forward curve for BRENT as of 31 December 2009, adjusted for any discounts in oil quality applicable to each field. The pre-tax discount rate used is based on DNO's WACC (Weighted Average Cost of Capital) where 19% (2008: 12.1%) has been used for the assets in Yemen and 26.7% has been used for the Kurdistan assets. The current situation in Kurdistan is the main reason for using a higher discount rate for these assets. Based on these assumptions no impairment is necessary for the producing blocks in Yemen or Kurdistan. A sensitivity analysis shows that an decrease in oil price of 10% would result in an impairment charge of NOK 110 million for the producing assets. If expectations with regards to timing of cash flows are not met, this could also result in an impairment.

In Block 84 in Yemen, a signature bonus of USD 1.4 million was capitalized as acquisition cost. Due to uncertainty about further work on this license as the PSA is still not ratified, the signature bonus is most likely to be payable. The previously capitalized acquisition cost in Block 84 of NOK 8 million has been written off as exploration cost in 2009. In addition, there has been an adjustment for previous year of NOK 6 million related to Block 44.

The shares in Petrolia Drilling ASA and Rocksource ASA are classified as Available-For-Sale, with changes in fair value included in other comprehensive income. In line with DNO's accounting principles, an impairment loss will be recorded when there has been a significant or prolonged decline in fair value. Fair value of these shares is the share price on the Oslo Stock Exchange. A decline in the share price of Petrolia Drilling ASA has led to an impairment loss of NOK 3.7 million for 2009. An impairment loss of NOK 5 million related to the shares in Rocksource ASA has also been recorded. The fair value changes previously recorded in other comprehensive income are reversed through profit or loss when accounting for impairment. A possible future reversal of these impairment losses is taken through other comprehensive income.

DNO International ASA has unused tax losses which can be carried forward indefinitely under Norwegian tax rules. At year-end 2009, the requirements for recognizing a deferred tax asset according to IAS 12 Income Taxes, were not considered to be satisfied. A non-cash write-down of the deferred tax asset of NOK 256 million has been recorded in 2009 as tax expense. The unused tax losses remain intact as the write-down is an accounting adjustment.

NOTE 25 || Significant transactions in 2009 and Events after the balance sheet date

Significant transactions in 2009

Assignment of license interests - Kurdistan region of Iraq

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

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

Tawke field in Kurdistan region of Iraq

The export of crude oil from the Tawke field commenced 1 June and proved deliveries in line with the design capacity of the facilities.The total export revenues of approximately NOK 850 million in the period 1 June to 22 September, were recorded based on estimates on a net entitlement basis, with estimated oil prices and applicable discounts, in accordance with the production sharing contract (PSC). A corresponding receivable were recorded based on DNO's rights to full settlement for its share of such revenues in line with the PSC.

The Kurdistan Regional Government (KRG) suspended all of DNO's operations in Kurdistan region of Iraq on 22 September and the export halted from this date. All issues regarding the suspension were resolved on 5 October and DNO's rights to its production sharing contracts were fully reinstated. Until a sales agreement and a payment mechanism for the export is in place, DNO will focus on local sales.

Since no signed sales agreement nor any payments have been received, the criteria for revenue recognition according to IFRS are not considered to be satisfied at year-end 2009. The revenues recorded in the second and third quarter have therefore been reversed and the quarterly figures restated. The produced oil has been transferred to customers and DNO is entitled to its share of oil produced according to the PSC and evidenced by delivery confirmations from North Oil Company (NOC). Production costs (lifting costs and depreciation costs) of NOK 143 million have been capitalized as inventory and will be charged as cost of goods sold when revenues can be recognized.

Arbitration proceedings

DNO Iraq AS (DNOI), a subsidiary of DNO International ASA (DNO) is involved in arbitration proceedings related to certain third party interests in Kurdistan. Such third parties were not approved to be part of nor have any rights in the Production Sharing Contracts (PSC) signed by DNOI following the reviews which were completed in March 2008.

DNOI has rejected the basis for any claims from such third parties, which could relate to up to 10 % beyond DNO's interest in the PSC. The first part of the arbitration ruled the right to seek compensation for damages from DNOI. The arbitration proceedings are therefore continuing and a final award with respect to possible compensation for damages is expected during May 2010. The claimants' submission is USD 144 million. DNO has retained the internationally acknowledged experts NERA UK Ltd and Beicip Franlab, and the conclusion from these experts is considered by the corporate management and the Board of Directors to represent the best estimate for the potential damages. Consequently a provision of USD 12 million has been recorded in the financial statements at 31 December 2009. However, as is the case for any arbitration proceedings, there is a high

NOTE 25 || Significant transactions in 2009 and Events after the balance sheet date continued

degree of uncertainty as to the final outcome. The range of the parties' submissions related to the arbitration proceedings has been presented in stock exchange disclosures by DNO. Should the final outcome of the arbitration differ from the recorded provision, this may affect the financial statements accordingly.

Investment in Det norske oljeselskap ASA

On 7 January 2009, DNO sold 11.9% of its shares in the associated company Det norske oljeselskap ASA (DETNOR). The sale was according to the integration agreement from October 2007. After the sale DNO held 25% of the shares in Det norske oljeselskap ASA. The transaction provided NOK 250 million in cash. On 20 May 2009, DNO further sold 1 million shares in DETNOR. On 12 October 2009, DNO entered into a sale and purchase agreement with Aker ASA for the sale of up to 6 million shares in DETNOR. 1 million of the shares were sold immediately, while the remaining 5 million shares were sold on 6 November 2009 after approval by the competition authorities. The sales price was NOK 49.90 per share.

Following the sale of the 5 million shares, DNO' shareholding decreased below 20% and DNO no longer had significant influence. The investment has been reclassified as Available for sale investment with changes in fair value through other comprehensive income. DNO's shareholding following DETNOR's merger with Aker Exploration in December 2009 is 11.66%.

Net gain on DETNOR transactions in 2009 is NOK 363 million and includes net gain on sale of shares, reversal of impairment, share of profit or loss from associate and derecognition of associated company. Fair value loss of NOK 22.8 million at 31 December 2009 is charged against other comprehensive income.

Økokrim investigation

As reported to the Oslo Stock Exchange on 9 October, the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). published a notice saying that transactions in DNO which among other parties involved the KRG, would be investigated. DNO will proactively assist Økokrim in these investigations to resolve any legal issues.

Exercise of call option

On 27 October 2009 DNO exercised a call option to purchase 40 million treasury shares at a price of NOK 3.25 per share. The liability of NOK 129.8 million related to a written-put option was reversed at the same time. Following this transaction. DNO holds 50 million treasury shares.

Events after the balance sheet date

Ongoing exploration drilling in Yemen

The Nabrajah #10S/S2 well in Block 43 was completed in January 2010 and brought on stream for clean-up and test production. After finishing the pilot hole, the well was drilled as a horizontal well of about 1000 meters in the Shuqra formation which is believed to be the producing formation in Nabrajah #5. The well has confirmed movable oil 186 m vertically deeper than Nabrajah #5 and opens up for improved recovery from this formation. Work will be undertaken to further evaluate the results from the Nabrajah #10S/S2 well and its impact on estimated reserves and production potential.

Testing of well in Kurdistan region of Iraq

The Sindi-1 rig was mobilized and moved to the Erbil PSC during January 2010 to undertake testing of the, Erbil #2 well. The well testing operation was completed in March. A total of 5 tests were performed, and only the shallowest reservoir formation tested oil. The flow rate from this test was in the order of 200-300 bopd. The oil appears to be of heavy quality (16 API) and similar to the oil produced during a test in the equivalent formation in Hawler #1. The well is temporarily suspended. The results from the tests are currently evaluated to clarify the resource potential of the Benenan structure. An appraisal report will be presented this summer.

Sale of treasury shares

In March 2010, DNO sold all its treasury shares, providing the Company with NOK 367 million in cash.

NOTE 26 || Working interest proven and probable reserves and resources[1] after royalty (unaudited)

Million boe	NORTHERN EUROPE		YEMEN		KURDISTAN		AFRICA		DNO GROUP		
	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Total
1 January 2008	**-**	**-**	**9.51**	**3.50**	**142.32**	**-**	**-**	**1.46**	**151.80**	**5.00**	**156.80**
Discoveries. additions and extensions	-	-	-	1.84	-	1.13	-	-	-	2.97	2.97
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	-	-
Divestment of reserves/ resources	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-	10.04	3.38	-2.25	13.10	-	-	-	16.48	7.79	24.27
Other	-	-	-	-	-	-	-	-	-	-	-
Year 2008 production	-	-	-3.41	-	-2.25	-	-	-	-5.67	-	-5.67
31 December 2008	**-**	**10.04**	**9.48**	**3.09**	**153.17**	**1.13**	**-**	**1.46**	**162.61**	**15.75**	**178.37**
Discoveries. additions and extensions	-	-	-	-	-	4.66	-	-	-	4.66	4.66
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	-	-
Divestment of reserves/ resources	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates[2]	-	-	3.28	2.98	-8.64	-	-	-	-5.36	2.98	-2.38
Other	-	-	-	-		-	-	-	-	-	-
Year 2009 production	-	-	-2.83	-	-5.02	-	-	-	-7.85	-	-7.85
Total reserves and resources 31 December 2009	**-**	**10.04**	**9.93**	**6.07**	**139.51**	**5.78**	**-**	**1.46**	**149.40**	**23.38**	**172.79**

1) Reserves according to Annual Statement of Reserves released 21 April 2010, classification as in Norwegian Petroleum Directorate class 1-3. Resources corresponds to class 4, 5 and 7 in NPD definitions. The figures represent best estimate (P50 base case).

As discussed above in the accounting principles, estimation of oil and gas reserves and resources involves uncertainty. The figures above represent management's opinion of the most likely quantity of economically recoverable oil and gas estimated at year end 2009, given the information at time of reporting. The estimates have a large spread especially in fields where we have limited data. The uncertainty will be reduced as more information becomes available through production history and reservoir information. In addition, for fields in the decline phase with limited remaining volumes, fluctuations in oil prices will have a significant impact on the profitability and hence the economic cut-off time for production from the fields.

In Yemen, revision of previous estimates includes minor changes in the producing fields (Block 32 and Block 53) mainly related to delayed economic cut-off due to higher oil price prognisis compared to last year and modified decline rates. In Block 43, results from a well targeting the deep formations in Nabrajah is being evaluated at the time of reporting. The preliminary results confirms the volumes assumed in last years reporting. The estimated resources in the Sharnah/Yaleen discovery in Block 47 have been increased in 2009 based on new information, hereunder 3D seismic acquisition/interpretation and technical evaluations. The plan is to drill two wells on this block in 2010.

2) At the Tawke PSC in Kurdistan region of Iraq, the revision relates to a recalculation of DNO's share of the recoverable gross reserves. DNO's working interest share will change over time due to the cost oil/profit oil ratio, and DNO's share is 75% (cost oil) and 68.75% (profit oil) according to the Production Sharing Contract.

The discovery at the Benenan structure in the Erbil PSC in Kurdistan have been included in 2009 with gross 11.6 million barrels (DNO share 4.6 mboe) and classified as under evaluation (class 7) pending new data from the Erbil #2 well currently being tested.

The ICE forward curve for Brent Blend at 31 December 2009, adjusted for quality differences has been used as basis for calculation of the economical remaining reserves.

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

The production figures includes diesel used as fuel.

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

	NORTHERN EUROPE	YEMEN	KURDISTAN	AFRICA	DNO GROUP
Million boe	Reserves	Reserves	Reserves	Reserves	Reserves
31 December 2008	-	6.2	57.6	-	63.8
31 December 2009	**-**	**6.1**	**50.3**	**-**	**56.4**

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

*Reserves according to NPD class 1-3 only.

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Profit and loss statements

NOK 1 000	Note	2009	2008
		1 January - 31 December	
Operating revenues			
Other operating revenues	2	3,092	74,638
Total operating revenues		**3,092**	**74,638**
Operating expenses			
Exploration expenses		44,495	65,941
Ordinary depreciation	7	646	352
Impairments	7	-	4,762
Payroll and payroll-related expenses	3	45,660	42,497
Other operating expenses	4	26,000	43,617
Total operating expenses		**116,801**	**157,168**
Operating profit /- loss		**-113,709**	**-82,530**
Net finance	5	262,978	-1,260,541
Profit /- loss before taxes		**149,269**	**-1,343,071**
Income taxes	6	250,000	-
Annual profit /- loss		**-100,731**	**-1,343,071**
Transferred from/to other equity		-100,731	-1,343,071
Total allocations		**-100,731**	**-1,343,071**
Earnings per share, basic	19	-0.11	-1.48
Earnings per share, diluted	19	-0.11	-1.48

Balance sheets

Assets

Per 31 December

NOK 1 000	Note	2009	2008
FIXED ASSETS			
Intangible assets			
Deferred tax assets	6	-	250,000
Total intangible assets		**-**	**250,000**
Tangible assets			
Oil and gas fields		59,934	67,291
Other tangible assets		2,510	2,125
Total tangible assets	7	**62,444**	**69,416**
Financial assets			
Shares in subsidiaries	8	1,049,624	1,014,116
Investment in associates	8	-	697,454
Intercompany receivables	20	2,105,711	2,423,920
Other investments	8	437,873	11
Total financial assets		**3,593,208**	**4,135,502**
Total fixed assets		**3,655,651**	**4,454,918**
CURRENT ASSETS			
Trade and other receivables	9	16,196	11,425
Derivative financial instruments	15	756	11,614
Cash and cash equivalents, non-restricted	10	260,138	54,875
Cash and cash equivalents, restricted	10	6,498	84,970
Total current assets		**283,588**	**162,884**
TOTAL ASSETS		**3,939,239**	**4,617,802**

Shareholders' equity and liabilities

NOK 1 000	Note	2009	2008
		Per 31 December	
SHAREHOLDERS' EQUITY			
Paid-in capital			
Share capital		226,214	226,214
Treasury shares		-12,500	-1,000
Share premium account		32,456	32,456
Other paid-in capital		65,169	181,172
Total paid-in capital		**311,339**	**438,842**
Retained earnings			
Retained earnings		1,252,053	1,352,784
Total retained earnings		**1,252,053**	**1,352,784**
Total shareholders' equity	11	**1,563,392**	**1,791,626**
LIABILITIES			
Provisions for liabilities and charges			
Other liabilities and charges	12	9,812	20,145
Total provision for liabilities and charges		**9,812**	**20,145**
Other long-term liabilities			
Long-term interest bearing intercompany debt	20	504,335	603,925
Bond loans	13	1,785,306	2,052,637
Total other long-term liabilities		**2,289,641**	**2,656,562**
Current liabilities			
Interest-bearing short-term debt	13	-	54,500
Non-interest bearing short-term debt	14	76,393	94,969
Total current liabilities		**76,393**	**149,469**
Total liabilities		**2,375,846**	**2,826,175**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**3,939,239**	**4,617,802**

	Note
Collateral	13
Guarantees	12
Financial instruments	15

Oslo, 29 April 2010

Berge G. Larsen
Chairman of the Board

Trygve Bruvik
Vice Chairman

Elin Karfjell
Board Member

Marit Instanes
Board Member

Gunnar Hirsti
Board Member

Helge Eide
Managing Director

Cash flow statements

NOK 1 000	Note	2009	2008
Operating activities			
Profit before tax		149,269	-1,343,071
Taxes paid	6	-	-
Depreciation and impairment of tangible and intangible assets	7	646	5,114
Impairment/reversal of impairment of financial assets	5	-205,904	1,355,092
(Gain)/loss on sale of operating assets and securities		4,664	-55,493
Changes in net current assets and other accruals		134,201	-162,513
Net cash flow (used in)/from operating activities		**82,876**	**-200,872**
Investing activities			
Payments made for investments in oil and gas field	7	-1,535	-12,438
Payments received on disposal of tangible fixed assets		-	30
Payments made for acquisitions of bonds, securities, stocks and shares		-	-
Payments received on disposal of bonds, securities, stocks and shares		-	62,401
Net cash flow from other investments and sales		218,620	-318,355
Net cash flow (used in)/from investing activities		**217,085**	**-268,362**
Financing activities			
New interest-bearing debt	13	-	-
Repayment of interest-bearing debt	13	-55,861	-50,000
Purchase of treasury shares and options	11	-1,159,595	-1,445,120
Sale of treasury shares and options	11	1,032,092	1,451,785
Net cash flow (used in)/from financing activities		**-183,364**	**-43,335**
Effects of change in currency (cash and cash equivalents)		**10,194**	**-31,995**
Cash and cash equivalents 1 January		139,845	684,409
Net change in cash and cash equivalents		126,791	-544,563
Cash and cash equivalents 31 December	10	**266,636**	**139,845**
Hereof restricted cash and cash equivalents		6,498	84,970

NOTE 1 || Accounting principles

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

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

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

Consolidated financial statements
The consolidated financial statements of the DNO group have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been presented separate from the parent company accounts.

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

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

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

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

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

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

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

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

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

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

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

Machinery and equipment is depreciated using straight-line method based on estimated useful life. Estimated useful life varies between 3-5 years for these assets.

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

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

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

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

Pension obligations

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

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

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

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

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

Options to the directors of the board and management
See Note 1 Accounting principles in the consolidated accounts for information regarding options.

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

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

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

Comparative figures
Comparative figures for previous years are prepared to reflect changes in accounting principles and presentation (classification).

NOTE 2 || Other operating revenues

NOK 1,000	2009	2008
Other operating revenues	3,092	14,792
Gain from sale of license interests[1]	-	59,846
Total other operating revenues	**3,092**	**74,638**

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

NOTE 3 || Renumeration, severance pay, salaries, options and pensions

NOK 1 000	2009	2008
Salaries, bonuses, options etc.	43,327	40,583
Employer's payroll tax expense incl. payroll tax on options	7,626	7,590
Pensions	1,887	2,199
Other personnel costs	2,551	2,292
Reclass, of payroll and payroll-related expenses to Exploration and Production	-9,732	-10,168
Payroll and payroll-related expenses	**45,660**	**42,497**
Average number of man-labour years	34	31.2

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

Pensions

DNO has a defined contribution scheme for employees in the company. The pension costs in the 2009 accounts are related only to premiums for the employees of the company. DNO meets the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon").

Director, executive and key management remuneration (NOK)

Remuneration to the Directors of the Board	2009	2008
Berge G. Larsen, Executive Chairman[1]	265,000	235,000
Trygve Bruvik, Vice Chairman	240,000	210,000
Elin Karfjell, Board Member	240,000	25,000
Marit Instanes, Board Member	240,000	25,000
Gunnar Hirsti, Board Member	240,000	25,000
Anders Farestveit, former Vice Chairman	-	185,000
Bjørge Gretland, former Board Member	-	185,000
Helge Eide, Managing Director and former Board Member	50,000	210,000
Total	**1,275,000**	**1,100,000**

Hereof, NOK 1 225 000 relates to Director's fees for DNO International ASA in 2009.

In 2009, NOK 144 000 has been paid as fees for work related to the audit committee and the compensation committee.

1) Consultant fees to Increased Oil Recovery AS/Ltd for hire of Executive Chairman management services were NOK 4.2 million in 2009 (NOK 4.2 million in 2008). No severance pay agreement has been entered into with the Executive Chairman.

Remuneration to Managing Director and key management in 2009 (NOK mill)

	Salary	Bonus	Pension	Other	Total
Helge Eide, Managing Director and Executive Director	3.25	-	0.05	0.31	3.61
Ivar Brandvold, former Chief Operating Officer	1.87	-	0.05	0.08	2.00
Tore Lilloe-Olsen, Corporate Head of Exploration	2.09	-	0.05	0.11	2.25
Haakon Sandborg, Chief Financial Officer	1.92	-	0.05	0.11	2.08
Magne Normann, Managing Director DNO Iraq AS	3.74	-	0.05	0.40	4.19
Sven Erik Lie, Managing Director DNO Yemen AS	0.03	-	-	3.85	3.87

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

Shares and Options held by directors, executives and key management personell as at 31 December 2009

Directors of the Board and key management	Shares	Options
Berge G. Larsen, Executive Chairman including companies controlled by him	45,302,504	-
Trygve Bruvik, Vice Chairman including companies controlled by him	1,399,996	-
Elin Karfjell, Board Member	-	-
Marit Instanes, Board Member	18,228	-
Gunnar Hirsti, Board Member	-	-
Helge Eide, Managing Director and Executive Director	1,600,000	-
Tore Lilloe-Olsen, Corporate Head of Exploration	51,000	-
Haakon Sandborg, Chief Financial Officer	-	-
Magne Normann, Managing Director DNO Iraq AS	1,621,996	-
Sven Erik Lie, Managing Director DNO Yemen AS	-	-
Total	**49,993,724**	**-**

Except from syntetic options, no options were expensed in 2009.

Auditors' fees

All figures are exclusive of VAT (NOK 1,000)	2009	2008
Auditors' fee	1,300	1,350
Other financial auditing	78	50
Total auditing fees	**1,378**	**1,400**
Other assistance	28	-
Tax assistance	237	38
Total auditors fees	**1,643**	**1,438**

Declaration regarding determination of salary and other remuneration to the managing director and other senior employees

The management remuneration for 2009 was in accordance with the directions approved by the General Meeting in June 2009. Annual bonus for 2009 was set to half a month's salary for all employees.

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

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

Fixed salary

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

Variable elements

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

Annual bonus

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

Share based bonus scheme

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

Total limit for the share based bonus scheme is NOK 15.9 million, should the share price equal or exceed NOK 9.57 as of 30 June 2010. The threshold for payments under this scheme is a share price of NOK 7.36. Estimated value recognised as of 31 December 2009 is nil. All employees are included in the scheme, including key management as described above. All other ordinary bonus payments will be deducted in a possible share based bonus payment.

Severance pay agreements

The Managing Director will be entitled to severance pay corresponding to 3 times his annual remuneration, depending on the circumstances. Severance pay agreements (equal to one or two times annual salary) have also been entered into with the following key employees in DNO International ASA: Tore Lilloe-Olsen. Corporate Head of Exploration, Magne Normann - Managing Director DNO Iraq AS and Haakon Sandborg - Chief Financial Officer.

NOTE 4 || Other operating expenses

NOK 1,000	2009	2008
Lease expense - buildings and equipment	10,465	6,279
Materials and supplies	9,752	9,749
Travel expenses	2,265	3,321
Legal expenses	8,658	5,164
Consultant fees	20,159	29,992
Other general and administrative costs	15,492	22,064
Management fees to group companies	-40,790	-32,952
Total other operating expenses	**26,000**	**43,617**

NOTE 5 || Net finance

NOK 1,000	2009	2008
Interest received	6,557	35,494
Interest received from group companies	111,958	135,667
Gain on foreign exchange	1,351,596	1,666,107
Reversal of write-down on intercompany receivables	-	10,799
Net gain/-loss on sale of securities	-4,536	-4,225
Total financial income	**1,465,575**	**1,843,841**
Interest expense	8,891	-68,120
Interest expense group companies	-103,271	-126,498
Loss on foreign exchange	-1,279,373	-1,553,618
Impairment/ Reversal of impairment financial assets	205,904	-1,355,092
Other financial expenses	-34,748	-1,055
Total financial expenses	**-1,202,597**	**-3,104,382**
Net finance	**262,978**	**-1,260,541**

NOTE 6 || Taxes

NOK 1,000	2009	2008
Taxes payable	-	-
Change in deferred taxes	250,000	-
Income taxes	**250,000**	**-**
Effective tax rates:		
Profit (loss) before taxes	**149,269**	**-1,343,071**
Expected income tax according to nominal tax rate (28%)	41,795	-376,060
Adjustment of deferred tax assets	310,196	28,546
Impairment financial assets	-103,491	340,648
Tax-free gain/loss on sale of shares	1,270	1,183
Other items	230	5,683
Total income taxes	**250,000**	**-**
Effective tax rate (including change in deferred taxes)	**167%**	**0%**
The tax effect of temporary differences and losses carried forward:		
Property, plant & equipment	-2,081	-303
Other fixed items (receivables, abandonment, etc.)	-90,787	-49,900
Losses carried forward	-304,295	-286,764
Total, basis for deferred taxes/(tax assets)	-397,162	-336,967
Deferred tax asset allowance	397,162	86,967
Total deferred taxes/(tax assets)	-	-250,000
Capitalised deferred tax assets	-	250,000
Capitalised deferred tax liabilities	-	-

Tax rates effective at 31 December 2009 have been used to calculate deferred taxes. The tax rate is 28% for revenues in Norway. Capitalised deferred tax assets relate to activities taxable in Norway.

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

The tax loss carry forward is NOK 304.3 million as of year end 2009. The carrying forward period for the unused losses in Norway is indefinite.

NOTE 7 || Property, plant and equipment

NOK 1,000	License costs	Exploration costs	Other PP&E	Total PP&E
Cost 1 January 2009	24,999	47,053	6,054	78,108
Additions 2009	-	504	1,030	1,535
Disposals 2009	-7,861	-	-	-7,861
Transfers 2009	-	-	-	-
Cost 31 December 2009	**17,139**	**47,557**	**7,084**	**71,782**
Accum, depreciation 1 January 2009	-4,762	-	-3,928	-8,690
Depreciation 2009	-	-	-646	-646
Impairments 2009	-	-	-	-
Accumulated depreciation disposals			-	-
Disposals and transfers 2009	-	-	-	-
Acc. depr. & impairments 31 December 2009	**-4,762**	**-**	**-4,575**	**-9,336**
Book value 31 December 2009	**12,377**	**47,557**	**2,510**	**62,444**
Book value 31 December 2008	20,238	47,053	2,125	69,416

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

Other PP&E are depreciated using a linear method based on estimated useful life of 3 to 5 years.

NOTE 8 || Subsidiaries and other investments

Subsidiaries owned by DNO International ASA	Company's business address	Ownership and voting interest (in %)	Company's share capital in 1 000	Company's equity in NOK 1 000	Company's proft/(loss) in NOK 1 000	Book value in NOK 1 000
DNO Yemen AS	Oslo	100%	NOK 291,000	1,148,870	-74,188	481,000
DNO UK Ltd	London	100%	GBP 0	-162,098	-12,472	-
DNO Iraq AS	Oslo	100%	NOK 600	41,411	-322,730	500,116
DNO Invest AS	Oslo	100%	NOK 8 000	70,237	1,729	68,508
Total 2009				**1,098,419**	**-407,661**	**1,049,624**

Other investments

Up to January 2009 DNO had a 36.9% interest in Det norske oljeselskap ASA (DETNOR). and accounted for the investment using the equity method. In January 2009, DNO reduced its share down to 25% according to the integration agreement from 2007, and in May 2009 DNO further sold 1 million shares. Following a sale of 5 million shares in November 2009. DNO's ownership share was reduced below 20% and the investment was no longer considered as associated company. The remaining shares were measured at fair value and classified as other investments.

Carrying value of the investment in DETNOR at 31 December 2009 is NOK 437.8 million.

NOTE 9 || Trade and other receivables

NOK 1,000	2009	2008
Trade receivables	1,143	267
Prepayments and accrued income	8,581	4,681
Other current receivables	6,471	6,477
Total other current receivables	**16,196**	**11,425**

NOTE 10 || Cash and cash equivalents

NOK 1,000	2009	2008
Cash and cash equivalents, non-restricted	260,138	54,875
Cash and cash equivalents, restricted	6,498	84,970
Total cash and cash equivalents	**266,636**	**139,845**

Included in restricted cash at 31 December 2008 was a margin call amount of NOK 80 million deposited with ABG Sundal Collier. The margin call was related to option contracts on treasury shares. These contracts have been terminated by DNO in 2009.

NOTE 11 || Shareholders equity

NOK 1 000	Share capital	Treasury shares, number (1000)	Treasury shares, amount	Share premium account	Paid-in capital, treasury shares	Other paid-in equity	Total other paid-in capital	Other equity	Total
Shareholders' equity on 1 January 2009	226,214	1,000	-1,000	32,456	1,192,174	-1,011,002	181,172	1,352,784	1,791,626
Purchase of treasury shares including options	-	58,000	-58,000	-	-	-1,101,595	-1,101,595	-	-1,159,595
Sale of treasury shares including options	-	-46,500	46,500	-	-	985,592	985,592	-	1,032,092
Profit/(loss) for the year	-	-	-	-	-	-	-	-100,731	-100,731
Shareholders' equity on 31 December 2009	**226,214**	**12,500**	**-12,500**	**32,456**	**1,192,174**	**-1,127,005**	**65,169**	**1,252,053**	**1,563,392**

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

For other information regarding the Company's equity and shareholders, see Note 16 in the consolidated accounts.

NOTE 12 || Guarantees and commitments

For information regarding guarantees and commitments, see Notes 18 and 19 in the consolidated accounts.

NOTE 13 || Interest-bearing liabilities

See Note 17 in the consolidated accounts for information on other interest-bearing liabilities.

NOTE 14 || Current liabilities

NOK 1,000	2009	2008
Accounts payable	8,211	6,068
Public duties payable	2,813	2,437
Provision for loss, financial instruments	-	14,424
Accrued expenses and other current liabilities	65,369	72,039
Total non-interest-bearing current liabilities	**76,393**	**94,969**

NOTE 15 || Financial instruments and risk management

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

In 2006, DNO entered into an oil price put option for 2010 with a strike price of USD 40. The purchase price was NOK 11.6 million. Market value of the derivative at 31 December 2009 was NOK 0.8 million, which equals the booked value.

See Notes 12 and 13 in the consolidated accounts for further information on financial instruments and risk management.

NOTE 16 || Health. safety and the environment

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

NOTE 17 || Related party disclosure

See Note 23 in the consolidated accounts for further description of transactions with related parties.

NOTE 18 || Contingencies and Events after the balance sheet date

For more information on contingencies and events after the balance sheet date, see Note 25 in the consolidated accounts.

NOTE 19 || Earnings per share

For information regarding earnings per share, reference is made to Note 21 in the consolidated accounts.

NOTE 20 || Intercompany

Long-term intercompany receivables

NOK 1,000	Currency	2009	2008
DNO UK Ltd	GBP	-	165,935
DNO Iraq AS	USD	2,098,429	2,218,567
DNO Invest AS	NOK	7,282	39,419
Total long-term intercompany receivables		**2,105,711**	**2,423,920**

Long-term intercompany debt

NOK 1,000	Currency	2009	2008
DNO Yemen AS	USD	883,830	983,420
DNO Yemen AS	NOK	-379,495	-379,495
Total long-term intercompany debt		**504,335**	**603,925**

Intercompany receivables and debt are interest bearing with an average interest rate charged for 2009 of 5.41% and 8.0% for 2008.

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

The receivable on DNO UK Ltd has been impaired by NOK 161 million in 2009.

Auditors report

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
DNO International ASA

Auditor's report for 2009

We have audited the annual financial statements of DNO International ASA as of 31 December 2009, showing a loss of NOK 100.7 million for the Parent Company and a loss of NOK 269.6 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income, and cash flows as well as the accompanying notes. The financial statements of the Group comprise the consolidated statement of financial position, comprehensive income, cash flows and statement of changes in equity as well as the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements of the Parent Company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2009, and the results of its operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Without qualifying our opinion, we emphasize that there is significant uncertainty related to the final outcome of the arbitration proceedings as described in notes 19 and 25. The provision in the financial statements related to the arbitration proceedings is based on calculations performed by independent experts engaged by the Company. If the claimants submission entirely or partly prevails, this could significantly increase the provision reflected in the financial statements and thereby the loss. We draw attention to the Board of Director's report and to notes 19 and 25 to the financial statements.

Oslo, 29 April 2010
ERNST & YOUNG AS

Finn Ole Edstrøm
State Authorised Public Accountant (Norway)
(sign)
Note: The translation to English has been prepared for information purposes only.

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Glossary and definitions

2P/P50
Proven and probable reserves

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

Boe
Barrels of oil equivalents

Bopd
Barrels of oil per day

CR
Corporate responsibility

DD&A
Depletion, depreciation and amortisation

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

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

FDA cost
Finding, developing and acquisition cost

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

KPI
Key performance indicator

Mboe
Million barrels of oil equivalent

Netback
EBITDA adjusted for taxes paid

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

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

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

Result of Operations (RoO)
A measure of the efficiency of DNO's producing assets, Result of Operations include revenues and expenses associated directly with DNO's crude oil and gas producing activities.

Recycle Ratio
Netback from RoO per barrel divided by Finding, Development and Acquisition Cost per barrel.

Reserve Replacement Ratio (RRR)
Gross Reserve Growth divided by Production.

ROACE
Return on average capital employed, Net profit/(loss) adjusted for after tax interest expenses/average capital employed.

Spudding
Initiation of drilling operations

TSR
Total shareholder return

Unit-of-Production Depreciation (UoP)
Method of depreciation for capital costs, This method attempts to match the costs with the production those costs are associated with.

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

Production Sharing Agreement/ Contract (PSA/PSC)
A contractual agreement between a contractor and a host government, whereby the contractor bears all exploration costs, risks, development and production costs in return for a stipulated share of the production resulting from this effort.

Contractor
An oil company operating in a country under a production sharing agreement on behalf of the host government for which it receives either a share of production or a fee.

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

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

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

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

Income taxes payable under PSA
Income tax paid by the government on behalf of the oil company, The tax is paid out of the governments share of profit oil.

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

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

Working interest reserves
Reserves based on working interest production.

Net entitlement reserves
Reserves based on net entitlement production.

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