



Annual Report 2004



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DNO Annual Report 2004

In 2001 the EU Commission resolved that all listed companies within the European Union must apply International Financial Reporting Standards (IFRS) in their consolidated accounts with effect from January 1, 2005. Under the European Economic Area (EEA) agreement, this change also applies to Norwegian companies listed at the Oslo Stock Exchange.

In order to facilitate the transition to IFRS for the company's stakeholders, DNO has actively prepared for and communicated to the market the effects of the transition on DNO's financial principles. A thorough description of the impact of the transition on DNO's accounting principles is presented in the DNO IFRS Transition Report. This report has been presented to the Oslo Stock Exchange and is also available on DNO's website.

In order to increase transparency and facilitate assessment of DNO's financial and operational performance, the company has further upgraded its interim financial reporting format in 2004-2005.

In April 2005 DNO also launched a new corporate web site which contains additional operational and financial information (www.dno.no).

Due to the transition to IFRS, DNO's Annual Report 2004 has been prepared in a simplified format which meets the legal requirements under Norwegian company law.



Board of Directors' Report 2004

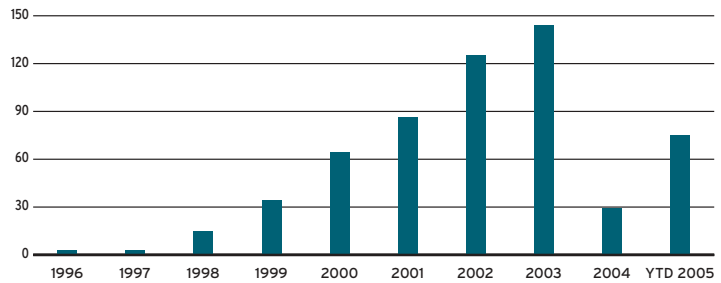
The year 2004 was, to a large degree, influenced by the new strategy that was implemented towards the end of 2003, in which the company decided to divest the activity related to mature fields and tail end production. The development within the company's oil production and exploration activities in 2004 has been positive. It is the opinion of the Board that the operational and financial results for the oil and gas activity were satisfactory in 2004.

The sale of licences to Lundin Petroleum AB was completed in the first half of 2004, and the total settlement for the licences sold amounted to approximately NOK 1.7 billion. Thus, the company has brought to light and realised considerable parts of the value that DNO has created since 1996. Following the sale, DNO's financial position has been substantially strengthened, thereby providing the basis for the payment of a considerable extraordinary dividend to the shareholders in 2004.

In 2004, DNO worked actively to expand the licence portfolio in line with the new strategy. During the course of the year, the company secured 9 new licences in Norway and Yemen, both through acquisitions and licence awards. The company has also secured rights to the exploration, development and production of petroleum in Northern Iraq. Combined with the successful exploration activity, this enabled the company to double the oil reserves in 2004 and achieve a reserve replacement rate of close to 400 per cent.

Reserve

Million barrels



Strategic shift towards smart exploration activity

Since 1996, the company has followed the new strategy that was introduced by the new principal shareholder and executed by the Board. In the 8-year period from 1996 to 2004, the company's oil production increased from 800 barrels per day to 27 000 barrels per day, and the oil reserves rose from 3 million barrels to 144 million. Total shareholder return (TSR) for the period was almost 1 000 per cent, which corresponds to an average annual return of around 125 per cent. This substantial value creation proves that the choice of strategy has been successful.

DNO retained Lehman Brothers in 2003 to advise on optimisation of the company's license portfolio. As a result of this work a strategic review was initiated. One of the outcomes of this process is that DNO will now focus on exploration to a greater extent than before. This is also reflected in the recently acquired licence shares, which are exploration licences with a substantial potential for future value creation.

The increased focus on exploration will also affect the company's financial results in accordance with the prevailing accounting standards. The company is focusing on "smart exploration" aiming to lower risk, minimize exploration costs and realize signi-

ficant reserve potential. Our exploration portfolio in Yemen and on the Norwegian shelf fulfills these criteria, and the financial risk linked to the company's exploration in these areas is deemed to be low.

Exploration costs of NOK 226.3 million were charged to expense in 2004. These costs were covered by the company's after tax cash flow from operations (netback).

The total resource potential in the company's exploration licences is significant. As these licences are mainly connected with mature petroleum provinces, the reservoir technical risk is deemed to be appreciably lower than in immature exploration areas.

Pure oil and gas company

Commitments and investments within the offshore and oil service industries aimed at supporting the oil and gas activities have been part of the strategy that was initiated in 1996. This was the vital success factor for the company's increased value during the first period. As a result of the new strategy, the company has reduced these commitments, mainly through the distribution of 100 per cent of the shares in Independent Oil Tools ASA to the shareholders. DNO will, in the future, therefore have a clear profile as a pure oil and gas company.





Organisation

Since 1996, the company has served as operator in all upstream phases of petroleum activity, both onshore and offshore. The company will capitalise on this valuable experience in the future. After the sale to Lundin, a review of the company's organisation was required, and this entailed changes and restructuring of the organisation. The outcome of this process has resulted in an organisation that is well adapted to the new strategy in terms of expertise and capacity. The Norwegian authorities also conducted a re-evaluation of the company's expertise and capacity in Norway in 2004. The allocation of 4 new licences in the TFO round, including 2 as operator, shows that the company has the expertise and experience that is needed to be an operator and participant on the Norwegian shelf.

Operational activities

The total oil production from the company's producing fields was around 14 000 barrels per day in 2004. This was higher than expected, mainly due to the increased production in Yemen in the second half of 2004. The oil reserves (proven + probable) increased throughout the year from 14.4 to 28.4 million barrels, and the reserve replacement rate (gross reserve addition/annual production) was approximately 400 per cent in 2004.

Middle East

In 2004, substantial drilling programs were carried out in the company's producing fields, Tasour and Sharyoof. This increased the production from Yemen in the second half of the year, and in November the company achieved a record monthly production from Yemen.

Exploration drilling in block 43 also resulted in a new oil discovery, the Nabrajah field. This will be developed with an anticipated production start towards the second quarter of 2005. The development concept will be the same as for the Tasour and Sharyoof fields, and the oil will be transported to the field centre in block 14, operated by the Canadian company Nexen.

DNO acquired 2 new exploration licences with operatorship (blocks 44 and 72) in the same area as the company's other licences. DNO now has 5 licences in Yemen, of which 4 are as operator.

DNO's share of the oil production from Yemen was 12 309 barrels per day in 2005.

Norway

DNO's interest in the Glitne field was the only Norwegian licence retained after the sale to Lundin. In line with the company's strategy, there was therefore a strong focus on

acquiring new licence shares in Norway. Consequently the company increased its Norwegian portfolio to 8 licences by year end.

An exploration well on the Brontes prospect in PL 035/272 was commissioned in the spring of 2004. The well did not contain any hydrocarbons, and further work is required with the licence before any more drilling can be considered.

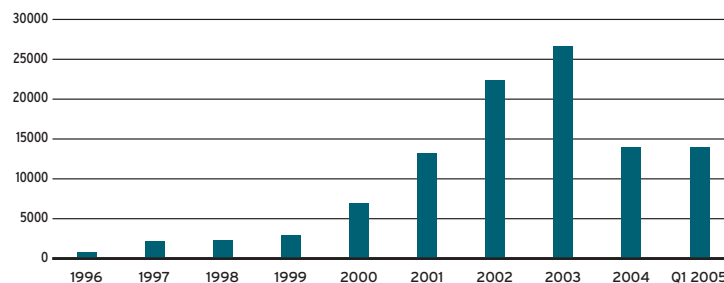
In 2004, there was also a plan to drill a well on the Goliat field in the Barents Sea, where the reserves are estimated to be around 50 million barrels (DNO's share, 7.5 million barrels). However, the drilling did not go ahead due to a lack of rig availability. Plans have been made to drill at least one exploration/appraisal well in the field in the second half of 2005.

DNO's new technical staff in Norway conducted in 2004 a number of studies of our new licences on the Norwegian shelf. This work has uncovered a substantial resource potential and the company is preparing for drilling of several exploration and appraisal wells on the Norwegian shelf in the coming years.

A new production well was completed at the Glitne field in the second half of 2004. The Glitne production was lower in

Production

Barrels per day



2004 than anticipated due to a close down related to a work conflict. DNO's share of the oil production from the Glitne field in 2004 was 1 670 barrels per day.

Africa

In 2004, two wells were drilled in the Inhaminga licence in Mozambique, without commercial volumes of hydrocarbons being proven. DNO will carry out a re-evaluation of the area before the company takes a position on further drilling. In 2004, DNO entered into a farm-in agreement with a South African oil company for a 40 per cent share. The agreement was not concluded, but the South African oil company has fulfilled its financial obligations in accordance with the agreement. DNO retains its 80 per cent share in the licence, and in the first quarter of 2005 received approximately NOK 30.1 million as a result of this agreement.

In Equatorial Guinea, a well was drilled in block P, in which DNO owns 5 per cent.

After drilling was completed, the well was plugged, but final results have not been published by the operator. Another well will be drilled in the licence in 2005.

New areas

DNO reviewed several projects in new areas in 2004. This resulted in an agreement for the recovery of petroleum in the Kurdish areas in Northern Iraq.

The agreement shall be adapted to the new regime in Iraq. DNO began preparations for seismic surveys and drilling activities, and set up an office in the area towards the end of the year. The company hopes to be able to start operational activities in 2005. The area measures around 4 000 km² and has significant potential for major oil discoveries. The reservoir technical risk is deemed to be low.

DNO also signed an agreement in 2004 for approximately 20 per cent participation in an exploration licence in Syria.

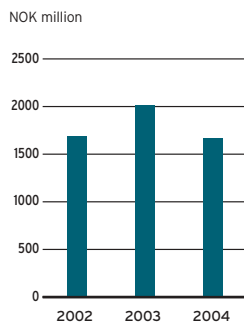
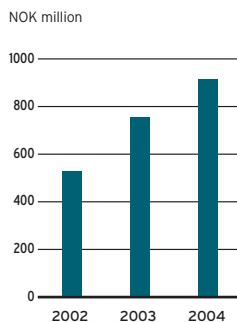
Profit and loss account, balance sheet and cash flow

The company's operations and financial results were better than anticipated in 2004. This was due to above budget oil production and oil prices, as well as gains from the sale of ownership interests to Lundin Petroleum AB.

The operating profit before depreciation and gain on asset sales (EBITDA) was NOK 732.8 million. The operating profit increased by 21.1 per cent to NOK 914.8 million, while the group's pre-tax profit was NOK 826.7 million, NOK 124.2 higher than in 2003. Earnings per share were NOK 3.69.

In 2004, revenues from Oil & Gas were NOK 1 603.7 million, compared with NOK 1 950.0 million in the preceding year. The operating profit for this segment was NOK 933.2 million, compared with NOK 834.2 million in 2003.



Operating revenues**Operating profit**

In 2004, DNO had a cash flow from operations of NOK -28.1 million, compared with NOK 501.4 million in the preceding year. This reduction is mainly related to higher exploration activity (NOK 226.3 million) and increased taxes on the company's production in Yemen.

Net cash reserves after deduction of interest-bearing debt amounted to NOK 178.3 million at the end of 2004, compared with net interest-bearing debt NOK 690 million at the end of 2003. The change mainly relates to repayment of interest-bearing debt in 2004 and higher cash reserves received in connection with the Lundin sale.

It was decided at the company's extraordinary general meeting in June 2004 to pay dividends totalling NOK 272.6 million in the form of NOK 212.1 million in cash and own shares in the ratio 1:20.

At the extraordinary general meeting in December 2004, it was further decided to pay a total of NOK 166.6 million in dividends by distributing 100 per cent of the shares in the subsidiary, Independent Oil Tools ASA, as well as NOK 28.0 million in cash.

Total assets were NOK 1 342.5 million at the end of December 2004, compared with NOK 2 489.4 million at the end of 2003. The equity ratio was 44 per cent,

compared with 37 per cent at the end of the preceding year.

The Board of Directors confirms that the annual financial statements have been prepared based on the going concern assumption, cf. Sections 3-3 and 4-5 of the Norwegian Accounting Act.

Health, safety and the environment

DNO carried out an extensive organisational restructuring in 2004, in order to meet the requirements of its revised strategy. 30 man-years were carried out in the Group in 2004. Employee absence in the Group amounted to 1.6 per cent.

DNO aims to ensure equal treatment of employees. Applicants for vacant positions on all levels of the company will be considered regardless of gender, ethnic background or other factors. In the same way, remuneration should reflect job content and qualifications, regardless of gender or other factors. Currently, a majority of DNO's employees are male (72 per cent). DNO also endeavours to take account of the different life situations and individual needs of its employees.

The Board of Directors is otherwise pleased to state that 2004 was another year without environmental damage or damage to property. The company's activities

satisfied all statutory environmental requirements. DNO will maintain its focus on health, safety and the environment and strive to further develop a good and safe working environment.

The Board of Directors wishes to thank DNO's employees and joint venture partners for their contribution in 2004.

Information to shareholders

On 31 December 2004, the share capital amounted to NOK 226.28 million, consisting of 56.6 million shares at a nominal value of NOK 4 each. All shares carry the same rights.

The DNO share is listed on the Oslo Stock Exchange. The share price on 2 January 2004 was NOK 26.80. On 31 December 2004 it was NOK 27.3.

On 31 December 2004, DNO had a total of 994 500 own shares, 2 194 259 own shares on forward contracts and 6 350 000 own shares on put/call contracts.

At the end of 2004, DNO ASA had a total of 9 287 shareholders, compared with 10 142 shareholders one year earlier.

Outlook

After the strategy revision, DNO is stronger, both operationally and financially. The company has extensive experience as



operator in all upstream petroleum phases both onshore and offshore and has high-quality expertise within key petroleum disciplines. Overall, this makes the company well positioned for future growth.

The production from existing fields will provide a good cash flow in the coming years. Together with its strong financial position, this will enable the company to finance extensive exploration activity, and to purchase and develop new petroleum fields.

DNO will increase its focus on exploration in the coming years. The company's exploration portfolio provides a potential for considerable increase in the company's petroleum reserves. The Board has particular expectations with regard to the new licence area in Northern Iraq.

DNO's current geographic core areas are the North Sea and the Middle East, while

Africa is being developed as a possible third core area. New geographic areas will also be considered in the future, and the company's main objective is to have a global licence portfolio that is balanced with regard to technical risk, cost level and political stability.

Ongoing optimisation of the licence portfolio includes ensuring a balance between projects in the exploration phase, the development phase and the production phase. This process may lead to values being realised in all project phases.

Since DNO was revitalised in 1996, the company has shown its ability to deliver substantial growth and value creation. Parts of this added value have now been realised, and the company is now entering a new era. The position of the company is considerably stronger than in 1996, and DNO is well positioned for further growth and value creation in future years.

Allocations

The parent company's net profit for 2004 was NOK 29.0 million. The Board of Directors proposes that NOK 0.5 per share is paid out, as well as DNO shares in the ratio 1:20 as ordinary dividend for the year 2004. Total provisions for dividends in 2004 amount to NOK 74.4 million. The company's unrestricted equity as at 31.12.2004, after provision for dividends, totalled NOK 175.0 million. The Board proposes the following allocations (NOK 1000):

ANNUAL PROFIT (LOSS)	29 041
Provision for dividend	74 442
Transferred from/to other equity	-45 401
Total allocations	29 041

Oslo, 31 March 2005



Berge G. Larsen
Executive Chairman



Anders Farestveit
Vice-Chairman



Helge Eide
Managing Director
Board Member



Bjørge Gretland
Board Member



Trygve Bruvik
Board Member

Financial statements

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Profit and loss statements

Parent company		Group				
2003	2004	NOK 1000	Note	2004	2003	2002
Operating revenues						
883 375	-	Operating revenues		1 308 269	2 007 527	1 685 064
-	67 992	Other operating revenues	4	361 129	1 054	5 950
883 375	67 992	Total operating revenues	3	1 669 398	2 008 581	1 691 014
Operating expenses						
32 134	114 113	Exploration expenses	5	226 297	93 507	114 153
94 452	4 193	Production and transportation expenses	6	275 208	719 019	489 576
134 844	762	Ordinary depreciation	12	176 920	310 525	343 863
4 528	-	Abandonment and decommissioning costs	17	5 287	16 508	18 183
-	-	Impairment, amortisation and losses	7	1 544	12 760	63 500
12 791	14 199	Payroll and payroll-related expenses	8	20 972	41 617	35 523
51 104	17 540	General and administrative expenses		43 022	34 085	84 909
-	-	Bad debt provisions		5 430	25 273	12 995
329 853	150 807	Total operating expenses	3	754 680	1 253 294	1 162 702
553 522	-82 815	OPERATING PROFIT (LOSS)	3	914 718	755 287	528 312
-	-	Interests in associated companies		15 638	-25 638	-191 714
20 576	221 816	Net other financial items	10	-103 671	-27 149	-37 185
574 098	139 001	PROFIT (LOSS) BEFORE TAXES		826 685	702 500	299 413
-436 852	-109 960	Income taxes	11	-624 513	-568 449	-364 101
137 246	29 041	ANNUAL PROFIT (LOSS)	3	202 172	134 051	-64 688
-	74 442	Provision for dividend				
137 246	-45 401	Transferred from/to other equity				
137 246	29 041	Total allocations				
		Basic earnings per share	9	3.69	2.45	-1.27
		Diluted earnings per share	9	3.69	2.45	-1.27

Balance sheets

Parent company						Group	
31.12.03	31.12.04	NOK 1000	Note	31.12.04	31.12.03		
Assets							
FIXED ASSETS							
Intangible assets							
-	-	Goodwill	12	-	47 941		
109 960	-	Deferred tax assets	11	113 771	116 141		
109 960	-	Total intangible assets		113 771	164 082		
Tangible assets							
216 059	9 904	Oil and gas fields		302 167	1 634 087		
2 531	1 402	Other tangible assets		2 345	57 890		
218 590	11 306	Total tangible assets	12	304 512	1 691 977		
Financial assets							
277 833	211 500	Shares in subsidiaries	13	-	-		
738 693	365 458	Intercompany receivables		-	-		
3 367	41 832	Other investments	13	41 832	3 367		
21 441	26 108	Receivables		31 343	23 081		
233 625	-	Restricted bank deposits	15	-	233 625		
1 274 959	644 898	Total financial assets		73 175	260 073		
1 603 509	656 204	Total fixed assets		491 458	2 116 132		
CURRENT ASSETS							
51 140	8 867	Inventories, other receivables	14	103 233	235 521		
199 777	240 000	Intercompany balance		-	-		
68 519	355 614	Cash and cash equivalents	15	747 824	137 740		
319 436	604 481	Total current assets		851 057	373 261		
1 922 945	1 260 685	TOTAL ASSETS		1 342 515	2 489 393		

Balance sheets

Parent company				Group	
31.12.03	31.12.04	NOK 1000	Note	31.12.04	31.12.03
Shareholders' equity and liabilities					
SHAREHOLDERS' EQUITY					
Paid-in capital					
224 729	226 214	Share capital		226 214	224 729
-1 769	-3 978	Treasury shares		-3 978	-1 769
26 347	32 456	Share premium account		32 456	26 347
433 596	178 935	Other paid-in capital		178 935	433 596
682 903	433 627	Total paid-in capital		433 627	682 903
Retained earnings					
263 178	-	Retained earnings		151 692	240 602
263 178	-	Total retained capital		151 692	240 602
946 081	433 627	Total shareholders' equity	16	585 319	923 505
LIABILITIES					
Provisions for liabilities and charges					
106 999	-	Abandonment liabilities	17	21 641	286 499
-	6 039	Other liabilities and charges		6 039	18 868
-	-	Deferred tax liabilities	11	-	84 615
106 999	6 039	Total provisions for liabilities and charges		27 680	389 982
Other long-term liabilities					
17 016	-	Long-term inter-company liabilities		-	-
335 830	469 500	Bond loan	18	469 500	335 830
415 389	-	Amounts owed to financial institutions	18	-	445 965
768 235	469 500	Total other long-term liabilities		469 500	781 795
Current liabilities					
45 000	100 000	Interest-bearing short-term debt	18	100 000	45 000
56 630	251 519	Non-interest bearing short-term debt	19	160 016	349 111
101 630	351 519	Total current liabilities		260 016	394 111
976 864	827 058	Total liabilities		757 196	1 565 888
1 922 945	1 260 685	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1 342 515	2 489 393
		Collateral	18		
		Guarantees	17		
		Financial instruments	20		

Oslo, 31 March 2005


Berge G. Larsen
 Executive Chairman


Anders Farestveit
 Vice-Chairman


Helge Eide
 Managing Director
 Board Member


Bjørge Gretland
 Board Member


Trygve Bruvik
 Board Member

Cash flow statements

Parent company							Group		
2003	2004	NOK 1000	Note	2004	2003	2002			
Operating activities									
574 098	139 001	Profit before tax		826 685	702 500	299 413			
-466 852	-	Taxes paid	11	-697 957	-611 250	-415 312			
134 844	762	Depreciation and write-down of tangible and intangible assets	7, 12	176 920	323 285	407 363			
-	-	Write-down, financial assets		-	-	17 637			
-	-282 382	(Gain)/loss on sale of operating assets, securities		-359 804	-3	-1 788			
-	-	Share of (profit)/loss in associated companies	13	-15 638	25 639	191 714			
-27 306	-150 333	Changes in net current assets and other accruals		41 650	61 259	-69 568			
214 784	-292 950	Net cash flow from operating activities		-28 144	501 429	429 459			
Investing activities									
-416	-	Acquisition of subsidiaries	2	-	-416	-163			
-86 933	-19 583	Payments made for investments in oil and gas field		-335 291	-701 354	-465 827			
10 458	-	Payments received on disposal of tangible fixed assets		1 302 461	98	1 859			
-10 000	-	Payments made for acquisition of bonds, securities, stocks and shares		-58 701	-10 000	-5 167			
-	-	Payments received on disposal of bonds, securities, stocks and shares		1 611	-	10 898			
-370 735	799 023	Net cash flow from other investments and sales		-9 902	-4 768	-2 412			
-457 626	779 440	Net cash flow from investing activities		900 178	-716 440	-460 812			
Financing activities									
597 926	613 594	New interest-bearing debt	18	613 594	597 926	107 850			
-288 120	-435 793	Repayment of interest-bearing debt	18	-442 056	-300 378	-156 840			
34 347	7 594	Paid in share capital and share premium	16	7 594	34 347	33 946			
-328 037	-594 258	Purchase of treasury shares and options	16	-594 258	-328 037	-42 279			
320 418	499 086	Sale of treasury shares and options		499 086	320 418	14 172			
-55 524	-239 872	Dividend paid in cash		-239 872	-55 524	-			
281 009	-149 649	Net cash flow from financing activities		-155 912	268 751	-43 152			
Effects of change in currency (cash and cash equivalents)									
776	-49 746			-106 038	231	-5 415			
29 576	68 519	Cash and cash equivalents at 1 January 1.1		137 740	83 768	163 687			
38 943	287 095	Net change in cash and cash equivalents		610 084	53 972	-79 919			
68 519	355 614	Cash and cash equivalents at 31 December	15	747 824	137 740	83 768			

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 for the parent company and of the consolidated financial statements.

Use of Estimates

The preparation of the Company's Consolidated 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.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the parent company DNO ASA and its subsidiaries (see note 13). The minority interest of third parties is disclosed separately in the Consolidated Financial Statements. All intercompany profits, transactions and balances have been eliminated in consolidation.

The Company accounts for its undivided working interests in oil and gas licenses using the pro-rata consolidation method. The Company records in its financial statements its pro rata share of the assets, liabilities, revenues and expenses of the oil and gas licenses.

Shares in subsidiaries are accounted for in the consolidated financial statements under the purchase method of accounting. This means that the cost of the shares is allocated to the subsidiary's assets and liabilities, which are entered in the consolidated accounts at the

fair value at the time of purchase. Any acquisition cost that exceeds the fair value of identifiable assets and liabilities is recorded as goodwill in the balance sheet.

The balance sheets of foreign subsidiaries are converted using exchange rates at 31 December. The profit and loss statements are converted using average exchange rates for the year. Translation differences are entered as a part of the equity.

Investments in associated companies

Associated companies are defined as companies in which the parent Company, or its subsidiaries, has a significant influence (20-50 per cent interest) over the investee's operating and financing decisions. Associated companies are accounted for using the equity method of accounting and DNO's share of the associated company's net profit for the year after depreciation appears on a separate line in the profit and loss statement.

In the parent company, investments in 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.

Inventories

The Company uses the First-In-First-Out principle to account for inventory. Inventories of equipment and spare parts are valued at the lower of cost or market. Inventories are reviewed periodically for obsolescence.

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.

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.

Goodwill

Goodwill is depreciated on a straight-line basis over its useful economic life. Impairment tests are carried out at least annually.

Property, plant & equipment

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

Capitalized costs for oil & 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 reserves. The basis for depreciation includes capitalized costs and also includes future investments required to produce the reserves. 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 licence 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.

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

Significant leases regarded as financial leases are capitalised and depreciated over their assumed life. Leased assets are classified as

fixed assets and 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. The effect of uplift is recognised as earned at the time when investments are made in qualifying assets. 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 Norwegian accounting standards for pension costs. For benefit plans the annual pension cost consists of the period's earned pensions (including future salary increases) and interest expense on the pension obligation less estimated return on pension funds. For contribution plans, only the contributions paid during the period are expensed.

Revenue Recognition

Revenues from the production of oil and gas properties are recognized on the basis of the Company's net working interest in those properties, regardless of whether the production is sold (the entitlement method).

Overlift and underlift of oil and gas follows from the entitlement method and is valued at its net realizable value on the balance sheet date. Overlift and underlift is calculated as the difference between the Company's share of production and its actual sales. Overlift and underlift is classified as other current liabilities/assets.

Under the terms of the Yemen Production Sharing Agreements, production is divided into cost recovery oil and profit oil. Cost recovery oil provides for the recovery of costs incurred. Remaining production is split between the partners and the Government of Yemen based on production rates. The Government's share of profit oil represents their royalty interest and an amount for income taxes payable in Yemen. The Company's gross revenues include DNO's share of cost recovery, profit oil and the Government's royalty interest. The taxes are paid through oil allocation to the Government and expensed as tax in the profit and loss statements.

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

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 expen-

sed. 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.

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.

Provision for future decommissioning obligations (including cost of shutdown)

Costs relating to future removal of offshore petroleum installations are accrued using an assumed removal concept based on current technology and the current cost level. Abandonment provisions for the year are determined on the unit-of-production basis for field installations. Like changes in reserves estimates, the effect of changes in foreign exchange rates is distributed on the remaining production, and thus provisions for abandonment obligations in foreign currencies are not converted using exchange rates on the balance sheet date. The provision for abandonment obligations is included in the balance sheet under provisions for obligations.

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

Options granted below market value are expensed when awarded and offset against other paid-in equity. Provisions are made for employer's payroll tax.

Allowance for doubtful accounts

The Company sells its produced oil and gas to a few major customers. The Company has not incurred credit losses on its oil and gas sales.

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.

Comparable figures

Comparable figures for previous years have been prepared to reflect changes in accounting principles and presentation (classification).

Change of accounting principles

On 1 January 2004, the company changed the accounting principles for converting international subsidiaries, from the temporal method to the current rate method. Consequently, the

equity as at 1 January 2004 was reduced by NOK 56 million, cf. note 16. The change also resulted in amended comparison figures for 2003 and 2002, and these have been changed in accordance with the new principles.

Implementation of International Financial Reporting Standards

In 2001 the EU Commission resolved that all listed companies within the European Union must apply International Financial Reporting Standards (IFRS) in their consolidated accounts by 1 January 2005. Under the European Economic Area (EEA) agreement, this change will also apply to Norwegian companies listed at Oslo Stock Exchange.

DNO has published the estimated effects of the changes for 2004 as a result of the implementation of IFRS. Further details are available at the company's web site, www.dno.no.

Note 2 Significant events 1 January 2002 to 31 December 2004

Significant events 2004

Development and production plan for Yemen (Nabrah block 43), and change in ownership interest

The development and production plan for block 43 was submitted to the authorities in December, and according to this, production is expected to start in the summer of 2005. After First Calgary withdrew from the licence in 2004, DNO's share increased from 50% to 56.67%.

New licences in the North Sea

In December 2004, DNO was offered operatorship in 2 licences and interests in 2 licences in "Awards in Predefined Areas 2004" by the Norwegian Ministry of Petroleum and Energy. DNO accepted the offered licences and signed the agreement with the Ministry in January 2005.

DNO acquired 15% in PL229 (Goliath), and 25% of PL035 and PL272.

Extraordinary dividend

In 2004, DNO paid out an extraordinary dividend totalling NOK 439.9 million, of which NOK 239.9 million was in cash. The total dividend paid includes the value of the shares in the previously wholly-owned subsidiary IOT ASA, NOK 140 million, which was paid out as part of the extraordinary dividend in December.

New licences in Yemen

According to a farm-in arrangement of July 2004, DNO acquired a 65.1% interest and operatorship in block 44 and a 34% interest in block 72.

New licences in Northern Iraq

In June DNO entered into an exploration and development agreement with regional authorities in Northern Iraq.

Lundin transaction - sale of assets

The sale of all issued share capital of DNO Britain Limited, IPD Limited, and certain assets of Det Norske Oljeselskap AS was completed in 2004.

Long-term debt financing

Based on execution of the Lundin transaction, the credit facility with ANZ Investment Bank was terminated and repaid. Oil price hedging contracts that were entered into as a condition of the credit facility with ANZ Investment Bank will run until 31 December 2005. Furthermore,

the company's Norwegian bond loan of NOK 335 million was repaid on 1 June.

Simultaneously, the company also established new Norwegian bond loans in order to finance its further investment in existing and new licences.

Significant events 2003

Lundin transaction - sale of assets

DNO ASA entered into a Sale and Purchase Agreement with Lundin Petroleum AB of Sweden. The sale includes all issued share capital of DNO Britain Limited, IPD Limited, and certain assets of Det Norske Oljeselskap AS. The transaction was completed in 2004. See note 25.

Long-term debt financing

DNO ASA signed a USD 100 million revolving credit facility with ANZ Investment Bank which secured the financing of the Broom and Seven Heads Fields, as well as re-financing of existing bank loans.

Seven Heads - Ireland

The Seven Heads gas field development was completed in 2003 and production started in December.

Broom

In 2003, the Broom Field Development Plan was approved by UK Government and Co-venturers.

New licence in North Sea

In December 2003, DNO was offered a 60% interest and operatorship in Block PL 305 in "Awards in Predefined Areas 2003" by the Norwegian Ministry of Petroleum and Energy. DNO signed the agreement with the Ministry in January 2004.

Farm-out arrangement in Block 43, Yemen

A farm-out arrangement was concluded with an Australian based oil company, Oil Search Limited. Oil Search Limited participates with a 25% working interest effective from 1st September 2003. DNO's new interest after the farm-out is 50%.

DNO expanding in Africa

DNO has acquired a 80% interest and operatorship in an exploration licence, the Inhaminga Block, onshore Mozambique close to the city of Beira. DNO also acquired a smaller

interest in Block P offshore Rio Muni in Equatorial Guinea. DNO's interest is 5% with paying interest (exploration) of 6,25%.

Acquisitions in the North Sea

DNO acquired 35% in PL150, 15% of PL088, and 15% of PL036C.

Significant events 2002

Operator of a new field on the UK shelf

Acquisition of a 99 per cent interest in and the operatorship of the Thistle field from British Petroleum. The agreement was approved by UK authorities in 2002.

Acquisition of a gas licence in Ireland

Acquisition of an 85.5 per cent interest in the company Island Petroleum Development Limited, including a 12.5 per cent interest in the Seven Heads gas field in Ireland.

Farm-out of Broom (previously West Heather and North Terrace)

During 2002, DNO signed an agreement for farm-out of 45 per cent of Broom to Challenger Minerals Inc., a company owned by Global Santa Fe Inc. and Palace Exploration Company.

Tyr prospect

The Tyr prospect well in PL 006 C was completed in the first quarter of 2002. The well did not encounter commercial hydrocarbons, and NOK 82 million in capitalised exploration and licence costs were expensed according to the Successful Efforts method of accounting for oil and gas activities.

Finalising acquisition of licence on the Norwegian shelf

DNO's acquisition of Conoco's 3.75 per cent interest in Jotun (37.5 per cent interest in PL 103B) including the operatorship of PL 103B, was approved by the Norwegian Ministry of Petroleum and Energy on 5 July 2002.

Financial investment in PDR ASA

The development in contractual and financial conditions relating to the company's investment in PDR ASA negatively affected the profit and loss statement for 2002. The company's financial investment in PDR ASA was written down in its entirety at the end of 2002.

Note 3 Reporting by segment

2004	Oil&Gas	Oil&Gas	Oil&Gas	Oil&Gas	Total	Offshore&	Other	Total
NOK million	North	Europe	Middle East	Africa	Oil&Gas	Services	activities	Group
				Other				
Operating revenues	488.5	1 115.2	-	-	1 603.7	92.2	-26.5	1 669.5
Operating expenses	-295.6	-283.8	-73.3	-17.8	-670.5	-70.9	-13.1	-754.5
of this Exploration expenses	-99.0	-47.5	-73.3	-17.8	-237.6	0.0	11.4	-226.2
Production and transportation expenses	-123.4	-143	-	-	-266.4	-15.4	6.5	-275.3
Depreciation, amortisation, write-downs etc	-61.0	-89.6	-	-	-150.6	-32.3	-0.8	-183.7
Operating profit (loss)	192.9	831.4	-73.3	-17.8	933.2	21.3	-39.6	915.0
Profit (loss) associated companies	-	-	-	-	-	15.6	-	15.6
Net profit (loss)	151.7	216.4	-73.3	-17.8	277.0	36.3	-111.1	202.3
EBITDA ¹⁾	-79.8	919.2	-73.3	-17.8	748.3	23.3	-38.8	732.8
Total assets	545.2	523.1	7.3	2.2	1 077.8	-	264.7	1 342.5
Total liabilities	427.3	234.4	80.5	18.2	760.4	-	-3.2	757.2
Non-interest-bearing liabilities	145.9	47.5	80.5	18.2	292.1	-	-132.1	160.0
Investments	122.5	183.0	10.8	-	316.3	19.0	-	335.3
2003								
Operating revenues	1 063.4	886.6	-	-	-1 950.0	76.7	-18.2	2 008.5
Operating expenses	-846.2	-269.6	-	-	-1 115.8	-123.0	-14.5	-1 253.3
of this Exploration expenses	-58.3	-35.2	-	-	-93.5	-	-	-93.5
Production and transportation expenses	-597.9	-104.6	-	-	-702.5	-16.7	0.2	-719.0
Depreciation, amortisation, write-downs etc	-148.1	-129.8	-	-	-277.9	-64.9	2.9	-339.9
Operating profit (loss)	217.2	617.0	-	-	834.2	-46.3	-32.7	755.2
Profit (loss) associated companies	-	-	-	-	-	-25.6	-	-25.6
Net profit (loss)	58.9	158.9	-	-	217.8	-79.1	-4.6	134.1
EBITDA ¹⁾	353.3	742.2	-	-	1 095.5	-8.37	-21.1	1065.7
Total assets	1 701.3	509.8	-	-	2 211.1	112.9	165.4	2489.4
Total liabilities	1 623.3	65.0	-	-	1 688.3	75.9	-198.3	1 565.9
Non-interest-bearing liabilities	305.0	49.0	-	-	354.0	6.2	-11.1	349.1
Investments	425.1	283.5	-	-	708.6	11.2	-	719.8
2002								
Operating revenues	816.8	784.1	-	-	1 600.8	100.8	-10.7	1 691.0
Operating expenses	-788.5	-238.1	-	-	-1 026.6	-99.7	-36.3	-1 162.6
of this Exploration expenses	-95.0	-19.2	-	-	-114.2	-	-	-114.2
Production and transportation expenses	-375.1	-93.6	-	-	-468.7	-21.0	-	-489.7
Depreciation, amortisation, write-downs etc	-277.0	-100.9	-	-	-377.9	-47.0	-0.7	-425.6
Operating profit (loss)	28.3	545.9	-	-	574.2	1.1	-47.0	528.3
Profit (loss) associated companies	-	-	-	-	-	-191.7	-	-191.7
Net profit (loss)	-53.8	229.1	-	-	175.3	-196.6	-43.3	-64.7
EBITDA ¹⁾	223.2	646.8	-	-	870.0	48.5	-46.3	872.2
Total assets	1 090.3	409.8	-	-	1 500.1	134.1	291.9	1 926.1
Total liabilities	1 065.8	97.5	-	-	1 163.3	118.2	-165.5	1 116.0
Non-interest-bearing liabilities	514.3	51.4	-	-	565.7	6.2	-8.5	563.4
Investments	258.4	204.7	-	-	463.1	18.3	-	481.4

1) Operating profit adjusted for gains and DDA.

The Segment Oil&Gas "Other" includes the investments in Northern Iraq.

Note 4 Other operating revenues

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
Other operating revenues	2 103	1 054	5 950	-	-
Gains from sale of licence interests ¹⁾	99 975	-	-	67 992	-
Gains from sale of subsidiaries ²⁾	259 051	-	-	-	-
Total other operating revenues	361 129	1 054	5 950	67 992	-

1) Gains in the group relate to the disposal of licence shares on the Norwegian shelf. Gains in the parent company relate to group internal gains.

2) NOK 209.5 million relates to the disposal of the company's operations in the UK/Ireland and NOK 49.5 million relates to gains on the extraordinary dividends on shares in IOT ASA.

Note 5 Exploration expenses

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
G&G, seismic and field studies	95 530	55 619	21 115	47 509	25 043
Exploration expenses capitalised in previous years carried to expense	4 038	-	13 201	-	-
Exploration expenses capitalised this year carried to expense	83 339	21 083	17 671	39 597	-
Write-down of capitalised exploration expenses	-	-	51 061	-	-
Other exploration expenses including consulting services and costs in own organization	43 390	16 805	11 105	27 007	7 091
Total exploration expenses	226 297	93 507	114 153	114 113	32 134

Note 6 Production and transportation expenses

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
Production expenses (lifting costs) ¹⁾	223 636	639 183	432 037	-	51 525
Transportation expenses	36 147	63 175	36 576	-	41 509
Total production and transportation expenses, Oil & Gas	259 783	702 358	468 613	-	93 034
Operating expenses, Offshore & Services	15 425	16 661	20 963	4 193	1 418
Total production and transportation expenses	275 208	719 019	489 576	4 193	94 452

1) Production expenses (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, CO₂ taxes, royalties to the state and costs in own organisation.

Note 7 Impairment, amortisation and losses

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
Amortisation and write-down	1 544	12 760	63 500	-	-
Total impairment, amortisation and losses	1 544	12 760	63 500	-	-

Write-downs in 2004 relate to shares in PDR ASA in the former subsidiary IOT ASA.

In 2003, the fixed assets in IOT AS that relate to Petrolia Drilling ASA were written down by NOK 12.8 million.

The interests in the Timan Pechora project, including the shares in the company Ocean Energy Ltd, were written down in full (NOK 63.5 million) in 2002. The shares in the Timan Pechora project/Ocean Energy Ltd were sold in 2004 to a network company without any major effects on the result.

Note 8 Remuneration, severance pay, salaries, options and pensions

	Group			Parent company	
	2004	2003	2002	2004	2003
Payroll expenses					
NOK 1000					
Salaries, bonuses, etc.	40 882	112 921	82 055	11 848	8 489
Employer's payroll tax expense	7 953	16 499	9 800	1 954	2 837
Pensions	1 335	2 584	2 817	486	1067
Other personnel costs	-2 213	9 136	4 870	1 320	398
Reclassification of payroll and payroll-related expenses to Expl. And Prod.	-26 985	-99 524	-64 019	-1 409	-
Payroll and payroll-related expenses	20 972	41 617	35 523	14 199	12 791
Average number of employees	30	173	127	7	8

The fall in the number of employees in the DNO group from 2003 to 2004 is mainly due to the sale of DNO's activities in the UK and the extraordinary dividend on IOT ASA shares.

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

Pensions

In 2001, DNO introduced a defined contribution scheme for employees in the parent company and in Det Norske Oljeselskap AS. In 2004, a total of NOK 1.60 million was expensed under the scheme compared with NOK 1.53 million in 2003. The company's obligations are limited to its annual contributions.

In 2004, the subsidiaries IOT ASA and Britain Limited retired from the DNO group. As at 31 December 2004, the group only has contribution-based pension schemes.

Remuneration of directors and executives

Remuneration of the directors of the board amounted to NOK 525 000 for the year 2004 and NOK 425 000 for 2003.

The director's fee to the executive chairman in 2004 amounted to NOK 125 000 (NOK 125 000 in 2003).

Consultant fees to Increased Oil Recovery Ltd for executive chairman services were NOK 3.96 million in 2004 (NOK 3.67 million in 2003). No severance pay agreement has been entered into with the executive chairman.

Notes

The managing director's salary, bonus and other remuneration for 2004 amounted to NOK 4.18 million. The figure for 2003 was NOK 2.04 million. His compensation in 2004 consisted of NOK 2.41 million in salary and bonus, NOK 1.46 in director's fee, NOK 100 000 in remuneration and NOK 210 000 in other benefits. The managing director will be entitled to severance pay equivalent to two to three times his annual remuneration, depending on the circumstances.

Severance pay agreements (1-2 years' salary) have also been entered into with the following executives: Magne Norman, Project director; Roar Tessem, Managing director DNO AS, and Haakon Sandborg, CFO DNO ASA.

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 personnel on 31 December 2004

Directors and executives	Shares	Options
Companies controlled by Berge G. Larsen, Executive Chairman	4 846 824	-
Anders Farestveit, Vice-Chairman	-	-
Helge Eide, Managing Director and Executive Director	281 250	-
Trygve Bruvik, Executive Director	-	112 500
Haakon Sandborg, Chief Financial Officer	-	-
Roar Tessem, Executive Vice President, DNO International	-	100 000
Magne Normann, Project Director	78 750	-
Other executives and key personell	-	-
Total shares/options	5 206 824	212 500

In all 212 500 options have been issued, at an average exercise price of NOK 18,37 (justed for dividends). All options expire on the date of the annual general meeting in 2005.

	Group			Parent company	
Auditors' fees	2004	2003	2002	2004	2003
All figures are exclusive of VAT in NOK 1000					
Auditors' fees	1 576	1 911	1 744	700	700
IFRS/US GAAP	433	5 153	1 149	433	4 922
Other financial auditing	208	626	160	208	510
Total, auditing fees	2 217	7 690	3 053	1 341	6 132
Other assistance	508	1 593	909	508	939
Tax assistance	813	1 817	143	626	851
Total auditors' fees	3 538	11 100	4 105	2 475	7 922

Note 9 Earnings per share

Basic earnings per share are based on the time-weighted, average number of outstanding shares. Diluted earnings per share calculation includes effect of outstanding options and convertible loans. Calculations do not include treasury shares. Earnings per share have been calculated by dividing net group profit on the time-weighted number of outstanding shares (54 777 408).

Employee options had only insignificant diluting effect towards the end of 2004 (see note 8). Diluted earnings per share therefore equal basic earnings per share.

Note 10 Net other financial items

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
Interest received	16 803	9 261	12 757	13 832	7 073
Interest received from group companies	-	-	-	21 855	74 353
Gain on sale of PDR ASA bonds from parent to IOT AS	-	-	-	-	17 000
Dividends received	-	-	-	240 000	-
Other financial revenues	4 163	23 918	54 685	3 385	23 722
Reversal of write-down on intercompany receivables	-	-	-	-	70 400
Gains on transfer of shares in subsidiaries	-	-	-	230 245	-
Total financial revenues	20 966	33 179	67 442	509 317	192 548
Interest paid	-40 551	-40 034	-56 959	-37 378	-37 226
Interest paid to Group companies	-	-	-	-	-231
Capitalised interest expenses	1 018	32 750	557	-	-
Net gain (loss) on sale of securities	-	-	2 193	-15 855	145
Net gain (loss) on foreign exchange ¹⁾	-70 672	-2 695	-28 322	30 884	-47 538
Other financial expenses, including fx hedging ²⁾	-14 432	-50 349	-5 261	-280 790	-6 807
Write down on stocks and bonds	-	-	-16 835	-	-64 677
Write-down of receivables on PDR ASA	-	-	-	15 638	-15 638
Total financial expenses	-124 637	-60 328	-104 627	-287 501	-171 972
Net other financial items	-103 671	-27 149	-37 185	221 816	20 576

1) NOK 77.7 million of unrealised losses are included in the net foreign exchange loss for the group.

2) The figure in the parent company includes a loss on financial contracts (oil hedging) of NOK 271.4 million, of which NOK 131 million is unrealised. The oil hedging in the group is treated as hedging of the group's production.

Note 11 Taxes

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
Taxes payable	-5 010	-113 922	-120 633	-	-1 198
Change in deferred taxes	36 672	11 127	73 803	-109 960	30 000
Taxes paid in kind under production sharing agreements (PSA)	-656 176	-465 654	-317 271	-	-465 654
Income taxes	-624 513	-568 449	-364 101	-109 960	-436 852

Notes

Effective tax rates

	Group			Parent company	
	2004	2003	2002	2004	2003
NOK 1000					
Profit (loss) before taxes	826 685	702 500	299 413	139 001	574 098
Expected income tax according to nominal tax rate (28%)	231 472	196 700	83 836	38 920	160 747
Expected petroleum tax	-232	45 347	39 877	-	-
Effect of earned uplift	-14	-4 004	-22 951	-	-
Taxes paid in kind under PSAs exceeding 28%	362 696	280 679	159 553	-	280 679
Adjustment of previous years	-428	864	4 516	-	-
Adjustment of deferred tax assets not recorded	118 686	18 673	37 580	118 685	18 673
Other items	-87 667	30 190	61 035	-47 645	-23 247
Total income taxes	624 513	568 449	364 101	109 960	436 852
Effective tax rate (including change in deferred taxes)	76 %	84 %	127 %	79 %	76 %

The tax effect of temporary differences and losses carried forward:

	Group		Parent company	
	2004	2003	2004	2003
NOK 1000				
Other current items	-35 172	-9 374	-37 308	-
Tangible assets	-18 185	109 967	-628	-105 497
Uplift	-	-12 691	-	-
Other fixed items (receivables, abandonment, etc.)	-5 633	-140 618	-2 489	-80 522
Losses carried forward	-249 751	-75 409	-154 319	-
Total, basis for deferred taxes/(tax assets)	-308 741	-128 125	-194 744	-186 019
Deferred tax asset allowance	194 970	96 599	194 744	76 059
Total deferred taxes	-113 771	-31 526	-	-109 960
Capitalised deferred tax assets	113 771	116 141	-	109 960
Capitalised deferred tax liabilities	-	84 615	-	-

Tax rates effective at 31 December 2004 have been used to calculate deferred taxes. The tax rate is 78% for petroleum-related activity on the Norwegian shelf, including a special petroleum tax of 50%, and 28% for other revenues in Norway.

Uplift is earned as a percentage (30%) of total investments in qualifying petroleum assets on the Norwegian shelf. Uplift is amortised on a straight-line basis over six years from the date of investment to reduce income subject to special petroleum tax. The company has not future uplift at 31.12.2004. Unused uplift from any previous year can be carried forward without any limit in time, to reduce future special petroleum tax. At 31 December 2004, the company did not have any unused uplift to carry forward. In its financial statements the company recognises the benefit of uplift as a reduction of deferred tax liabilities in the year earned through the qualifying investment.

Capitalised deferred tax assets relate to activities taxable in Norway and Yemen.

In Norway, a credit is granted in taxes payable for taxes paid in Yemen.

Note 12 Oil and gas, other tangible assets and goodwill

DNO - Group NOK 1000	Oil & Gas				Other tangible assets	Total tangible assets	Goodwill
	License costs	Exploration costs	Fields under Development	Producing fields			
Cost 1 January 2004	75 523	20 556	342 927	2 006 256	192 477	2 637 739	79 905
Additions 2004	8 793	52 596	76 645	162 047	20 279	320 360	-
Disposals 2004	-68 928	-60 698	-365 057	-1 442 255	-205 707	-2 142 645	-79 905
Transfers 2004	-5 966	-6 070	12 036	-	-	-	-
Conversion differences	874	40	12 331	14 903	31	26 431	-
Cost 31 December 2004	8 548	6 424	78 883	740 951	7 080	841 886	-
Accum. depreciation 1 January 2004	-	-	-	-811 175	-134 587	-945 762	-31 964
Depreciation 2004	-	-	-	-144 491	-25 104	-169 595	-7 325
Write-downs 2004	-	-	-	-	-	-	-
Disposals and transfers 2004	-	-	-	403 143	154 969	558 112	39 289
Conversion differences	-	-	-	19 883	-13	19 870	-
Acc. depr. & write-downs 31 Dec. 2004	-	-	-	-532 640	4 735	-537 375	-
Book value 31 December 2004	8 548	6 424	78 883	208 311	2 345	304 512	-
Book value 31 December 2003	75 523	20 556	342 927	1 195 081	57 890	1 691 977	47 941

Parent company NOK 1000	Oil & Gas				Other tangible assets	Total tangible assets	Goodwill
	License costs	Exploration costs	Fields under development	Producing fields			
Cost 1 January 2004	7 545	3 999	-	511 835	6 326	529 705	-
Additions 2004	2 359	2 292	-	-	558	5 209	-
Disposals 2004	-	-6 291	-	-511 835	-2 477	-520 603	-
Transfers 2004	-	-	-	-	-	-	-
Cost 31 December 2004	9 904	-	-	-	4 407	14 311	-
Accum. depreciation 1 January 2004	-	-	-	-307 320	-3 795	-311 115	-
Depreciation 2004	-	-	-	-	-762	-762	-
Write-downs 2004	-	-	-	-	-	-	-
Disposals and transfers 2004	-	-	-	307 320	1 551	308 871	-
Acc. depr. & write-downs 31 Dec. 2004	-	-	-	-	-3 006	-3 006	-
Book value 31 December 2004	9 904	-	-	-	1 402	11 306	-
Book value 31 December 2003	7 545	3 999	-	204 515	2 531	218 590	-

Note 13 Subsidiaries and other investments

Subsidiaries owned by DNO ASA	Company's business address	Ownership and voting interest in per cent	Company's share capital in 1 000	Book value in NOK 1 000
Det Norske Oljeselskap AS	Oslo	100	11 500 NOK	110 500
DNO Yemen AS	Oslo	100	101 000 NOK	101 000
DNO Finance Inc	USA	100	-	-
Total 2004				211 500
Total 2003				277 833

Subsidiaries owned by other companies in the Group

	Type of investment	Number	Book value 31.12.2004	Market value
Ecuator ASA	Shares	59 213 448	29 607	44 410
IOT ASA	Shares	644 120	1 597	1 224
Sterling Energy Plc	Shares	3 760 000	3 317	6 565
NOS AS	Shares	50	50	-
Petrolia Drilling ASA	Shares	8 553 931	3 564	6 159
Petrolia Drilling ASA ¹⁾	Bonds	2	-	12 051
Northern Offshore ASA	Bonds	1	3 697	6 039
Total other investments			41 832	76 447

1) The company has a convertible bond loan in PDR ASA, at a total nominal value of NOK 8.95 million, which can be converted to a total of 16.74 million shares in PDR ASA. The market value of the bond loan is set based on the shareholder value of the shares in PDR ASA as at 31 December 2004.

Note 14 Inventories, other current receivables

	Group		Parent company	
	2004	2003	2004	2003
NOK 1000				
Inventories	11 118	11 017	-	1 713
Receivables	46 671	133 029	-	30 163
Underlift, prepayments and accrued income	13 006	49 576	6 475	17 278
Other current receivables	32 438	41 899	2 392	1 986
Total other current receivables	103 233	235 521	8 867	51 140

Note 15 Restricted bank deposits

In connection with the oil price hedging contracts with ANZ Investment Bank, the company had provided NOK 257.1 million as security as at 31 December 2004. The security is released on an ongoing basis in line with the realisation of the contracts.

Remaining tied-up bank deposits (including tax deduction funds) totalled NOK 2.2 million and NOK 3 million as at 31 December 2004 and 31 December 2003 respectively.

Note 16 Shareholders' equity

Movement in shareholders' equity, Group

NOK 1000	Share capital	Treasury shares, number	Treasury shares, amount	Share Premium account	Paid-in capital treasury shares	Other paid-in equity	Other equity	Total
Shareholders' equity on 31. Dec 2003	224 729	442	-1 769	26 347	38 319	395 277	297 076	979 979
Principle change to conversion of foreign subsidiaries	-	-	-	-	-	-	-56 474	-56 474
Shareholders' equity on 01.01.2004	224 729	442	-1 769	26 347	38 319	395 277	240 602	923 505
Purchase of treasury shares	-	20 343	-81 370	-	-	-552 431	-	-533 801
Sale of treasury shares (inc. distributed as dividend)	-	-19 790	79 161	-	1 759	418 165	-	499 085
Share issues	1 485	-	-	6 109	-	-	-	7 594
Dividend payment ¹⁾	-	-	-	-	-	-222 155	-292 219	-514 374
Conversion differences	-	-	-	-	-	-	1 138	1 138
Profit for the year	-	-	-	-	-	-	202 172	202 172
Shareholders' equity on 31 Dec. 2004	226 214	995	-3 978	32 456	40 078	138 857	151 693	585 319

1) A dividend of NOK 0.5 per share has been proposed, plus 1 DNO share per 20 shares owned in the company. Provisions have been made in the accounts for a cash element, as well as own shares that are held on forward contracts. Own shares that are already held by the company, and which will be distributed in dividends, have not been reclassified in the equity between own shares and allocated dividend. As at 31 December 2004, a provision of NOK 74 442 000 was made for dividends.

Movement in shareholders' equity, parent company

NOK 1000	Share Capital	Treasury shares	Share Premium account	Paid-in capital Treasury Shares	Other paid-in equity	Other equity	Total
Shareholders' equity on 1 Jan. 2004	224 729	-1 769	26 347	38 319	395 277	263 178	946 081
Purchase/sale of treasury shares	-	- 2 209	-	1 759	-34 265	-	-34 715
Share issues	1 485	-	6 109	-	-	-	7 594
Dividend payment	-	-	-	-	-222 155	-292 219	-514 374
Profit for the year	-	-	-	-	-	29 041	29 041
Shareholders' equity on 31 Dec. 2004	226 214	-3 978	32 456	40 078	138 857	-	433 627

The company's board of directors has been authorised by the annual general meeting to buy treasury shares within the framework of the Company act. On 31 December 2004, the company held 994 500 treasury shares.

In addition the company had an option to acquire 6 350 000 own shares at an average strike of NOK 15.00 and forward contracts to acquire 2 194 259 own shares at an average strike of NOK 23.53 (adjusted for dividends).

Movement in shareholders' equity for the Group for the last five years

NOK 1000	2004	2003	2002	2001	2000
Shareholders' equity on 1 January	923 505	810 142	941 686	796 727	420 770
Share capital	1 485	8 000	10 400	5 660	60 441
Treasury shares	-2 209	2 957	-828	-3 838	-
Share premium account	6 109	-405 186	23 546	18 106	266 479
Paid-in equity, treasury shares	1 759	35 059	3 260	-	-
Other paid-in equity	-256 420	387 963	-	-	7 314
Minority interests	-	-3 320	3 320	-	-
Other equity	-88 910	87 890	-171 242	125 030	41 723
Shareholders' equity on 31 December	585 319	923 505	810 142	941 686	796 727

Movement in share capital for the Group in the last five years

Year	Event (in NOK 1000 except nominal value)	Share capital		Nominal value (NOK)	No. of shares	
		Change	Balance		Change	Balance
2000	Acquisition of IOT	13 800	154 028	4	3 450	38 507
	Exercise of options	600	154 628	4	150	38 657
	Private placement	33 200	187 828	4	8 300	46 957
	Acquisition of oil licence	3 241	191 069	4	810	47 767
	Conversion of bond loan	9 600	200 669	4	2 400	50 167
	Closing balance	-	200 669	4	-	50 167
2001	Exercise of options	5 420	206 089	4	1 355	51 522
	Conversion of bond loan	240	206 329	4	60	51 582
	Closing balance	-	206 329	4	-	51 582
2002	Private placement	10 400	216 729	4	2 600	54 182
	Closing balance	-	216 729	4	-	54 182
2003	Private Placement	8000	224 729	4	2000	56 182
	Closing balance	-	224 729	4	-	56 182
2004	Private Placement	1 485	226 214	4	371	56 553
	Closing balance	-	226 214	4	-	56 553

At the general meeting in June 2004, authorisation was given to increase the company's share capital by up to NOK 20 million by issuing up to 5 million shares at a nominal value of NOK 4 per share. Issue price and other terms of subscriptions will be decided by the Board of Directors. The authorisation was given for two years from the date of the general meeting. As at 31 December 2004 the Board of Directors has not issued any new shares under this authorisation. The authorisation also covers increase in capital through non-monetary contributions, including in connection with mergers.

The annual general meeting in June 2004 approved the extension of 412 500 shares or options awarded to the company's Board members, executives and key personnel. The Board was also authorised to award an additional 450 000 options to the company's Board members and Managing director.

As at 31 December 2004, 550 000 options were exercised and 212 500 were awarded in accordance with the authorisation. Reference is also made to note 8.

The list shows shareholders holding more than 1 per cent of outstanding shares on 11. March 2005.

The company's shareholders at 31 December 2004:

	Shares	Interest
Increased Oil Recovery AS*	4 846 824	8.6 %
Einar Galtung Døsvig	2 762 750	4.9 %
Kaupthing ASA	2 164 259	3.9 %
State Street Bank	1 911 578	3.4 %
Goldman Sachs (S/A Pendragon)	1 710 690	3.0 %
Neumann Holding AS	1 700 000	3.0 %
JP Morgan Chase Bank Clients Treaty Account	1 373 800	2.4 %
Brown Brothers (S/A Fidelity)	1 320 000	2.3 %
UBS (Luxembourg) S.A Ordinary Account	1 069 000	1.9 %
Bjarne Skjensvold	950 000	1.7 %
Mellon Bank (A/C Mellon Nominee)	935 414	1.7 %
Credit Agricole Indo Calyon	931 500	1.7 %
UBS AG, London Branch	929 167	1.7 %
Goldman Sachs (S/A Pendragon)	905 660	1.6 %
Bernt Mykjåland	852 962	1.5 %
Leif Inge Slethei AS	839 999	1.5 %
Dresdner Bank (S/A Prime Brokerage)	800 000	1.4 %
Goldman Sachs Intern Equity	617 928	1.1 %
MP Pensjon	567 525	1.0 %
SIS Segaintersettle	551 796	1.0 %
Other shareholders	28 437 405	50.6 %
Total shares exclusive treasury shares	56 178 257	
Treasury shares pr 11.3.2005	375 300	
Total number of shares inclusive treasury shares	56 553 557	

Note 17 Guarantees and commitments

a) Abandonment of field installations

According to the terms of production licences on the Norwegian shelf, the company has a duty to remove offshore installations as required by the authorities upon termination of production or when the licence expires.

The abandonment provision is made on the basis of an assumed removal concept, based on the Norwegian Petroleum Act of 1975, Section 35, the Act of 1996 relating to allocation of removal costs for installations on the continental shelf and on international regulations and guidelines. The abandonment is normally based on the following conditions:

- small, including mobile installations: full removal
- large installations: removal of deck and equipment
- subsea installations and pipelines: cleaning and possible covering
- shutdown and disconnection of wells are included in ordinary operating expenses

No significant removal costs are expected to accrue in connection with the onshore-based activity in Yemen. In accordance with the production sharing contracts, the production facilities and operating equipment will be transferred to the authorities when the fields are no longer commercial.

Specification of this year's change in abandonment obligations:

Estimated abandonment obligation (NOK million)	UK	Norway	Yemen	Group
1 January 2004	264.1	28.3	4.6	297
Change in provisions from legislative changes	-264.5	-15.3	-	-279.8
This year's provision for future abandonment	0.4	3.1	1.8	5.3
Foreign exchange conversion	-	-	-0.8	-0.8
Estimated abandonment obligation 31 December 2004	-	16.1	5.6	21.7

b) Expected contractual obligations/licence commitments relating to future investments for continued operations

The company has the following obligations relating to its interests in its own and partner-operated oil and gas fields:

Expected contractual obligations/licence commitments (NOK million)	2004
Drilling and exploration commitments in accordance with the accepted licence budget	167
Contractual obligations, projects under development	82
Total contractual obligations/licence commitments related to future investments	249

c) Lease obligations continued operations

The group has the following operational lease obligations, mostly through ownership interests in its own and partner-operated oil and gas fields:

Calendar year (NOK million)	
2004	15.5
2005	-
2006	-
After 2006	-
Total minimum operational lease obligations (continued operations)	15.5

The operational lease obligations relate to the activity on the Norwegian shelf and lease of the Petrojarl production vessel at the Glitne field. The lease contract may be terminated with six months' notice.

d) Liability for damages/insurance

Like other licensees on the Norwegian shelf, the company has unlimited responsibility for damage, including pollution. The company has insured its pro rata responsibility in the Norwegian and international sectors on the same lines as other oil companies. Installations and liability are covered by an operations insurance policy.

e) Legal disputes

DNO ASA and some key personnel are being sued for approximately USD 5 million in 2005 in connection with the arranging of a bond loan in the USA in the autumn of 2003. The company believes that the case has no legal basis.

DNO has initiated legal proceedings against Lundin Norway AS at Asker and Bærum Court because the company believes that Lundin has copied DNO's system for health, safety and the environment without authorisation, which is a necessary part of the approval on the Norwegian shelf. The case is expected to be settled in 2005.

f) Guarantees at 31 December 2004 (NOK million)

	Continued	Discontinued	Total
Parent company guarantees to external parties on behalf of companies in the group ¹⁾	-	10	10
Other parent company guarantees to external parties	1	-	1
Total guarantees	1	10	11

¹⁾ Mainly concerns guarantees issued for the Heather field abandonment obligation and guarantees given in connection with the acquisition of the Thistle field.

g) Other obligations

In connection with the acquisition of Unocal's 31.25% share of the West Heather/Broom field in 1997, an agreement was entered into for the payment of royalties to Unocal according to certain criteria. The extent of the obligation will depend on the future production and oil prices, amongst other things. This obligation was not transferred to Lundin at the time of the disposal in 2004. As at 31 December 2004, a provision of USD 1 million was made in connection with this agreement.

Note 18 Long-term liabilities, maturity, collateral and loan terms

Long-term debt	Currency	Loan amount	Loan amount Interest rate	Maturity	Balance 31 Dec. 04	Balance 31 Dec. 03
NOK 1000						
Foreign currency loan	USD	62 000	Libor+1.4 %	31.12.2009	-	415 389
Certificate loan	NOK	55 000	5.2 %	03.11.2005	55 000	-
Certificate loan	NOK	45 000	5.04 %	03.05.2005	45 000	45 000
Bond loan	NOK	325 000	Nibor+4 %	01.06.2004	-	325 000
Bond loan	NOK	9 500	Nibor+3 %	01.06.2004	-	10 830
Bond loan	NOK	200 000	7.92 %	01.06.2009	200 000	-
Bond loan	NOK	269 500	Nibor + 3.5 %	01.06.2009	269 500	-
Financial leases	USD	4 576	3.5 %-8.5 %	2003-2006	-	30 576
Total outstanding					569 500	826 795

As at 31 December 2004, the company has a holding of NOK 30.5 million worth of bonds.

Maturities of the company's interest-bearing debt:

Year	Group	Parent company
NOK 1000		
2005	100 000	100 000
2006	-	-
2007	-	-
2008	-	-
2009	469 500	469 500
Total	569 500	569 500

The company does not have any assets pledged as security as at 31 December 2004.

Loan terms:

The company's bond loan contracts include a requirement for 30% equity ratio in the group. The company satisfies all loan agreement requirements at 31 December 2004.

Note 19 Current liabilities

	Group		Parent company	
	2004	2003	2004	2003
NOK 1000				
Taxes payable	-	30 629	-	-
Accounts payable	9 003	51 926	6 739	3 643
Unpaid government charges and taxes payable	4 441	8 346	2 756	2 449
Accrued interest	8 565	4 326	8 565	4 326
Provision for loss, financial instruments	1 734	-	132 743	-
Provision for dividend	74 442	-	74 442	-
Accrued expenses and other current liabilities	61 831	253 884	26 274	46 212
Total non-interest bearing current liabilities	160 016	349 111	251 519	56 630

Accrued expenses and other current liabilities mainly relate to the petroleum activity in Norway and Yemen. Obligations relating to acquisition of licence interests for which the company has contractual long-term bank financing, have been classified as long-term liabilities.

Note 20 Financial instruments and risk management

DNO is exposed to changes in oil prices associated with the company's oil activity. The activity also involves exposure to market risk relating to changes in exchange rates. The company's exposure to risk is continuously being monitored, and the company employs various financial instruments to reduce this risk. The company does not use financial instruments for speculation purposes.

DNO employs the following financial instruments:

a) Foreign currency risk management

Most of DNO's revenues are in US dollars (USD). Payments for investments and operations are mainly in USD, with some in Norwegian kroner (NOK). DNO's cash reserves are mainly in USD, but the long-term liabilities are in NOK. A fall in the value of USD will, upon conversion, result in a lower amount in NOK. DNO is therefore exposed to changes in the value of USD to NOK.

b) Interest rate risk management

DNO is exposed to interest rate fluctuations on all floating interest rate loans, mainly NIBOR. During 2003, DNO entered into two agreements for interest rate swaps, each for the amount of USD 20 million. DNO pays a fixed interest rate of 3.99% and 3.85% and receives the floating 6 month LIBOR. Both interest rate swaps mature at year end 2009. The interest rate swaps were applied as security on a loan in USD with a floating interest rate. The loan has been repaid and the security terminated. The interest rate swaps are reported as they occur.

c) Commodity price risk management

DNO is exposed to price risk related to fluctuations in crude oil prices, and the company uses commodities derivatives for hedging purposes. For accounting purposes, the contracts are treated as hedging of oil sales in the consolidated accounts. In the parent company, the contracts are treated as financial contracts and unrealised loss is charged to income.

At 31 December 2004 DNO has two oil swap agreements with ANZ Bank:

Sales quantity boe	Contract price, USD per barrel	Startdate	Maturity	Unrealised loss USD million	Unrealised Loss NOK million
1 204 500	23.66	01.01.2005	31.12.2005	-19.90	-120 157
109 500	23.77	01.01.2005	31.12.2005	-1.80	-10 851
1 314 000			Total	-21.70	131 008

As at 31 December 2003, the company had an unrealised (and unrecorded) loss of NOK 52.32 million linked to instruments used to control the price risk.

d) Credit risk

In agreements entered into for financial instruments, DNO is exposed to credit risk in the event of non-performance by the counterparties to the agreements. In the event of counterparty default, the risk would be the difference between the prevailing market prices/exchange rates and the contracted interest and exchange rates. The credit risk of interest rate, currency and crude oil derivatives will be represented by market values of contracts with a positive value at the end of each accounting period, cf. estimated market values in the table below. Counterparties in the agreements are approved internally according to certain criteria. In DNO's opinion, such credit risk is low as the agreements are entered into with recognised financial institutions.

e) Fair value of financial instruments

Fair values of the company's financial instruments are estimated based on market prices, and the valuation methodologies are described below. However, prudence is recommended in interpreting market data to arrive at an estimated fair value. Accordingly, the estimates presented herein may not necessarily be indicative of the amounts the company could realise.

Estimated fair value of financial instruments at 31 December	2004		2003	
	Book value	Fair value	Book value	Fair value
MNOK				
Fixed asset investments:				
Cash and cash equivalents	747.8	747.8	137.7	137.7
Financial obligations:				
Long-term liabilities, including 1st year's instalment	469.5	469.5	781.8	781.8
Instruments used to manage currency exposure:				
Assets	-	-	-	5.28
Obligations	-	-	-	-
Instruments used to manage interest rate exposure:				
Assets	-	-	-	-7.78
Obligations	-1.73	-1.73	-	-
Instruments used to hedge crude oil prices:				
Assets	6.35	9.58	-	-
Obligations	-	-131.01	-	-52.3

The following methods and assumptions are used to estimate the fair value of financial instruments:

Cash and cash equivalents

Book values approximate fair values due to the short time to maturity of these instruments.

Long-term liabilities

For floating-rate bank loans, fair values and book values are identical.

Currency options/commodities derivatives

The fair value of unlisted financial instruments is based on market quotations and estimates based on market rates at the balance sheet date.

Note 21 Proved and probable oil and natural gas reserves (unaudited)

The table below shows DNO's estimated proved and probable reserves of oil and gas and the changes in these reserves for the years 2004, 2003 and 2002. The table also shows proved and probable reserves of oil and gas for fields in production for the same period. The company uses proved and probable reserves as its base when estimating depreciation and abandonment provisions according to the unit-of-production method (producing fields).

The reserves in DNO-operated fields are based on DNO's own estimates, whereas the reserves in partner-operated fields are based on operator estimates.

Because of the uncertainty and limitations associated with reserve data, reserve estimates will change as new information becomes available.

Proved and probable reserves

	Northern Europe		Middle East		Group	
	Oil mmb	Gas ¹⁾ mmb	Oil mmb	Gas ¹⁾ mmb	Oil mmb	Gas ¹⁾ mmb
Total proved and probable reserves at 31 Dec. 2001	69.4	6.5	9.6	-	79.0	6.5
Revision of previous estimates	14.1	6.6	7.7	-	21.8	6.6
Extensions and discoveries	8.8	-	-	-	8.8	-
Acquisitions and sale of reserves	4.2	6.6	-	-	4.2	6.6
Production 2002	-4.2	-	-3.9	-	-8.1	-
Total proved and probable reserves at 31 Dec. 2002	92.3	19.7	13.4	-	105.7	19.7
Revision of previous estimates	33.7	-9.0	-	-	33.7	-9.0
Extensions and discoveries	-	-	3.2	-	3.2	-
Acquisitions and sale of reserves	-	-	-	-	-	-
Production 2003	-5.2	-	-4.7	-	-9.9	-
Total proved and probable reserves at 31 Dec. 2003	120.8	10.7	11.9	-	132.7	10.7
Revision of previous estimates	13.8	-	1.0	-	14.8	-
Extensions and discoveries	-	-	11.2	-	11.2	-
Acquisitions and sale of reserves	-125.2	-10.7	-	-	-125.2	-10.7
Production 2004	-0.6	-	-4.5	-	-5.1	-
Total proved and probable reserves at 31 Dec. 2004	8.8	-	19.6	-	28.4	-

Proved and probable reserves related to fields in production

At 31 December 2001	5.3	-	11.7	-	22.9	-
At 31 December 2002	7.4	0.1	11.1	-	29.6	0.1
At 31 December 2003	5.1	0.2	9.5	-	28.0	3.3
At 31 December 2004	1.2	-	8.2	-	9.4	-

1) Gas stated in barrels of oil equivalent

Note 22 Health, safety and the environment

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

Note 23 Transactions with related parties, network partners and non-consolidated companies

All transactions, agreements and business activities with related parties are conducted according to normal market terms and conditions. The following table provides details of the related party transactions in 2004. For a description of the remuneration of directors and management, see note 8.

Related Party	Type of transaction	Size of transaction
Increased Oil Recovery Ltd	Rent of DNO London flat	MNOK 0.7
	Rent of DNO London office	MNOK 2.1
Increased Oil Recovery AS	Contracting of Executive Chairman to DNO	MNOK 3.96
Kver AS (former Larsen Oil & Gas AS)	Bergen office - administration agreement	MNOK 2.05
Other	Consulting services	MNOK 0.8

Increased Oil Recovery Ltd. (IOR Ltd)

Berge G. Larsen is employed by Increased Oil Recovery Ltd. (IOR) and holds an indirect ownership of 32% in the company. Rent of the DNO London office and London flat is paid through IOR Ltd. IOR Ltd receives a 5% handling fee for administration of the office and flat agreements.

Increased Oil Recovery AS (IOR AS)

As of 31.12.2004, Berge G. Larsen holds a 87% ownership interest in Increased Oil Recovery AS, with which DNO has entered into a consultancy agreement. DNO's consulting agreement with IOR AS states that IOR AS has entered into a consulting agreement with Increased Oil Recovery Ltd. In turn, IOR Ltd. has entered into an employment agreement with Berge G. Larsen. Through this series of agreements, Mr Larsen provides DNO with certain management services for which DNO paid NOK 3.96 million in 2004.

Independent Oilfield Rentals Ltd.

Berge G. Larsen holds indirectly just below 10% of Independent Oilfield Rentals Ltd which, in turn, holds a 100% interest in Dove Energy Ltd. Dove Energy Ltd. is the operator of the Sharyoof field. DNO entered in 1999 into a production sharing agreement and a joint operating agreement with Dove Energy and the Yemeni government. In 2004, DNO also signed an agreement with Dove for block 6 in Syria.

Kver AS (former Larsen Oil & Gas AS)

Berge G. Larsen owns 100% Kver AS. DNO has entered into an administrative agreement with the company. Under the agreement, DNO is required to pay office lease, IKT expenses and secretarial and travel expenses. Payments made pursuant to this arrangement totaled approximately NOK 2.05 million in 2004.

Other

Bjørge Gretland, Board member, receives an annual payment of NOK 0.8 mill for financing, restructuring and other services provided to the company.

With regard to the legal action by Cambridge Securities LLC, the Board of Directors has given a guarantee to indemnify the defendants. Ref. note 17 e) regarding further information on the legal action.

Note 24 Contingencies and events occurring after the balance sheet date

DNO ASA and some key executives have received notification of a claim for approximately USD 5 million in 2005 related to the arranging of a bond loan in the USA in the autumn of 2003. The company believes that the case has no legal basis.

In January 2005, DNO entered into an agreement for the acquisition of 6 exploration licences on the Norwegian shelf.

In 2004, DNO signed an agreement with PetroSA, a South African company, for the transfer of 40% ownership interests in the Inhaminga Block in Mozambique. PetroSA withdrew from the agreement and DNO received USD 4.8 million compensation in the first quarter of 2005.

DNO has initiated legal proceedings against Lundin Norway AS at Asker and Bærum Court because the company believes that Lundin without authorisation has copied DNO's system for health, safety and the environment, which is a necessary part of the approval on the Norwegian shelf. The case is expected to be decided in 2005.

Norwegian Oil Services AS has filed minor, unspecified compensation claims against DNO. DNO considers the claims to be without legal basis.

Note 25 Specification of continued operations

Consolidated Profit & Loss Statements - Continued Operations

In this table, discontinued operations from sold assets and gain from sale of operations (Lundin Petroleum AB and Independent Oil Tools ASA) have been presented as separate components in the profit and loss statements (after profit after taxes and before net profit) and balance sheets.

Profit and Loss Statements NOK mill.	Quarterly				Full Year	
	Q4 2004	Q3 2004	Q2 2004	Q1 2004	2004	2003
Operating revenues	338.0	301.0	237.9	255.8	1 132.7	1 267.7
Other operating revenues	0.4	0.2	0.2	0.2	1.0	1.1
Total operating revenues	338.4	301.2	238.1	256.0	1 133.7	1 268.8
Exploration expenses	-32.2	-74.4	-39.8	-51.1	-197.4	-92.6
Production and transportation expenses	-52.5	-51.3	-47.8	-57.2	-208.7	-207.8
Ordinary depreciation	-31.5	-37.3	-27.8	-23.8	-120.3	-245.3
Abandonment and decommissioning cost	-1.0	-0.9	-0.7	-0.9	-3.5	-12.2
Impairment, amortisation and losses	-	-	-	-	-	14.5
Payroll and related expenses	-4.3	1.1	-3.6	-4.6	-11.3	-23.8
General and administrative expenses	-11.8	-14.5	-7.2	0.1	-33.5	-20.5
Total operating expenses	-133.2	-177.2	-126.8	-137.6	-574.8	-587.5
Operating profit (Loss)	205.2	124.0	111.3	118.4	558.9	681.3
Interests in associated companies	-	-	-	15.6	15.6	-25.6
Net other financial items	-85.5	-39.7	12.7	23.6	-88.9	22.7
Profit (Loss) before taxes	119.7	84.3	124.0	157.6	485.6	678.3
Income tax expense	-148.0	-179.5	-107.7	-133.8	-569.1	-468.2
Profit (Loss) after taxes						
continued operations	-28.3	-95.2	16.3	23.8	-83.5	210.1
Net profit from discontinued operations	-6.3	-1.5	-7.4	-58.1	-73.4	-76.0
Gain from sale of operations	49.5	-	100.0	209.5	359.0	-
Net profit (loss)	14.8	-96.7	108.9	175.2	202.2	134.1

Notes

Other key data, Continued Operations	Quarterly				Full Year	
	Q4 2004	Q3 2004	Q2 2004	Q1 2004	2004	2003
NOK mill.						
Production Mboe	1 448	1 239	1 132	1 298	5 117	5 653
EBITDA	238.8	159.2	139.1	142.2	679.2	926.5
EBITDAX	271.0	233.6	178.9	193.3	876.6	1 019.1
Lifting cost	45.3	40.4	40.8	43.3	169.9	163.6
Lifting cost per bbl	5.11	4.76	5.28	4.79	4.93	4.09
Balance Sheets, Continued Operations						
NOK mill.						
Intangible assets	113.8	60.0	60.0	60.0	113.8	110.0
Tangible assets	304.5	259.4	270.2	224.3	304.5	603.7
Net assets discontinued operations	-	140.2	127.6	462.4	-	801.1
Financial fixed assets	73.2	50.8	14.6	2.7	73.2	237.1
Current assets	851.1	978.7	1 251.6	1 138.7	851.1	201.7
Total assets	1 342.5	1 489.0	1 724.1	1 888.1	1 342.5	1 953.6
Shareholder's equity	585.3	839.0	929.3	1 093.0	585.3	923.5
Provisions for liabilities and charges	27.7	46.3	42.2	121.5	27.7	124.3
Other long-term liabilities	469.5	357.5	292.0	335.8	469.5	751.2
Current liab., short-term int-bearing debt	260.0	246.2	460.6	337.7	260.0	154.6
Total equity and liabilities	1 342.5	1 489.0	1 724.1	1 888.1	1 342.5	1 953.6



■ Statsautoriserte revisorer

Ernst & Young AS
Oslo Atrium
Postboks 20
N-0051 Oslo

■ Foretaksregisteret:
NO 976 389 387 MVA

Tel. +47 24 00 24 00
Fax +47 24 00 24 01
www.ey.no

Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
DNO ASA

Auditor's report for 2004

We have audited the annual financial statements of DNO ASA as of 31 December 2004 NOK 29 041 000 for the parent company and a profit of NOK 202 172 000 for the Group. The information in the Directors' report concerning the financial statements, the going concern proposal for the allocation of the profit. The financial statements comprise the balance sheet, the income statement, the cash flows, the accompanying notes and the consolidated accounts. These and the Directors' report are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements and on other information in the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and practices generally accepted in Norway. Those standards and practices require that an audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 applicable, and auditing standards, an audit also comprises a review of the management of the Company 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 have been prepared in accordance with law and regulations in force in Norway, the position of the Company and of the Group as of 31 December 2004, and the results of operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern proposal, and the proposal for the allocation of the profit is consistent with the financial statements and law and regulations.

Oslo, 31 March 2005
ERNST & YOUNG AS


Asbjørn Rødal
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

■ Besøksadresse:
Oslo Atrium
Christian Frederiks plass 6
0154 Oslo

■ Arendal, Bergen, Bø, Drammen, Fosnavåg, Fredrikstad, Holmestrand, Horten, Hønefoss, Kongsberg, Kragerø, Kristiansand, Larvik, Levanger, Lillehammer, Moss, Måloy, Notodden, Oslo, Otta, Porsgrunn/Skien, Sandefjord, Sortland, Stavanger, Steinkjer, Tromsø, Trondheim, Tønsberg, Vikersund, Ålesund



Addresses

DNO ASA
Stranden 1, Aker Brygge
P.O. Box 1345 Vika
NO-0113 Oslo
Norway

Telephone (+47) 23 23 84 80
Telefax (+47) 23 23 84 81
E-mail dno@dno.no

Det Norske Oljeselskap AS
Stranden 1, Aker Brygge
P.O. Box 1345 Vika
NO-0113 Oslo
Norway

Telephone (+47) 23 23 84 80
Telefax (+47) 23 23 84 81
E-mail dno@dno.no

DNO Yemen
Diplomatic Area
Street 22C House no 10
Sana'a
Republic of Yemen

Telephone (+96) 71 24 33 88
Telefax (+96) 71 26 77 61
E-mail dnoyem@y.net.ye