# dno asa | annual report 2002

## contents



# this is dno

- DNO is an innovative, cost-efficient, knowledge-based petroleum company with focus on extended production from mature oil fields and development of smaller petroleum fields

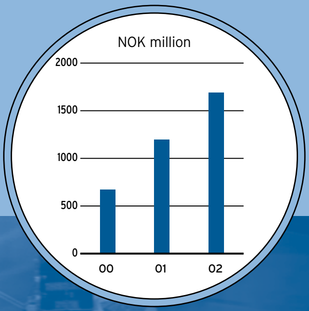
- DNO has a flexible organisation consisting of personnel with experience from all upstream phases

- DNO has been able to gain and advance operatorships in some of the world's most demanding areas of petroleum production by investing in and developing its expertise

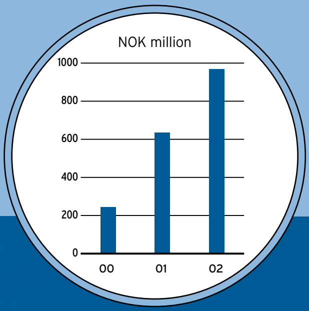
# key figures (group)

NOK million

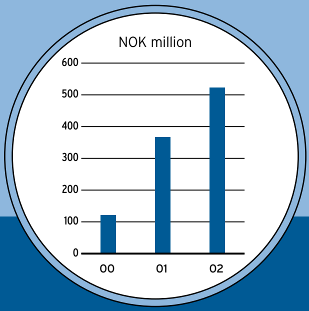
| EXPLORATION AND PRODUCTIONS | | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| Annual production | mmbbl | 8.2 | 4.8 | 2.5 |
| Increase in proved and probable reserves | mmbbl | 48.0 | 26.0 | 32.9 |
| Exploration expenses | | 114.0 | 9.7 | 22.4 |
| Average daily production | | 22 399 | 13 235 | 6 920 |
| Reserve replacement rate | x | 5.8 | 5.4 | 13.0 |
| Production and transportation expenses | USD/bbl | 7.19 | 10.2 | 13.3 |
| **PROFIT (LOSS)** | | | | |
| Total operating revenues | | 1 691 | 1 199 | 673 |
| Operating profit (loss) | | 523 | 367 | 121 |
| Annual profit (loss) | | -77 | 134 | 50 |
| **EBITDA AND NETBACK** | | | | |
| EBITDA | | 967 | 636 | 244 |
| EBITDAX | | 1 081 | 645 | 266 |
| Netback | | 552 | 530 | 232 |
| EBITDA-margin | % | 57.2 | 53.0 | 36.2 |
| **RETURN ON CAPITAL** | | | | |
| ROACE | % | -2.3 | 13.1 | 7.1 |
| CROGI | % | 25.5 | 21.7 | 12.0 |
| ROACE adjusted for special items* | % | 15.3 | 17.3 | 14.6 |
| **BALANCE SHEET FIGURES AND FINANCIAL RATIOS** | | | | |
| Total assets | | 2 041 | 2 353 | 1 597 |
| Fixed asset investments | | 481 | 989 | 554 |
| Fixed assets | | 1 777 | 2 006 | 1 254 |
| Interest-bearing debt | | 533 | 651 | 262 |
| Interest coverage ratio | x | 17.0 | 11.5 | 14.5 |
| Equity ratio | % | 44.0 | 40.0 | 49.9 |
| Interest-bearing debt/capital employed | % | 38.0 | 40.9 | 25.0 |
| Current ratio | x | 1.10 | 1.09 | 1.05 |
| **SHARE-RELATED DATA** | | | | |
| Market price at 31 December | | 14.6 | 14.5 | 19.2 |
| Number of shares | million | 54.2 | 51.6 | 50.2 |
| Market capitalisation | | 791.0 | 748.2 | 963.8 |




Operating revenues




EBITDA




Operating profit

## DEFINITIONS

Reserve replacement rate: Access to new proved and probable reserves, including acquisition and sale/produced volumes.

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

EBITDAX: Operating profit (loss) adjusted for depreciation, impairments, amortisation, abandonment costs and exploration costs (including costs of dry wells and impairment of oil and gas fields ("impairment tests"))

Netback: EBITDA exclusive tax payable

ROACE: Net profit (loss) adjusted for after tax interest expenses/average capital employed

Interest coverage ratio: EBITDA/interest expenses

Interest-bearing debt/capital employed: interest-bearing debt/interest-bearing debt and equity

* Adjusted for conditions related to Petrolia Drilling ASA as well as write-down and amortisation related to the company's investment in Russia (Timan Pechora)

# license portefolio

### UK

| Licence | Interest | Operator |
|---|---|---|
| Heather | 100.00% | DNO |
| Broom | 100.00% | DNO |
| Thistle | 99.00% | DNO |
| Solan/Strathmore | 3.70% | Amerada Hess |

### NORWAY

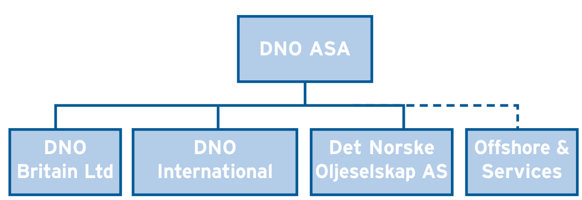
| Licence | Interest | Operator |
|---|---|---|
| Jotun Unit | 7.00% | Exxon/Mobil |
| PL 103B | 70.00% | DNO |
| Glitne & Enoch | 10.00% | Statoil |
| PL 203 | 15.00% | Marathon |
| PL 088BS | 15.00%* | Marathon |
| PL 036C | 15.00%* | Marathon |
| PL 148 | 50.00% | DNO |
| PL 167 + 167B | 20.00% | Statoil |
| PL 006C | 100.00% | DNO |

### YEMEN

| Licence | Interest | Operator |
|---|---|---|
| Tasour | 41.00% | DNO |
| Sharyoof | 24.45% | Dove Energy |
| Block 43 | 73.00% | DNO |
| Seven Heads, Irl. | 12.50% | Ramco |

* Pending approval from authorities

# group structure



## highlights 2002

**DNO continued to pursue the strategy designed in connection with the revitalisation of the company in 1996. The most important events in 2002 were:**

- DNO increased its oil production during the year by 69 per cent to 22 390 barrels per day
- DNO's total petroleum reserves increased from 86 to 125 million barrels
- DNO was approved as an operator on the Norwegian shelf. This approval means that DNO can also undertake major assignments in the Norwegian sector of the North Sea.
- The drilling programme at the Tasour field in Yemen yielded a considerable increase in oil production doubling the overall recoverable reserves to 20 million barrels
- DNO entered into a farm-out agreement with two American oil companies for a 45 per cent interest in the Broom field, (formerly called the West Heather and North Terrace structures), adjacent to the Heather field. The agreement included financing most of the cost of drilling of two wells in the field
- The accelerated drilling programme at the Broom field was successfully completed with overall recoverable reserves in the field now being estimated at 45 million barrels of oil
- DNO acquired a 12.5 per cent interest in the Seven Heads Irish gas field. Production is planned to start in the autumn of 2003.
- DNO took over the operatorship and gained 99 percent interest in the Thistle field thus doubling its oil production from the UK sector of the North Sea from 2003.
- DNO had 1 January 42 429 shareholders and 31 December 10 384 shareholders.
- The planned demerger of Offshore & Services was not implemented due to termination of contracts in the associated company Petrolia Drilling ASA and the weak offshore market
- Underlying operations within oil and gas were very good:

| | |
|---|---|
| Production | 8.2 million barrels of oil |
| Operating profit | NOK 523 million |
| Cash flow (EBITDA) | NOK 967 million |
| Cash return on gross investments (CROGI) | 25.5 percent |
| Net increase in proven and probable reserves | 40 million barrels of oil |

Helge Eide
Managing Director

## DNO – a petroleum company with an eye to the future

**2002 was another record-breaking year for DNO. A number of milestones were reached and passed during the year. Oil production increased considerably, as did DNO's reserves. In addition, the organisation has consolidated its expertise through operatorships of petroleum fields in three countries. Altogether, DNO is very well positioned to continue adding and extracting long-term value.**

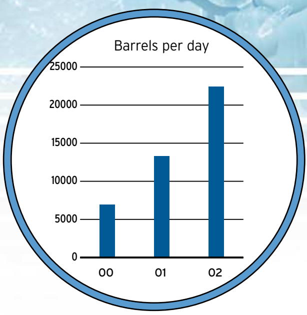
In 2002, DNO consolidated its position as a leading operator in the development and production from smaller petroleum fields and in extended production from mature fields. DNO's current business strategy was formulated in 1996. Our objective then was to maximise shareholder value through our own petroleum production and through acquisition and sale of interests in oil fields. The results achieved in the Oil & Gas segment in 2002 are a confirmation of the validity of this strategy, which will continue to contribute long-term added value to DNO's shareholders.

DNO is an independent oil company with a flexible, cost-efficient and highly competent organisation. This has made us an attractive partner – to large and small oil companies alike. Throughout our growth we have focused on projects with a short lead-time from discovery to production and cash flow. This has been crucial to DNO from a financial point of view, but has also given us expertise and experience much in demand when mature petroleum provinces like the Norwegian North Sea are entering a new phase.

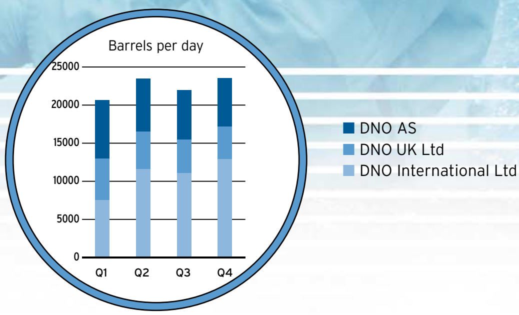
Even at the outset of 2003, it is clear that this will be another eventful year for DNO. The company's reserves base was significantly strengthened in 2002, and this potential will be realised in the years ahead. New wells with considerable potential will be drilled in Norway, Ireland and Yemen during the course of the year. In addition, the Heather satellites have been approved as a separate field (Broom), the development of which constitutes one of DNO's most exciting projects at the moment. Work on the development plan for Broom will continue throughout 2003, with the intention to start production in 2004.

Parallel with the strong growth, DNO's organisation has been further developed and professionalised. We will continue to keep a slim organisation with a strong focus on curbing costs. Thus we prepare DNO for a future that may entail periods of weaker market conditions than those currently prevailing.

DNO has grown quickly to its current state: a petroleum company with attractive expertise, an exciting portfolio of projects and licence interests, and a firm financial base. All of this combines to make DNO an exciting company with an eye to the future.




Average daily production




Quarterly production per segment

# board of directors' report | 2002

## DNO – long-term added value

**2002 was another year of strong growth for DNO. The company achieved all its operational goals and, in several areas, results exceeded the Board of Directors' expectations. At the beginning of 2003, DNO is a solid petroleum company with an eye to the future and a strong international portfolio of projects forming a sound basis for long-term added value.**

DNO is now an established, international petroleum company focusing on the development of smaller and mature petroleum fields. At the beginning of 2003, DNO had interests in petroleum licences in the Norwegian and UK sectors of the North Sea, in the Irish Sea and in Yemen. DNO's growth continued throughout 2002, both in the form of increased production and increased reserves. In addition, the company has further developed its operator expertise. This has already produced results. DNO's operating profit for 2002 was NOK 523 million. The Board of Directors is very satisfied with operations in the oil and gas division, but because of loss provisions in Offshore & Services, the overall results are less than satisfactory. DNO produced results after tax of NOK -77 million, after a loss of NOK 220 million in the Offshore & Services segment and NOK 64 million related to the company's investment in Russia (Timan Pechora).

DNO's interests in a diversified portfolio of oil and gas projects at the beginning of 2003 provide a sound basis for continued growth and added value.

DNO's oil production in Yemen developed very favourably in 2002. The progress of both the Tasour field and the Sharyoof field was better than expected, more than doubling the company's production from Yemen, and significantly increasing reserves. On the UK shelf, additional drilling by DNO and its partners in the Broom field (previously the West Heather and North Terrace structures) confirmed the promising results of DNO's drilling in 2001. Towards the end of 2002, DNO took over the operatorship of the Thistle field, considerably increasing the company's production from the UK shelf in 2003. Furthermore, DNO entered into an agreement in 2002 for the acquisition of the company Island Petroleum Developments Limited, including a 12.5 per cent interest in the Seven Heads gas field in Ireland.

In Norway, production from the Glitne field was far better than expected, and the resource base in Production Licence 203 was strengthened.

In all, this resulted in DNO's daily oil production averaging 22 399 barrels, an increase of 69 per cent from the preceding year. Estimated petroleum reserves at the end of 2002 were 125 million barrels of oil equivalent.

### Operator in three countries

DNO has grown rapidly since it took over the operatorship of the Heather field in the UK sector of the North Sea in 1997. Based on the knowledge and experience the company gained from its Heather operations, DNO was awarded an operatorship in Yemen and in the course of 2002 also on the Norwegian shelf. At the close of 2002, DNO was awarded its second field operatorship on the UK shelf by taking over the Thistle field. The expertise gained from operatorships in three different countries is one of the company's largest competitive advantages in the future development of the company.

When DNO was revitalised in 1996, with a new major shareholder, a new board of directors and new management, the strategy included long-term added value as its overall objective. During the six years in which this strategy has been pursued, DNO has increased its annual oil production from 0.3 to 8.2 million barrels. The company aims to remain a growth company.

A vital factor for DNO's success has been the company's ability to quickly respond to business opportunities as they arise. In the future, DNO will continue to be open to sale, exchange, or farm-out of licence interests with the aim of maximising long-term shareholder value. The partnership agreement entered into for the Broom field in 2002 is one example of this.

As a consequence of its objective, the company has engaged Lehman Brothers to carry out a strategic survey of the company with a view to optimising its licence portfolio.

At the end of the year, DNO had interests in 17 petroleum licences.

### Changes in Offshore & Services

DNO intended to demerge the company's Offshore & Services activities during the spring of 2002. A significant share of the assets in this business area consisted of DNO's position as the main shareholder of Petrolia Drilling ASA. During the spring of 2002, the charter party for Petrolia Drilling's drilling vessel Valentin Shashin was terminated. The uncertainty this created combined with a very weak rig market halted the plans for the demerger.

Offshore & Services is not part of DNO's core activity, and the company is working to find a long-term ownership solution for this business area. The company's interest in ClampOn was sold in 2002 as part of this strategy.

### Strong growth in production

DNO's operations improved significantly during the year. Earnings before interest, tax and depreciation (EBITDA) increased by 52 per cent to NOK 967 million. The operating profit rose by 43 per cent to NOK 523 million. The group's pre-tax profit was NOK 287 million, NOK 21 million lower than in 2001. Basic earnings per share were NOK -1.50 (after a loss of NOK 285 million in connection with Timan Pechora and Offshore & Services). Net cash flow from operations was NOK 424 million and cash flow per share (EBITDA) was NOK 19.2.

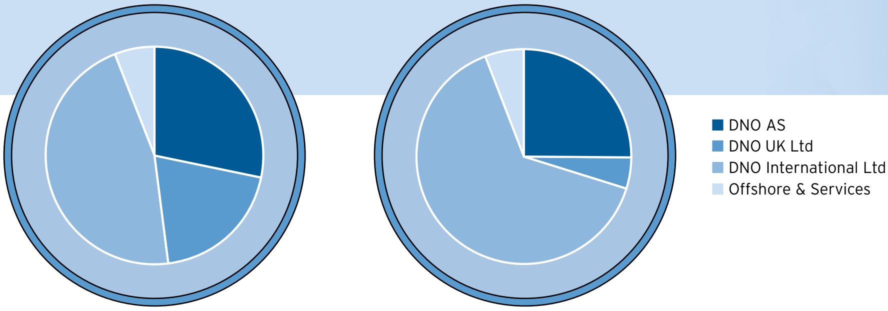
Throughout 2002, the oil price had a positive effect on DNO's results. The company makes continuous efforts to adjust to fluctuations in crude oil prices and to reduce its production costs, which in 2002 were 7.19 USD per barrel, a reduction of 3 USD per barrel from 2001. DNO's results in the Oil & Gas segment were positively affected by strategic and operational decisions made before and during 2002; one consequence being the significant increase in oil production and petroleum reserves.

### Strong development in Oil & Gas

In 2002, revenues from Oil & Gas amounted to NOK 1 595 million, compared with NOK 1 088 million in the preceding year. The segment's operating profit was NOK 530 million, compared with NOK 348 million in 2001.

### Weak development in Offshore & Services

Offshore & Services' operating revenues were NOK 96 million, compared with NOK 111 million in 2001, and its operating profit was NOK -7.2 million, down NOK 26 million from the preceding year.




**Operating revenues per business segment**

**EBITDA per business segment**

Consolidated earnings for 2002 were impacted by a NOK 220 million net loss relating to the investment in the associated company Petrolia Drilling ASA.

### Strengthened financial position

The good operating profit and strong cash flow in 2002 contributed significantly to strengthening DNO's financial flexibility.

DNO's investment programme continued in 2002. The company drilled wells and upgraded existing field interests, and also made considerable investments in new projects. The very successful drilling programme carried out in the Broom field, and the further development of the projects in Yemen required large resources and involved significant challenges, and the Board of Directors is very satisfied with the completion of these activities and with the results achieved. The investment programmes have added to the value of the company's assets and are creating a sound basis for DNO's ongoing efforts to establish long-term financing.

Net interest-bearing debt was NOK 469 million at the end of 2002, compared with NOK 487 million one year earlier.

In accordance with an authorisation given by the ordinary general meeting in May 2002, DNO's Board of Directors decided in August 2002 to implement a private placement towards an investor syndicate consisting of new and existing shareholders. A total of 2 600 000 new shares were issued at a price of NOK 13.60 each. The issue proceeds were largely used in connection with the acceleration of drilling of the Broom field in the autumn of 2002.

Total shareholders' equity and liabilities at the end of December 2002 were NOK 2 041 million, compared with NOK 2 353 million at the end of 2001. The equity ratio was 44 per cent, compared with 40 per cent one year earlier.

The Board of Directors confirms that the annual financial statements have been prepared fulfilling the condition of a going concern cf. Section 3-3 of the Norwegian Accounting Act.

# board of directors' report | 2002

**Progress in the Broom Field**

DNO has been the operator of the Heather licence in the UK sector of the North Sea since 1997. The company has continuously worked to increase its understanding of the resource base in the Heather area with the aim to extend production. These efforts have been successful, resulting in the field's longevity so far being extended by five years.

During the autumn of 2001, DNO drilled one well in the Broom field. Drilling results increased the field's estimated proved and probable reserves by approximately ten million barrels of oil. DNO simultaneously began its work of finding a partner to participate in the further development of the field.

In August 2002 DNO signed a farm-out agreement with two American companies: Challenger Minerals Inc. and Palace Exploration Company. These two companies purchased a 45 percent interest in Broom in exchange for payment of most of the costs of the next phase of the Broom drilling programme. Two wells were drilled, resulting in a further upwards adjustment of the Heather area resource base. DNO and its partners are now formulating a development plan for the Broom field, whereby production will be tied back to the Heather platform through a 7.5 kilometre pipeline system. The plan will be proposed for sanction in the first half of 2003 and start of production at the field is planned for 2004.

The results from the drilling activity carried out at the Broom field in 2001 and 2002, show total proven and probable oil reserves in the Heather and Broom fields of 75 million barrels of oil, of which DNO's share is 55 million barrels. This will enable operations on the Heather platform to continue until 2012 or longer, thus considerably postponing the closing down of operations and the removal of the platform.

The positive results achieved in the Heather area clearly indicate the potential associated with the acquisition of fields past plateau production and at the same time show that the company has the required competence and strategy to implement this type of project. In 2002, DNO was invited to take over the operatorship of the Thistle field, another field in the UK sector of the North Sea. This agreement was approved by the UK authorities just before Christmas in 2002. The transfer of this operatorship is expected to more than double DNO's oil production from the UK shelf in 2003.

Overall, DNO significantly strengthened its position on the UK continental shelf in 2002.

**New DNO gas project**

In October 2002, DNO acquired ownership interests in the Seven Heads gas field in the southern part of the Irish Sea. The operator of this gas field aims to put Seven Heads field on production towards the end of 2003. The first production well was drilled and tested in the first quarter of 2003 and the test results exceeded expectations.

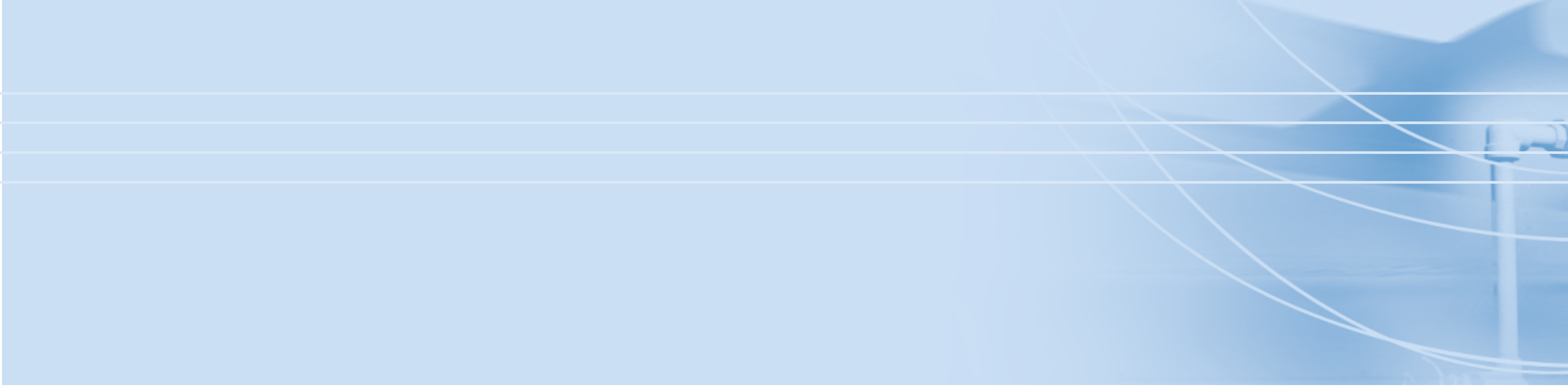
**Increased reserves on the Norwegian shelf**

The Glitne field in which DNO holds a ten per cent interest, performed better than expected in 2002. The field had been forecast to decline from plateau production in 2002 but production remained at a high level throughout the year. The operator, Statoil, together with DNO and the remaining partners in the licence now plan to drill one additional production well in 2003 and as a result production from the field will be extended to 2004. The positive development in Glitne clearly shows the potential of developing small and medium-size oil fields.

In 2002 there was a change in operator of Production Licence 203, resulting in the development of the field taking longer than expected. The technical surveys carried out in 2002, were, however, very successful, in that they significantly improved the reserves base for both oil and gas.

**Strong growth in Yemen**

A significant share of DNO's growth in production in 2002 came from Yemen. Both the Tasour field, of which DNO is operator, and Sharyoof have performed better than expected and the reserves have been increased. The good results the company achieved in 2002 provide the basis for further investments in drilling in



both fields in 2003. In the course of 2003, drilling will also be commenced in Block 43 which is operated by DNO and is the company's third licence in Yemen.

The Board of Directors and management of DNO closely monitor the political development in Yemen and in the region in general. After three years of operations, DNO has not encountered any untoward problems relating to its activities in the country. Favourable operating conditions and low costs make Yemen an attractive area for further investment by DNO.

### Health, safety and the environment

At the end of 2002, DNO's staff had completed 127 work years. Absence in 2002 was 1 056 days, or 4 per cent.

DNO has intensified its focus on health, safety and environmental matters during recent years. The company aims to carry out its activities without injury to people or damage to the environment and without loss of property. The Board of Directors is very pleased to state that 2002 was another year without incidents resulting in significant injuries or loss of lives, 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 for their contribution in 2002.

### Information to shareholders

On 31 December 2002, the share capital amounted to NOK 217 million, consisting of 54.2 million shares at a nominal value of NOK 4. All shares carry the same rights. During 2002, DNO bought back 206 882 treasury shares at prices between NOK 13.08 and NOK 16.21.

The DNO share is listed on the Oslo Stock Exchange. The share price on 2 January, 2002 was NOK 14.50. On 2 January, 2003 it was NOK 14.6.

In January 2002, DNO offered to redeem the shares of all shareholders in DNO ASA with holdings valued at NOK 500 or less. The offer was accepted by 12 286 shareholders. After having received the Norwegian Ministry of Trade and Industry's consent to a forced redemption, the shares of 20 515 additional shareholders with holdings valued at NOK 500 or less, were redeemed 2002.

At the end of 2002, DNO ASA had a total of 10 384 shareholders, compared with 42 429 shareholders one year earlier.

### Outlook

DNO's overall objective is to create long-term shareholder value through profitable investments in upstream petroleum activity.

In order to reach this objective, DNO will develop further as a project-oriented oil company based on its existing strategy and business concept.

DNO has focused its activity on the North Sea and the Middle East. These two regions will remain the company's geographical focus in future, although projects in other areas will also be evaluated. The company's operational focus will remain development and production of proved reserves, but exploration activity in mature areas with existing oil production will also be considered.

DNO is facing exciting challenges in 2003. High priority will be given to the further development of existing petroleum licences and initiatives that will help extract the inherent value of the company's portfolio. The major areas of focus in 2003 will be the Broom and Seven Heads developments and continued drilling in Yemen and Norway.

The operator expertise that DNO has gained through acquiring the Heather licence operatorship in 1997 has been of strategic importance to the company's rapid growth. The knowledge and experience obtained from operatorships in three countries will also represent a competitive advantage in the years ahead, in a market characterised by rapid change and growing competition.

### Allocations

For 2002, the parent company's loss after tax amounted to NOK -57.2 million. The Board of Directors proposes that the loss will be covered by retained earnings.

Distributable reserves as at 31 December 2002 amounted to NOK 99 million.

Oslo, 31 March 2003

**Berge G. Larsen**
Chairman

**Anders Farestveit**
Vice-Chairman

**Helge Eide**
Managing Director
Board Member

**Farouk Al-Kasim**
Board Member

# profit and loss statements

| Parent company | | | | Group | | |
|---|---|---|---|---|---|---|
| **2001** | **2002** | NOK 1000 | **Note** | **2002** | **2001** | **2000** |
| | | **Operating revenues** | | | | |
| 280 947 | 793 920 | Operating revenues | | 1 685 064 | 1 157 647 | 672 689 |
| 162 | 110 | Other operating revenues | 4 | 5 950 | 41 366 | 513 |
| **281 109** | **794 030** | **Total operating revenues** | 3 | **1 691 014** | **1 199 013** | **673 202** |
| | | **Operating expenses** | | | | |
| - | 19 197 | Exploration expenses | 5 | 114 153 | 9 718 | 22 448 |
| 45 124 | 93 474 | Production and transportation expenses | 6 | 489 576 | 476 190 | 339 384 |
| 62 681 | 104 590 | Ordinary depreciation, abandonment costs | 12, 17 | 367 093 | 247 088 | 93 934 |
| 21 500 | 63 500 | Impairment, amortisation and losses | 7 | 63 500 | 21 500 | 28 818 |
| 10 137 | 8 978 | Payroll and payroll-related expenses | 8 | 35 523 | 27 140 | 20 337 |
| 37 847 | 66 282 | Other operating expenses | | 98 068 | 50 550 | 47 176 |
| **177 289** | **356 021** | **Total operating expenses** | 3 | **1 167 913** | **832 186** | **552 097** |
| **103 820** | **438 009** | **OPERATING PROFIT (LOSS)** | 3 | **523 101** | **366 827** | **121 105** |
| -33 744 | -181 714 | Write-down of shares in associated companies | 13 | - | - | - |
| - | - | Interests in associated companies | 13 | -191 714 | -33 397 | -30 975 |
| 13 122 | 9 016 | Net other financial items | 10 | -43 917 | -25 635 | 4 056 |
| **83 198** | **265 311** | **PROFIT (LOSS) BEFORE TAXES** | | **287 470** | **307 795** | **94 186** |
| -40 220 | -322 475 | Taxes | 11 | -364 101 | -173 613 | -44 463 |
| **42 978** | **-57 164** | **ANNUAL PROFIT (LOSS)** | 3 | **-76 631** | **134 182** | **49 723** |
| | | Basic earnings per share | 9 | -1.50 | 2.64 | 1.15 |
| | | Diluted earnings per share | 9 | -1.50 | 2.64 | 1.10 |

# balance sheets

| Parent company | | | | Group | |
|---|---|---|---|---|---|
| **31.12.01** | **31.12.02** | NOK 1000 | **Note** | **31.12.02** | **31.12.01** |
| | | **Assets** | | | |
| | | **FIXED ASSETS** | | | |
| | | **Intangible assets** | | | |
| - | - | Goodwill | 12 | 55 932 | 63 923 |
| 85 000 | 79 960 | Deferred tax assets | 11 | 86 141 | 85 869 |
| **85 000** | **79 960** | **Total intangible assets** | | **142 073** | **149 792** |
| | | **Tangible assets** | | | |
| 224 274 | 263 411 | Oil and gas fields | | 1 267 712 | 1 177 506 |
| 67 499 | 13 548 | Other tangible assets | | 111 739 | 194 205 |
| **291 773** | **276 959** | **Total tangible assets** | 12 | **1 379 451** | **1 371 711** |
| | | **Fixed asset investments** | | | |
| 240 370 | 268 768 | Shares in subsidiaries | 13 | - | - |
| 44 095 | 568 283 | Intercompany receivables | | - | - |
| 155 900 | - | Investments in associated companies | 13 | - | 156 589 |
| 5 261 | 10 537 | Other investments and receivables | | 11 898 | 149 492 |
| 178 531 | 244 020 | Restricted bank deposits | 15 | 244 020 | 178 531 |
| **624 157** | **1 091 608** | **Total fixed asset investments** | | **255 918** | **484 612** |
| **1 000 930** | **1 448 527** | **Total fixed assets** | | **1 777 442** | **2 006 115** |
| | | **CURRENT ASSETS** | | | |
| 71 995 | 75 562 | Inventory, other receivables | 14 | 180 134 | 183 558 |
| 371 865 | 2 547 | Intercompany balance | | - | - |
| 75 490 | 29 577 | Cash and cash equivalents | | 83 768 | 163 687 |
| **519 350** | **107 686** | **Total current assets** | | **263 902** | **347 245** |
| **1 520 280** | **1 556 213** | **TOTAL ASSETS** | | **2 041 344** | **2 353 360** |

# balance sheets

| Parent company | | | | Group | |
|---|---|---|---|---|---|
| **31.12.01** | **31.12.02** | NOK 1000 | **Note** | **31.12.02** | **31.12.01** |
| | | **Shareholders' equity and liabilities** | | | |
| | | **SHAREHOLDERS' EQUITY** | | | |
| | | **Paid-in capital** | | | |
| 206 329 | 216 729 | Share capital | | 216 729 | 206 329 |
| -3 898 | -1 466 | Treasury shares | | -1 466 | -3 898 |
| 407 987 | 431 533 | Share premium account | | 431 532 | 407 987 |
| 7 314 | 7 314 | Other paid-in capital | | 7 314 | 7 314 |
| **617 732** | **654 110** | **Total paid-in capital** | | **654 109** | **617 732** |
| | | **Retained earnings** | | | |
| 238 893 | 179 032 | Retained earnings | | 244 488 | 323 954 |
| **238 893** | **179 032** | **Total retained capital** | | **244 488** | **323 954** |
| - | - | Minority interests | | 3 320 | - |
| **856 625** | **833 142** | **Total shareholders' equity** | 16 | **901 917** | **941 686** |
| | | **LIABILITIES** | | | |
| | | **Provisions for liabilities and charges** | | | |
| - | 106 916 | Abandonment liabilities | 17 | 275 708 | 260 193 |
| - | - | Other liabilities and charges | | - | 44 779 |
| - | - | Deferred tax liabilities | 11 | 70 126 | 135 612 |
| **-** | **106 916** | **Total provisions for liabilities and charges** | | **345 834** | **440 584** |
| | | **Other long-term liabilities** | | | |
| 64 722 | 33 591 | Long-term inter-company liabilities | | - | - |
| 500 000 | 420 330 | Bond loan | 18 | 420 330 | 500 000 |
| 46 906 | 93 874 | Amounts owed to financial institutions | 18 | 140 780 | 151 134 |
| **611 628** | **547 795** | **Total other long-term liabilities** | | **561 110** | **651 134** |
| | | **Non-interest-bearing current liabilities** | | | |
| 52 027 | 68 360 | Current liabilities | 19 | 232 483 | 319 956 |
| **52 027** | **68 360** | **Total non-interest-bearing current liabilities** | | **232 483** | **319 956** |
| **663 655** | **723 071** | **Total liabilities** | | **1 139 427** | **1 411 674** |
| **1 520 280** | **1 556 213** | **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **2 041 344** | **2 353 360** |
| | | Collateral | 18 | | |
| | | Guarantees | 17 | | |
| | | Financial instruments | 20 | | |

Oslo, 31 March 2003

**Berge G. Larsen**
Chairman

**Anders Farestveit**
Vice-Chairman

**Helge Eide**
Managing Director
Board Member

**Farouk Al-Kasim**
Board Member

# cash flow statement

| Parent company 2001 | Parent company 2002 | NOK 1000 | Note | Group 2002 | Group 2001 | Group 2000 |
|---|---|---|---|---|---|---|
| | | **Operating activities** | | | | |
| 83 198 | 265 311 | Profit before tax | | 287 470 | 307 795 | 94 186 |
| -70 220 | -317 435 | Taxes paid | 11 | -415 312 | -105 829 | -12 172 |
| 84 181 | 168 090 | Depreciations and writedowns of tangible and intangible assets | 7, 12 | 415 078 | 268 588 | 122 752 |
| 33 744 | 198 549 | Write-down, fixed asset investments | | 17 637 | - | - |
| - | -2 477 | (Gain)/loss on sale of operating assets, securities, etc. | | -1 788 | -40 564 | 20 908 |
| - | - | Share of profit (loss) in associated companies | 13 | 191 714 | 33 397 | 30 975 |
| -276 085 | -99 840 | Changes in net current assets and other accruals | | -70 755 | 170 864 | -107 038 |
| **-145 182** | **212 198** | **Net cash flow from operating activities** | | **424 044** | **634 251** | **149 611** |
| | | **Investing activities** | | | | |
| - | -1 038 | Acquisition of subsidiary | 2 | -163 | - | -5 883 |
| -125 878 | -153 138 | Investment in and development of oil and gas fields | 12 | -465 827 | -894 999 | -409 385 |
| - | - | Sale of tangible assets | | 1 859 | 40 418 | 4 397 |
| -14 325 | -5 167 | Acquisition of securities and interests | | -5 167 | -14 375 | -24 031 |
| - | 10 898 | Sale of securities and interests | | 10 898 | - | 2 655 |
| 7 393 | -98 204 | Net cash flow from other investments and sales | | -2 412 | -14 657 | -28 119 |
| **-132 810** | **-246 649** | **Net cash flow from investing activities** | | **-460 812** | **-883 613** | **-460 366** |
| | | **Financing activities** | | | | |
| 549 934 | 107 850 | New interest-bearing debt | 18 | 107 850 | 563 934 | 127 451 |
| -260 814 | -125 151 | Repayment of interest-bearing debt | 18 | -156 840 | -249 826 | -42 295 |
| 23 765 | 33 946 | Payment of share capital including share premium | 16 | 33 946 | 23 765 | 212 156 |
| -12 850 | -28 108 | Purchase and sale of treasury shares | 16 | -28 108 | -12 850 | - |
| **300 035** | **-11 463** | **Net cash flow from financing activities** | | **-43 152** | **325 023** | **297 312** |
| 53 447 | 75 490 | Cash and cash equivalents at 1 January 1) | | 163 687 | 88 026 | 101 469 |
| **75 490** | **29 576** | **Cash and cash equivalents at 31 December** | | **83 768** | **163 687** | **88 026** |

1) Restricted bank deposits relating to abandonment (Heather field) are not classified as cash and cash equivalents (note 16 Fixed asset investments)

## Note 1 Accounting Principles

All figures are presented in NOK 1 000 unless otherwise is stated.

**General**
The financial statements are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles. In preparing the statements, management has to use as its basis assumptions and estimates which will have an effect on certain assets and liabilities. Actual figures may differ from these estimates. The accompanying notes are an integral part of the financial statements for the parent company and of the consolidated financial statements.

**Basis of consolidation**
The consolidated financial statements present the financial position, result of operations and cash flows of the group, and include the parent company DNO ASA, subsidiaries (see note 13) and companies in which DNO ASA has a controlling interest. Where subsidiaries are not wholly owned, minority interests are entered as separate items in the profit and loss statement and balance sheet.

The company's activities in Yemen are included in the financial statements of the parent company DNO ASA.

Intercompany transactions and balances have been eliminated.

All consolidated financial statements are presented according to uniform accounting principles.

Shares in subsidiaries and associated companies are accounted for in the consolidated financial statements under the cost method of accounting. Interests in subsidiaries have been eliminated and the cost price of the shares has been replaced by the companies' assets and liabilities, stated at the group's cost. The difference between the purchase price of the shares and the group's share of the acquired company's equity at the date of acquisition is included in the items to which the excess value/reduced value relates. The part of the cost that cannot be included in identifiable assets or liabilities items, is entered as goodwill in the balance sheet. Deferred taxes relating to acquisitions on the Norwegian shelf are included net.

Associated companies are defined as companies in which the parent company DNO ASA or subsidiaries do not have a controlling interest, but have strategic interests and a significant influence (20-50 per cent interest). Associated companies are accounted for under the equity method, 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. The balance sheet states the investment at its cost, adjusted for the consolidated share of the result, depreciation and dividends received. Excess value in associated companies is accounted for according to the same principles as for subsidiaries.

The balance sheets of foreign subsidiaries are converted using exchange rates at 31 December, with the exception of oil and gas fields which are converted using exchange rates at the date of acquisition. Profit and loss statements are converted using average exchange rates for the year, with the exception of depreciation and abandonment costs which are converted using historical exchange rates. Conversion differences are entered as a financial item in the profit and loss statement as the foreign subsidiaries are regarded as an integrated part of the business enterprise.

**Valuation and classification of balance sheet items**
Assets and liabilities relating to the flow of goods are classified as current assets and current liabilities, respectively. 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.

Cash and cash equivalents include cash, bank deposits and other liquid funds as well as capital investments maturing within three months from the date of acquisition.

**Revenue recognition**
Sales revenues from the petroleum activity are recognised based on produced volumes of oil and gas under the entitlement method.

Revenues from other activities are recognised at the date of delivery.

In year 2000, operating revenues from activities in Yemen were presented net, that is, net of the Yemen authorities' share of production. Based on the increasing importance of the Yemen activities for the group's financial position, this was changed in 2001. The Yemen activities are now presented gross, as this is considered to better reflect the underlying activities. Gross presentation means that operating revenues include the share of production that goes to the authorities in Yemen under the production-sharing agreement. The authorities' share of production (which in part depends on the result) is expensed as tax.

**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 depreciated in case of permanent and significant decline in value.

**Exploration and development costs**
DNO uses the "Successful Efforts" method to account for exploration and development costs. All exploration costs with the exception of drilling costs of exploration wells, are expensed as incurred. Drilling costs of exploration wells are temporarily capitalised pending evaluation of possible discoveries of oil and gas reserves. In case of dry wells or discoveries that are assessed to not be technically or commercially recoverable, the drilling costs of exploration wells are expensed at the date this is established by the operator.

All costs of developing commercial oil and/or gas fields, including costs of the plan for development and operation, are capitalised. Development costs are capitalised once the implementation of the development has been adopted by the licensees or is assessed as highly probable. Capitalised costs are depreciated under the unit-of-production method of accounting.

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

**Maintenance and repairs**
Costs of maintenance and repairs are expensed when incurred.

**Tangible assets**
Interests in oil and gas licences are recognised based on the straight line method of depreciation. Provided that the company has significant influence from the date of the agreement, meets government requirements and is granted approval by the Norwegian Ministry of Petroleum and Energy by the end of the accounting year, the date of the agreement is regarded as the date of the transaction.

Petroleum fields and transportation systems under development and in operation, buildings and property, equipment, furniture and fixtures, etc. are recorded at their historical cost net of accumulated depreciation and write-downs, if any.

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 undiscounted 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.

The basis for calculation of depreciation according to the unit-of-production method is proved and probable, developed reserves. The purchase price of licence interests is depreciated based on proved and probable, developed and undeveloped reserves.

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.

Office buildings, equipment, furniture and fixtures are depreciated on a straight-line basis over their expected useful economic life.

**Goodwill**
Goodwill is depreciated on a straight-line basis over its useful economic life.

**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.

**Inventories**
Inventories of equipment and spare parts are valued at the lower of purchase price and net realisable value.

**Increased/reduced offtake of petroleum**
Increased/reduced offtake of petroleum follows from the entitlement method, and is valued at its net realisable value on the balance sheet day. Increased/reduced offtake of petroleum is calculated as the difference of the company's share of production and its actual sales. Increased/reduced offtake of petroleum is accrued and classified as short-term debt/retained income.

**Provision for future abandonment 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.

**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.

**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, a special deduction available to reduce taxable income subject to Norwegian petroleum tax, 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.

**Options to the directors of the board and management**
Options granted below market value are expensed when awarded and offset against other paid-up equity. Outstanding options are recorded at their current value and provisions are made for employer's national insurance contributions.

**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 losses are not expensed). 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.

**Contingent gains/losses**
According to Norwegian accounting standards relating to contingent gains, 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).

## Note 2 Significant events during the period 1 January 2000 to 31 December 2002

### Significant events 2002

**Reserves upgrades in all geographical areas**
As a result of acquisitions and the company's successful exploration and development activities in 2002, its total proved and probable reserves were increased by 48 million barrels of oil equivalent.

**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. See note 24.

**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 KNOK 82 000 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.

**Timan Pechora**
The company's investment in Russia was written down entirely in the last quarter of the year.

**Demerger process**
DNO's plan to spin off its Offshore & Services segment into a separate, listed company in the spring of 2002 as part of its strategy to focus on the company's oil and gas activity, was postponed. The company is continously evaluating measures to develop its core business.

### Significant events 2001

**Acquisition of interest on the Norwegian shelf**
In November 2001 DNO signed an agreement with Conoco for transfer of Conoco's 3.7 per cent interest in Jotun (PL 103B), including the operatorship of the licence, effective from 1 January 2002. The acquisition was approved by the Norwegian Ministry of Petroleum and Energy in 2002.

**Sale of interest on the UK shelf**
In September, DNO signed an agreement for sale of a 1 per cent interest in the Claymore field to Talisman Oil Trading Limited. Net accounting gain was KNOK 40 600.

**Broom drilling programme**
The company's drilling programme in Broom increased the company's proved and probable oil reserves by an estimated 10 million barrels.

**New licence in Yemen**
In 2001, DNO signed a farm-in agreement for block 43 in Yemen. The block is located in the same geographical province as blocks 53 and 32. DNO is the operator of the block, with an ownership interest of 75 per cent.

**Increased ownership interest in block 32 in Yemen**
In April 2001, DNO increased its ownership interest in block 32, Yemen by 9 per cent.

### Significant events 2000

**Change in group structure**
In 2000, DNO acquired 100 per cent of the shares in Independent Oil Tools AS (IOT AS). The purchase price was KNOK 108 000, of which KNOK 94 000 was paid in DNO shares at a price of NOK 27.30 per share.

**Acquisition of interests on the Norwegian shelf**
Acquisition of a 1.25 per cent interest in Jotun (PL 103B), a 15 per cent interest in PL 203 and a 10 per cent interest in PL 148. The acquisitions were approved by the Norwegian Ministry of Petroleum and Energy in 2000. Acquisition of a 10 per cent interest in Glitne (PL 048B), approved by the Norwegian Ministry of Petroleum and Energy in 2001. Acquisition of a 10 per cent interest in Tyr (PL 006C), approved by the Norwegian Ministry of Petroleum and Energy in 2001. An agreement was moreover entered into in 2000 for the purchase of a 2 per cent interest in Jotun (PL 103B), effective from 1 January 2001. The acquisition was approved by the Norwegian Ministry of Petroleum and Energy in 2001.

**Acquisition of interests in Yemen.**
Acquisition of a 12 per cent interest in the Tasour field, block 32 in Yemen.

## Note 3 Reporting by segment

| 2002 | | Oil&Gas UK | Oil&Gas Norway | Oil&Gas International | Total Oil&Gas | Offshore& Services | Group |
|---|---|---|---|---|---|---|---|
| **Operating revenues** | | **333 871** | **477 465** | **778 831** | **1 590 167** | **100 847** | **1 691 014** |
| Operating expenses | | -337 881 | -406 155 | -320 634 | **-1 064 670** | -103 243 | **-1 167 913** |
| of this | Exploration expenses | -994 | -93 962 | -19 197 | -114 153 | - | -114 153 |
| | Production and transportation expenses | -257 780 | -117 359 | -93 474 | -468 613 | -20 963 | -489 576 |
| | Depreciation 1) | -42 315 | -171 861 | -165 998 | -380 174 | -50 958 | -431 132 |
| **Operating profit (loss)** | | **-4 010** | **71 310** | **458 197** | **525 497** | **-2 396** | **523 101** |
| Profit (loss) associated companies | | - | - | - | - | -191 714 | -191 714 |
| **Net profit (loss)** | | **-34 511** | **22 516** | **133 946** | **121 951** | **-198 582** | **-76 631** |
| **EBITDA 2)** | | **36 417** | **240 472** | **630 314** | **907 203** | **59 861** | **967 064** |
| **Total assets** | | **902 785** | **445 318** | **503 210** | **1 851 313** | **190 031** | **2 041 344** |
| **Total liabilities** | | **716 677** | **231 210** | **73 337** | **1 021 224** | **118 203** | **1 139 427** |
| Non-interest-bearing liabilities | | 329 483 | 181 981 | 60 661 | 572 125 | 6 192 | 578 317 |
| **Investments** | | **66 807** | **191 589** | **204 702** | **463 098** | **18 320** | **481 418** |
| **2001** | | | | | | | |
| **Operating revenues** | | **483 211** | **352 773** | **246 357** | **1 082 341** | **116 672** | **1 199 013** |
| Operating expenses | | -426 948 | -179 707 | -133 046 | -739 701 | -92 485 | -832 186 |
| of this | Exploration expenses | -935 | -9 491 | 708 | -9 718 | - | -9 718 |
| | Production and transportation expenses | -344 256 | -63 035 | -34 949 | -442 240 | -33 950 | -476 190 |
| | Depreciation 1) | -54 596 | -92 563 | -83 084 | -230 243 | -38 345 | -268 588 |
| **Operating profit (loss)** | | **56 263** | **173 066** | **113 311** | **342 640** | **24 187** | **366 827** |
| Profit (loss) associated companies | | - | - | - | - | -33 397 | -33 397 |
| **Net profit (loss)** | | **67 321** | **37 340** | **49 159** | **153 820** | **-19 638** | **134 182** |
| **EBITDA 2)** | | **110 590** | **265 432** | **196 861** | **572 883** | **62 832** | **635 715** |
| **Total assets** | | **1 157 638** | **660 924** | **280 791** | **2 099 353** | **254 007** | **2 353 360** |
| **Total liabilities** | | **804 948** | **401 525** | **42 850** | **1 249 323** | **162 351** | **1 411 674** |
| Non-interest-bearing liabilities | | 411 082 | 319 613 | 13 632 | 744 327 | 16 213 | 760 540 |
| **Investments** | | **324 941** | **433 994** | **109 178** | **868 113** | **121 328** | **989 441** |
| **2000** | | | | | | | |
| **Operating revenues** | | **444 251** | **136 522** | **26 854** | **607 627** | **65 575** | **673 202** |
| Operating expenses | | -355 927 | -60 486 | -56 425 | -472 838 | -79 259 | -552 097 |
| of this | Exploration expenses | -1 531 | -13 904 | -7 013 | -22 448 | - | -22 448 |
| | Production and transportation expenses | -266 914 | -24 078 | -3 776 | -294 768 | -44 616 | -339 384 |
| | Depreciation 1) | -56 251 | -12 483 | -34 484 | -103 218 | -19 538 | -122 756 |
| **Operating profit (loss)** | | **88 324** | **76 036** | **-29 571** | **134 789** | **-13 684** | **121 105** |
| Profit (loss) associated companies | | - | - | - | - | -30 975 | -30 975 |
| **Net profit (loss)** | | **117 683** | **23 162** | **-30 361** | **110 484** | **-60 761** | **49 723** |
| **EBITDA 2)** | | **129 552** | **83 832** | **4 004** | **217 388** | **26 400** | **243 788** |
| **Total assets** | | **1 053 644** | **276 031** | **111 222** | **1 440 897** | **156 047** | **1 596 944** |
| **Total liabilities** | | **596 406** | **118 199** | **28 281** | **742 886** | **57 332** | **800 218** |
| Non-interest-bearing liabilities | | 422 493 | 78 815 | 25 390 | 526 698 | 11 211 | 537 909 |
| **Investments** | | **244 297** | **88 161** | **94 374** | **426 832** | **47 525** | **554 262** |

1) Includes depreciation/amortisation, provisions for abandonment and losses

2) Operating profit adjusted for depreciation/amortisation, provisions for abandonment

Direct items have been attributed to the segment they relate. Indirect items have been allocated to the geographica areas in the Oil & Gas segment according to turnover.
The International segment consists of the company's investments in Russia (Timan Pechora), Yemen and Ireland.

## Note 4 Other operating revenues

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | **2002** | **2001** | **2000** | **2002** | **2001** |
| Other operating revenues 1) | 5 950 | 802 | 513 | 110 | 162 |
| Gains from sale of licence interests 2) | - | 40 564 | - | - | - |
| **Total other operating revenues** | **5 950** | **41 366** | **513** | **110** | **162** |

1) In 2002, Other operating revenues mainly consists of sale of project time to external parties

2) The company's 1 per cent interest in the Claymore field on the UK shelf was sold to Talisman Oil Trading Ltd in 2001

## Note 5 Exploration expenses

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | **2002 1)** | **2001** | **2000** | **2002** | **2001** |
| G&G, seismic and field studies | 21 115 | 9 705 | 8 545 | 8 092 | - |
| Exploration expenses capitalised in previous years carried to expense | 13 201 | - | - | - | - |
| Exploration expenses capitalised this year carried to expense | 17 671 | - | 13 903 | - | - |
| Write-down of capitalised exploration expenses | 51 061 | - | - | - | - |
| Other exploration expenses including consulting services and costs in own organisation | 11 105 | 13 | - | 11 105 | - |
| **Total exploration expenses** | **114 153** | **9 718** | **22 448** | **19 197** | **-** |

1) Exploration expenses for the year mainly relate to the Tyr prospect in licence 006 C

## Note 6 Production and transportation expenses

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | **2002** | **2001** | **2000** | **2002** | **2001** |
| Production expenses 1) | 432 037 | 435 332 | 294 768 | 60 705 | 45 124 |
| Transportation expenses | 36 576 | 6 908 | - | 32 769 | - |
| **Total production and transportation expenses, Oil & Gas** | **468 613** | **442 240** | **294 768** | **93 474** | **-45 124** |
| Operating expenses, Offshore & Services | 20 963 | 33 950 | 44 616 | - | - |
| **Total production and transportation expenses** | **489 576** | **476 190** | **339 384** | **93 474** | **45 124** |

1) Production expenses consist of expenses relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurances, $CO_2$ taxes and royalties to the state

## Note 7 Impairment, amortisation and losses

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 | 2001 |
| Amortisation and write-down 1) | 63 500 | 21 500 | 26 142 | 63 500 | 21 500 |
| Other losses | - | - | 2 676 | - | - |
| **Total impairment, amortisation and losses** | **63 500** | **21 500** | **28 818** | **63 500** | **21 500** |

1) During the fourth quarter of 2002 DNO wrote down the company's Russian project (Timan Pechora) in its entirety with KNOK 41 900. This came in addition to the ordinary amortisation of KNOK 21 600. The background for the write-down of the investment is that there is considerable uncertainty attached to the estimated future cash flows from the project. DNO will still focus on the project with the aim of realising potential values.

## Note 8 Information about remuneration, severance pay, salaries, options and pensions

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| **Payroll expenses** | 2002 | 2001 | 2000 | 2002 | 2001 |
| Salaries, bonuses, etc. | 82 055 | 80 509 | 58 802 | 6 670 | 18 143 |
| Employer's national insurance contributions | 9 800 | 9 803 | 7 754 | 1 736 | 2 195 |
| Pensions | 2 817 | 1 241 | 564 | -244 | 332 |
| Other personnel costs | 4 870 | 3 388 | 1 155 | 816 | 2 141 |
| Reclassification of payroll and payroll-related expenses to Expl. and Prod. 1) | -64 019 | -67 801 | -47 938 | - | -12 674 |
| **Payroll and payroll-related expenses** | **35 523** | **27 140** | **20 337** | **8 978** | **10 137** |
| Average number of employees | 127 | 121 | 105 | 6 | 17 |

The change in the number of parent company employees from 2001 to 2002 is due to 13 employees being transferred from the parent company to Det Norske Oljeselskap AS.

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

**Pensions**
In 2001, DNO introduced a defined contribution scheme for employees in the parent company. In connection with the transfer of employees from the parent company, the scheme has also been introduced for employees in Det Norske Oljeselskap AS. A total of KNOK 1 346 was expensed under the scheme in 2002, compared with KNOK 534 in 2001. The company's obligations are limited to its annual contributions. DNO has a group pension scheme covering employees in IOT AS. Net pension funds of KNOK 1 361 at 31 December 2002 and KNOK 1 361 at 31 December 2001 are classified as other long-term receivables. In 2002, KNOK 1 400 was moreover paid to a contributory pension scheme in the UK.

**Remuneration of directors and executives**
Remuneration of the directors of the board amounted to KNOK 525 for each of the years 2002 and 2001.

In 2002, the company terminated severance agreements with the board chairman and two directors. The two directors have accepted the changed terms of agreement, while the former chairman has sued the company, claiming that the original agreement be maintained. The claim amounts to approximately KNOK 8 000. Total payments to the two directors according to the changed terms of agreement amount to KNOK 5 100 (consultant fees).

Salary and director's fee to the group chief executive in 2002 amounted to KNOK 372 (KNOK 600 in 2001) and consultant fees to IOR Ltd for hire of group chief executive were KNOK 3 006 in 2002 (KNOK 1 031 in 2001). No severance pay agreement has been entered into with the group chief executive. See also note 23.

The group chief executive's total salaries and director's fees for the period 1996–July 2001 amounted to KNOK 2 820. For the same period the former board chairman received director's and consultant fees of the order of KNOK 7 330.

Managing director's salary, bonus and other remuneration for 2002 amounted to KNOK 2 095. The figure for 2001 was KNOK 2 097. His compensation in 2002 consisted of KNOK 1 811 in salary and bonus, KNOK 100 in director's fee, KNOK 36 in pension contribution and KNOK 148 in other benefits. On his retirement, the managing director will be entitled to severance pay corresponding to two to three times his annual remuneration, depending on the circumstances.

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

In addition to the group chief executive and the managing director, "executives" include the heads of DNO Britain Ltd., DNO International Ltd., Det Norske Oljeselskap AS, IOT AS and the chief financial officer.

The head of the subsidiary IOT AS receives a result-based bonus.

Severance pay agreements have also been entered into with four other executives (1–2 years' salary).

**Shares and options held by directors and executives on 31 December 2002**

| **Directors and executives** | **Shares** | **Options** |
|---|---|---|
| Companies controlled by Berge G. Larsen, Group Chief Executive | 9 369 790 | - |
| Anders Farestveit, Vice-Chairman | - | 112 500 |
| Helge Eide, Managing Director and Director | 100 000 | 225 000 |
| Farouk Al-Kasim, Director | - | 112 500 |
| Haakon Sandborg, Chief Financial Officer | - | 100 000 |
| Torstein Sannes, Executive Vice President, Det Norske Oljeselskap AS | 166 | 225 000 |
| Magne Norman, Executive Vice President, DNO International | 75 000 | - |
| Stewart Watson, Executive Vice President, DNO Britain Ltd. | - | - |
| Other executives | - | 705 000 |
| **Total shares/options** | **9 544 956** | **1 480 000** |

In all 1 480 000 options have been issued, at an average exercise price of NOK 20.6 (in the interval 20.4 to 21.5). All options expire on the date of the annual general meeting in 2003.

| | | **Group** | | **Parent company** | |
|---|---|---|---|---|---|
| **Auditors' fees** | | | | | |
| **All figures are exclusive of VAT** | **2002** | **2001** | **2000** | **2002** | **2001** |
| Auditors' fees | 1 744 | 1 724 | 1 095 | 700 | 600 |
| Audit related fees regarding | | | | | |
| IFRS/USGAAP and demerger project | 1 149 | 418 | 924 | 1 149 | 418 |
| Other financial auditing (royalty reporting UK) | 160 | 156 | 146 | | |
| **Total, auditing** | **3 053** | **2 298** | **2 165** | **1 849** | **1 018** |
| Other advice and assistance | 1 052 | 910 | 878 | 829 | 298 |
| **Total auditors' fees** | **4 105** | **3 208** | **3 043** | **2 678** | **1 316** |

## 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 (51 102 747).

No instruments have a diluting effect in 2002 (see note 8). Thus diluted earnings per share equal basic earnings per share.

## Note 10 Net other financial items

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 | 2001 |
| Interest received | 12 757 | 40 748 | 19 582 | 10 177 | 19 427 |
| Interest received from Group companies | - | - | - | 57 802 | 33 879 |
| Dividends received | - | - | - | 34 000 | - |
| Other financial revenues 1) | 54 685 | 1 780 | - | 55 316 | 703 |
| Interest paid | -56 959 | -55 528 | -17 243 | -48 426 | -47 345 |
| Interest paid to Group companies | - | - | - | -942 | -1 705 |
| Capitalised interest expenses | 557 | 11 471 | 12 262 | 557 | 8 247 |
| Net gain (loss) on sale of securities | 2 193 | -2 180 | -22 508 | 2 193 | -2 180 |
| Net gain (loss) on foreign exchange 2) | -35 054 | 7 373 | 24 963 | -84 773 | -2 792 |
| Other financial expenses, including currency and crude price hedging | -5 261 | -29 299 | -13 000 | -18 053 | -24 026 |
| Loss of interest and provisions for bad debts, PDR ASA | -16 835 | - | - | -16 835 | - |
| Group contribution received | - | - | - | 18 000 | 28 914 |
| **Net other financial items** | **-43 917** | **-25 635** | **4 056** | **9 016** | **13 122** |

1) Other financial revenues largely consists of gain on sale of futures and interest and currency swaps

2) Foreign exchange losses for 2002 is mainly unrealised

## Note 11 Taxes

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 | 2001 |
| Taxes payable | -120 633 | -67 142 | -10 892 | -164 | -53 |
| Change in deferred taxes | 73 803 | -36 304 | -26 211 | - | 38 096 |
| Tax on group contribution | - | - | - | -5 040 | -8 096 |
| Taxes paid in kind under production sharing agreements (Yemen) | -317 271 | -70 167 | -7 360 | -317 271 | -70 167 |
| **Taxes** | **-364 101** | **-173 613** | **-44 463** | **-322 475** | **-40 220** |

**Effective tax rates**

| | Group | | | Parent company | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 | 2001 |
| Profit (loss) before taxes | 287 470 | 307 795 | 94 112 | 265 311 | 83 198 |
| Expected income tax according to nominal tax rate (28%) | 80 492 | 86 183 | 31 671 | 74 287 | 23 295 |
| Expected petroleum tax | 39 877 | 87 011 | 29 196 | - | - |
| Effect of earned uplift | -22 951 | -13 463 | -1 285 | - | - |
| Taxes paid in kind under production sharing agreements (Yemen) exceeding 28% | 159 553 | 29 698 | - | 159 553 | 29 698 |
| Adjustment of previous years | 4 516 | 776 | -538 | - | - |
| Adjustment of deferred tax assets | 37 580 | -65 135 | - | 37 580 | -38 113 |
| Other items | 65 035 | 48 543 | -14 581 | 51 055 | 25 340 |
| **Total taxes** | **364 101** | **173 613** | **44 463** | **322 475** | **40 220** |
| **Effective tax rate (including change in deferred taxes)** | **127%** | **56%** | **47%** | **122%** | **48%** |

**The effect on taxes of temporary differences and losses carried forward:**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Other current items | 944 | -19 700 | - | - |
| Tangible assets | 85 496 | 184 913 | -37 956 | -20 160 |
| Uplift | -19 933 | -10 112 | - | - |
| Other fixed items (receivables, abandonment, etc.) | -169 372 | -144 687 | -89 645 | -64 960 |
| Losses and cost oil carried forward | -12 726 | -22 861 | -9 745 | -19 880 |
| **Total, basis for deferred taxes/(tax assets)** | **-115 591** | **-12 447** | **-137 346** | **-105 000** |
| Downward adjustment of tax asset | 99 576 | 62 190 | 57 386 | 20 000 |
| **Total deferred taxes** | **-16 015** | **49 743** | **-79 960** | **-85 000** |
| **Capitalised deferred tax assets** | **86 141** | **85 869** | **79 960** | **85 000** |
| **Capitalised deferred tax liabilities** | **70 126** | **135 612** | **-** | **-** |

Tax rates effective at 31 December 2002 have been used to calculate deferred taxes. The tax rates are 78 per cent for petroleum-related activity on the Norwegian shelf, including a special petroleum tax of 50 per cent, and 28 per cent 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 amortisable on a straight-line basis over six years from the date of investment to reduce income subject to special petroleum tax. The company has earned a future uplift of KNOK 19 933. Unused uplift from any previous year can be carried forward without any limit in time, to reduce future special petroleum tax. At 31 December 2002, the company did not have any unused uplift to carry forward, and the total uplift therefore amounts to KNOK 19 933. 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. Deferred tax assets relating to UK activities are not capitalised.

Losses carried forward relating to the activity in Norway expire during the period 2005–2010.

In Yemen the company pays income tax in kind to the authorities based on production-sharing agreements, taking into account compensation for investments and costs covered on behalf of the authorities. In the consolidated financial statements these oil volumes are recognised as taxes, as the basis is regarded as net profit. Various bonuses and royalties paid to the authorities are classified as production costs. The tax burden in Yemen will increase significantly when the company has reached maximum "cost oil", e.g., has been repaid for the share of investments made on behalf of the authorities.

For block 53 the company reached maximum "cost oil" in 2002. For block 32, maximum "cost oil" is expected to be reached in the first half of 2003. In Norway, credit deduction is requested for taxes paid in Yemen.

## Note 12 Oil and gas, other tangible assets and goodwill

| DNO – Group | Exploration costs | Licence-costs | Oil & Gas Fields under development | Producing fields | Other tangible assets 2) | Total tangible assets | Goodwill 3) |
|---|---|---|---|---|---|---|---|
| Cost 1 January 2002 | 257 364 | 87 709 | 12 677 | 1 571 244 | 291 524 | 2 220 518 | 79 905 |
| Additions 2002 | 66 382 | 13 059 | 57 492 | 320 425 | 24 060 | 499 089 | - |
| Disposals 2002 | - | - | - | -35 902 | -13 525 | -49 427 | - |
| Transfers 2002 | - | 4 430 | -12 677 | 8 247 | - | - | - |
| **Cost 31 December 2002** | **323 746** | **105 198** | **57 492** | **1 864 014** | **302 059** | **2 670 180** | **79 905** |
| Accum. depreciation 1 January 2002 | - | - | - | -751 488 | -97 319 | -848 807 | -15 982 |
| Depreciation 2002 | - | - | - | -302 420 | -41 167 | -343 587 | -7 991 |
| Write-downs 2002 1) | -30 872 | -51 531 | - | - | -63 500 | -145 903 | |
| Disposals and transfers 2002 | - | - | - | 35 902 | 11 666 | 47 568 | - |
| **Acc. depr. & write-downs 31 Dec. 2002** | **-30 872** | **-51 531** | **-** | **-1 018 006** | **-190 320** | **-1 290 729** | **-23 973** |
| **Book value 31 December 2002** | **310 545** | **53 667** | **57 492** | **846 008** | **111 739** | **1 379 451** | **55 932** |
| Book value 31 December 2001 | 257 364 | 87 709 | 12 677 | 819 756 | 194 205 | 1 371 711 | 63 923 |

1) Dry wells carried to expense this year and in previous years and write-down of licence costs are classified as exploration costs, see note 5

2) Includes KNOK 42 700 in capitalised value of financial leases

3) Capitalised goodwill relates to value added in connection with acquisition of IOT AS, and is depreciated on a straight-line basis by 10 per cent. An expected useful economic life of ten years is based on a conservative estimate. Estimates per 31 December 2002 indicate added values in connection with the investment in IOT AS, and thus no write-down is required of the Group's book goodwill.

| Parent company | Exploration costs | Licence-costs | Oil & Gas Fields under development | Producing fields | Other tangible assets | Total tangible assets |
|---|---|---|---|---|---|---|
| Cost 1 January 2002 | - | - | 12 677 | 679 090 | 126 612 | 707 237 |
| Additions 2002 | 1 706 | 13 059 | - | 127 645 | 10 867 | 153 277 |
| Disposals 2002 | - | - | - | - | -10 316 | -10 316 |
| Transfers 2002 | - | 4 430 | -12 677 | 8 247 | - | - |
| **Cost 31 December 2002** | **1 706** | **17 489** | **-** | **814 982** | **16 021** | **850 198** |
| Accum. depreciation 1 January 2002 | - | - | - | -467 493 | -11 471 | -478 964 |
| Depreciation 2002 | - | - | - | -103 273 | -1 317 | -104 590 |
| Write-downs 2002 | - | - | - | - | -63 500 | -63 500 |
| Disposals and transfers 2002 | - | - | - | - | 10 315 | 10 315 |
| **Acc. depr. & write-downs 31 Dec. 2002** | **-** | **-** | **-** | **-570 766** | **-113 615** | **-684 381** |
| **Book value 31 December 2002** | **1 706** | **17 489** | **-** | **244 216** | **13 548** | **276 959** |
| Book value 31 December 2001 | - | - | 12 677 | 211 597 | 67 499 | 291 773 |

## Note 13 Subsidiaries and associated companies

| 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 |
| Independent Oil Tools AS | Stavanger | 100% | 660 NOK | 108 021 |
| DNO Britain Ltd. | Aberdeen | 100% | 5 008 GBP | 21 849 |
| Island Petroleum Developments Ltd 1) | Isle of Man | 85,5% | 7 602 GBP | 28 398 |
| **Total 2002** | | | | **268 768** |
| Total 2001 | | | | 240 370 |

1) Island Petroleum Development Ltd was acquired and included in the accounts as per 31 December 2002. The purchase price was KNOK 28 000. Excess value at the date of acquisition has been allocated in its entirety to added value oil and gas fields, by KNOK 5 000. The remaining 14.5 per cent of the shares were acquired in January 2003 for KNOK 5 000 (payment in treasury shares). The former shareholders have certain rights to additional payment, provided that certain production criteria will be fulfilled.

| Subsidiaries owned by other companies in the Group | | |
|---|---|---|
| DNO Heather Limited | Aberdeen | 100% |
| DNO (Heather Oilfield) Ltd. | Aberdeen | 100% |
| The Norwegian Oil Company Ltd. | London | 100% |
| DNO Limited. | London | 100% |

The parent company has an option for acquisition of the shares in DNO Production Ltd at their book value. The company provides management services to DNO Heather Ltd.

| Associated companies 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 1 000 31 Dec. 2002 | Book value in DNO ASA 31 Dec. 2002 |
|---|---|---|---|---|---|
| Petrolia Drilling ASA | Bergen | 23.77% | 230 872 | - | - |
| **Total 2002** | | | | **-** | **-** |

In December 2002, Petrolia Drilling converted a bond loan and other liabilities of in all KNOK 208 080 to share capital (at a price of NOK 0.50 per share). DNO ASA's share of these liabilities amounted to KNOK 35 800, which gave the parent company 71.6 million new PDR shares. In addition, KNOK 10 000 in bonds owned by the subsidiary IOT AS were converted. On 31 December 2002, the Group held a total of 109.8 million shares in Petrolia Drilling ASA. The shares in Petrolia Drilling ASA are fully written down in the parent company's financial statements per 31 December 2002. The Group's ownership interest in Petrolia Drilling ASA after the conversion is 23.77 per cent.

The company's 36 per cent ownership interest in ClampOn AS was sold in the second quarter of 2002.

| **Cost Petrolia Drilling ASA** | |
|---|---|
| Cost 1 January 2002 | 269 837 |
| Net additions/disposals in 2002 | 607 |
| **Cost 31 December 2002 1)** | **270 444** |

| **Book value Petrolia Drilling ASA** | |
|---|---|
| Share of the result for the year | -87 105 |
| Write-down in 2002 | -104 609 |
| Result and write-downs in previous years | 78 730 |
| **Book value 31 December 2002 2)** | **-** |

1) Aquisition costs include shares aquired against cash and shares aquired against contributions in kind without cash, related to the sale of rigs and shares in rigs

2) On 31 December 2002 the market value of Petrolia Drilling ASA was KNOK 46 200 (100%), the market value of DNO's share being KNOK 11 000 (23.77%)

The Total expenses charged to the Group's profit and loss statement in relation to Petrolia Drilling ASA amounted to 220 200. This includes KNOK 191 700 in write-downs and share of loss in Petrolia Drilling ASA, KNOK 16 800 related to financing and KNOK 11 700 in provisions for bad debt.

**Other fixed asset investments**

Other investments and receivables include a 19 per cent ownership interest in DNO Explorations Scandinavia AS. The share capital of DNO Explorations Scandinavia AS amounts to KNOK 262, the book value recorded in the parent company's balance sheet being KNOK 50 on 31 December 2002. The parent company also has a small shareholding in Sterling Energy Plc previously Lepco) of which the book value is KNOK 3 300.

## Note 14 Other current receivables

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Inventory | 9 067 | 10 897 | 1 920 | 3 948 |
| Receivables | 112 710 | 110 066 | 48 308 | 16 219 |
| Underlift, prepayments and accrued income | 14 753 | 20 693 | 8 005 | 11 034 |
| Other current receivables | 43 604 | 41 722 | 17 329 | 40 614 |
| Current asset investments | - | 180 | - | 180 |
| **Total other current receivables** | **180 134** | **183 558** | **75 562** | **71 995** |

## Note 15 Restricted bank deposits

The parent company has placed a bank deposit classified as fixed assets as security for abandonment obligations relating to the Heather field (see note 18 concerning collateral). At 31 December 2002 and 31 December 2001 this amounted to KNOK 244 000 and KNOK 178 500, respectively. This year's change concerns payment of USD 15 300 from UNOCAL relating to the future abandonment of the Heather platform.

Other restricted bank deposits (including withholding tax) at 31 December 2002 and 31 December 2001, were KNOK 1 800 and KNOK 3 300, respectively.

## Note 16 Shareholders' equity

**Movement in shareholders' equity, Group**

| | Share capital | Treasury shares | Paid-in capital treasury shares | Share premium account | Other paid-in equity | Other equity | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|
| Shareholders' equity on 1 Jan. 2002 | 206 329 | -3 898 | - | 407 987 | 7 314 | 323 954 | | 941 686 |
| Purchase of treasury shares | - | -828 | 3 260 | | - | -3 179 | | -747 |
| Share issues | 10 400 | | | 23 546 | | | | 33 946 |
| Other 1) | | | | | | 343 | | 343 |
| Minority interests | | | | | | | 3 320 | 3 320 |
| Profit for the year | - | | | - | - | -76 631 | | -76 631 |
| **Shareholders' equity on 31 Dec. 2002** | **216 729** | **-4 726** | **3 260** | **431 533** | **7 314** | **244 487** | **3 320** | **901 917** |

**Movement in shareholders' equity, parent company**

| | Share capital | Treasury shares | Paid-in capital treasury shares | Share premium account | Other paid-in equity | Other equity | Total |
|---|---|---|---|---|---|---|---|
| Shareholders' equity on 1 Jan. 2002 | 206 329 | -3 898 | - | 407 987 | 7 314 | 238 893 | 856 625 |
| Purchase of treasury shares | | -828 | 3 260 | | - | -3 179 | -747 |
| Share issues | 10 400 | - | | 23 546 | | | 33 946 |
| Other 1) | | | | | | 482 | -482 |
| Profit for the year | - | - | | - | - | -57 164 | -57 164 |
| **Shareholders' equity on 31 Dec. 2002** | **216 729** | **-4 726** | **3 260** | **431 533** | **7 314** | **179 032** | **833 142** |

1) Mainly consists of provisions for dividend for 1999 which were reversed in 2002.

The company's board of directors has been authorised by the annual general meeting to buy treasury shares within the framework of the Companies' act. On 31 December 2002, the company held 1 181 382 treasury shares. The company's holding of treasury shares has for example been used as settlement in connection with acquisition of Island Petroleum Development Ltd.

On 13 December, the parent company bought back 400 000 treasury shares at a price of NOK 15.50 per share. Settlement and transfer date is 18 March, 2003. On 20 December the parent company bought back an additional 1 050 000 treasury shares at a price of NOK 14.69 per share with delivery and settlement on 28 March 2003.

See also note 24, Contingencies and events occurring after the balance sheet date

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

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Shareholders' equity on 1 January** | **941 686** | **796 728** | **420 770** | **354 782** | **270 273** |
| Share capital | 10 400 | 5 660 | 60 441 | 23 000 | 9 536 |
| Treasury shares | -828 | -3 838 | - | -233 | |
| Paid-in equity, treasury shares | 3 260 | - | - | - | - |
| Share premium account | 23 546 | 18 106 | 266 479 | 49 851 | 51 384 |
| Other paid-in equity | - | - | 7 314 | - | - |
| Minority interests | 3 320 | | | | |
| Other equity | -79 467 | 125 030 | 41 723 | -6 630 | 23 589 |
| **Shareholders' equity on 31 December** | **901 917** | **941 686** | **796 727** | **420 770** | **354 782** |

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

| | | Share capital | | Nominal | No. of shares | |
|---|---|---|---|---|---|---|
| **Year** | **Event** | **Change** | **Balance** | **value (NOK)** | **Change** | **Balance** |
| **1998** | **Opening balance** | | **107 692** | **4** | | **26 923** |
| | Share issue | 9 536 | 117 228 | 4 | 2 384 | 29 307 |
| | **Closing balance** | | **117 228** | **4** | | **29 307** |
| **1999** | **Private placement** | **11 600** | **128 828** | **4** | **2 900** | **32 207** |
| | Exercise of options | 3 400 | 132 228 | 4 | 850 | 33 057 |
| | Acquisition of oil licence | 8 000 | 140 228 | 4 | 2 000 | 35 057 |
| | **Closing balance** | | **140 228** | **4** | **-** | **35 057** |
| **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 related to Broom field drilling activity | 10 400 | 216 729 | 4 | 2 600 | 54 182 |
| | **Closing balance** | | **216 729** | **4** | **-** | **54 182** |

At the annual general meeting in 2002, authorisation was also given to increase the company's share capital by up to KNOK 20 000 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 annual general meeting. At 31 December 2002 the Board of Directors has issued 2.6 million new shares under this authorisation. The authorisation also covers increase in capital through contribution other than money, including in connection with merger.

Up to 2.5 million shares or options may be given to the company's executives, project employees or to companies controlled by the above-mentioned persons. At 31 December 2002 the Board of Directors has not issued any options under this authorisation. The annual general meeting also decided to uphold up to 1 705 000 existing options until the annual general meeting in 2003. Reference is also made to note 8.

| **The company's shareholders at 31 December 2002:** | **Shares** | **Interest** |
|---|---|---|
| Increased Oil Recovery AS * | 6 563 142 | 12.11% |
| Det Stavangerske Dampskipsselskap | 2 000 000 | 3.69% |
| Larsen Oil & Gas AS * | 1 802 148 | 3.33% |
| The Law Debenture Trust | 1 710 000 | 3.16% |
| Unistar Holdings Inc | 1 537 000 | 2.84% |
| Skagen Vekst | 1 399 759 | 2.58% |
| Sletthei AS Leif Inge | 1 371 333 | 2.53% |
| DNO ASA | 1 181 382 | 2.18% |
| KAS Depository Trust Clients Account | 1 045 000 | 1.93% |
| Livius Interiør AS C/O Larsen Oil & Gas AS * | 1 004 500 | 1.85% |
| Vesta Liv AS Aksjer | 884 000 | 1.63% |
| BUS AS | 801 000 | 1.48% |
| Sparebanken Sogn og Fjordane | 603 000 | 1.11% |
| First Nordic Norge | 600 000 | 1.11% |
| Other shareholders | 31 679 933 | 58.47% |
| **Total** | **54 182 197** | **100.00%** |

The list shows shareholders holding more than 1 per cent of outstanding shares on 31 December 2002.

* Companies controlled by Berge G. Larsen, Group Chief Executive

## Note 17 Guarantees and commitments

**a) Abandonment of field installations**
According to the terms of production licences on the Norwegian continental shelf, upon termination of production or when the licence expires, the company has a duty to remove offshore installations as required by the authorities. Potential abandonment costs will be shared between the Norwegian state and the individual licensee based on the taxes paid by the licensee during the lifetime of the installations. The state has the option to take of the installations at no charge. The abandonment provision is made on the basis of an assumed removal concept, based on the Norwegian Petroleum Act of 1985, Section 30, 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

On the UK continental shelf, licensees are required to carry the cost of abandonment based on an abandonment plan approved by the authorities. Provisions for the company's share of such abandonment costs, determined on a unit-of-production basis, are reflected in the balance sheet under Provisions for liabilities and charges, and at 31 December 2002 and 31 December 2001 amounted to KNOK 258 300 and KNOK 254 000, respectively. Settlement of claim on Unocal in connection with acqusition of Heather is classified as a prepaid abandonment obligation in the company's accounts.

Specification of this year's change in abandonment obligations:

| Abandonment obligation | UK | Norway | Group |
|---|---|---|---|
| 1 January 2002 | 254 036 | 6 157 | 260 193 |
| This year's provision for future abandonment | 4 283 | 11 232 | 15 515 |
| **Abandonment obligation 31 December 2002** | **258 319** | **17 389** | **275 708** |

Total abandonment cost for the Heather field is estimated at KGBP 67 900 (DNO Heather Ltd's share is 37.5%). Former licensees will be responsible for 62.5 per cent of the abandonment obligations of the Heather field, for which guarantees have been provided.

The Group's obligation relating to the future abandonment of the Heather platform is intended covered by restricted bank deposits (see note 15) of KNOK 244 000.

The company does not have any significant obligations relating to field abandonment in Yemen, as it is assumed that operating equipment will be taken over by the authorities when production ceases.

**b) Contractual obligations/licence commitments relating to future investments**
The company has the following obligations relating to its interests in own and partner-operated oil and gas fields:

| Contractual obligations/licence commitments | 2003 |
|---|---|
| Drilling and exploration commitments 1) | 181 000 |
| Contractual obligations, projects under development 2) | 123 000 |
| **Total contractual obligations/licence commitments related to future investments** | **304 000** |

1) Includes exploration, production and injection wells in Norway and Yemen

2) Includes Seven Heads field development

**c) Lease obligations**

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

| Calendar year | |
|---|---|
| 2003 | 47 115 |
| 2004 | 46 852 |
| 2005 | 1 616 |
| After 2006 | - |
| **Total minimum operational lease obligations 1)** | **95 583** |

1) The operational lease obligations mainly concern the activity on the Norwegian shelf and lease of the Petrojarl production vessel at the Glitne field

**d) Liability for damages/insurance**

Like other licensees on the Norwegian continental 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 has had a legal dispute dating from 1994/95 with a Dutch broker firm through its former subsidiary Viking Petroleum AS. In the autumn of 2000, DNO was ordered to pay the Dutch broker approx. KSEK 12 000 plus interest. The parties reached a compromise in 2002 with final settlement in the third quarter of 2002.

The former chairman of the board has brought an action against the company relating to the termination of its severance pay agreements for directors. The company has made allowance for this in its accounts.

An external party has issued a claim on the company for a small introductory fee relating to Block 53.

**f) Guarantees at 31 December 2002**

| | |
|---|---|
| Parent company guarantees to external parties on behalf of companies in the Group 1) | 505 500 |
| Subsidiaries' guarantees to external parties | - |
| Parent company guarantees to associated companies 2) | - |
| Other parent company guarantees to external parties | 1 000 |
| **Total guarantees** | **506 500** |

1) Mainly concerns guarantee to Unocal in connection with the Heather field abandonment obligation and guarantee given in connection with the acquisition of the Thistle field

2) No guarantees have been given to the associated company Petrolia Drilling ASA

In connection with loan agreements, lenders have also been given surety guarantees.

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

| Long-term debt | Currency | Loan amount currency | Interest rate | Maturity | Balance 31 Dec. 02 | Balance 31 Dec. 01 |
|---|---|---|---|---|---|---|
| Foreign currency loan | USD | 2 722 | Libor+2% | 28.06.2003 | 18 975 | 49 126 |
| Bond loan | NOK | 325 000 | Nibor+4% | 01.06.2004 | 325 000 | 325 000 |
| Bond loan 1) | NOK | 95 330 | Nibor+3% | 01.06.2004 | 95 330 | 175 000 |
| Multi-currency loan | USD/NOK | 10 700 | Nib+2%/Lib+2% | 01.03.2004 | 74 899 | - |
| Net other long-term debt | NOK | 4 250 | Nibor+1.3% | 01.05.2004 | 4 250 | 11 030 |
| Financial leases 2) | USD | 6 124 | 3.5%-8.5% | 2003-2006 | 42 656 | 90 978 |
| **Total outstanding** | | | | | **561 110** | **651 134** |

1) The bond loan matures in June 2004, but the bondholders have the option to require repayment in the second quarter of 2003

2) Consists of several lease agreements with varying terms and maturities

**Maturities (presupposes that no options are exercised) of the company's interest-bearing debt:**

| Year | Group | Parent company |
|---|---|---|
| 2003 | 77 053 | 62 375 |
| 2004 | 465 445 | 451 830 |
| 2005 | 9 305 | - |
| 2006 | 9 138 | - |
| 2007 | 169 | - |
| **Total** | **561 110** | **514 205** |

| Collateral (book value of assets offered as collateral) | Note | Group | Parent company |
|---|---|---|---|
| Shares | | - | 218 521 |
| Receivables and inventory | | 44 007 | 1 920 |
| Oil and gas fields | | 352 004 | - |
| Other fixed assets | | 106 403 | - |
| Bank deposits | | 22 218 | - |
| **Total collateral** | | **524 632** | **220 441** |
| Restricted bank deposits | 15 | 244 020 | 244 020 |
| **Total** | | **768 652** | **464 461** |

**Loan terms:**
The company's loan agreements include requirements for financial ratios and restrictions concerning borrowings and equity transactions. The company satisfies all the requirements of loan agreements at 31 December 2002.

Certain requirements also exists for assignment of cash flow from operations, insurance and hedging.

## Note 19 Current liabilities

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Taxes payable | 62 303 | 39 711 | - | - |
| Accounts payable | 16 738 | 45 854 | 1 220 | 11 259 |
| Unpaid government charges and special taxes | 6 254 | 7 555 | 1 211 | 1 927 |
| Accrued interest | 4 326 | 4 297 | 4 326 | 4 297 |
| Accrued expenses and other current liabilities | 142 862 | 222 539 | 61 603 | 34 544 |
| **Total current liabilities** | **232 483** | **319 956** | **68 360** | **52 027** |

Accrued expenses and other current liabilities mainly relate to the petroleum activity in Norway and the UK. Obligations relating to acquisition of licence interests for which the company has contractual long-term bank financing, are 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**
DNO's revenues are mainly denominated in USD, while its disbursements relating to investments and operations are normally denominated in Norwegian kroner (NOK) and Pound Sterling (GBP). A decline in the value of the USD reduces the funds obtained by a conversion to NOK/GBP. DNO is therefore exposed to changes in the value of the USD versus NOK and GBP. To reduce this risk, DNO sells USD forward against NOK and GBP.

**b) Forward contracts, currency swaps and currency options**
The company has a portfolio of futures maturing in the period January 2003 to June 2003. At 31 December 2002 the company had sold KUSD 26 000 and bought KGBP 10 200 and KNOK 76 200. Net unrealised gain (not recognised) on these futures at 31 December 2002 was KNOK 6 000.

In 2002 a currency and interest swap was entered into for KNOK 175 000 of the bond loan fra NOK to USD, maturing in 2004. Unrealised gain (not recognised) at 31 December 2002 was KNOK 10 400.

**c) Interest rate risk management**
DNO is exposed to interest rate fluctuations on all floating interest rate loans, mainly LIBOR and NIBOR. At 31 December 2002 DNO had not entered into any agreements for interest rate swaps or other interest rate instruments. The currency swap described in point b above, means that interest is swapped from a NIBOR-based to a LIBOR-based floating interest rate.

**d) Commodity price risk management**
DNO DNO is exposed to price risk related to fluctuations in crude oil prices, and the company uses commodities derivatives for hedging purposes. In 2002 a hedging contract was entered into relating to crude oil prices. The contract covers sale of a total of 840 000 barrels at USD 23 per barrels, running from December 2002 through November 2003. At 31 December 2002, unrealised losses (not recognised) amount to KNOK 17 700.

**e) 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.

**f) 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. Acordingly, the estimates presented herein may not necessarily be indicative of the amounts the company could realise.

**g) Risk related to other items**
On 31 December 2002, DNO had a 23.77 per cent interest in Petrolia Drilling ASA, a company listed on the Oslo Stock Exchange. DNO wrote down this investment in its entirety in 2002, and thus DNO is not exposed to any risk related to fluctuations in the share price of this investment. See also notes 13 and 24.

| **Estimated fair value of financial instruments at 31 December** | **2002** | | **2001** | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | **Book value** | **Fair value** |
| **Fixed asset investments:** | | | | |
| Cash and cash equivalents | 83 768 | 83 768 | 163 687 | 163 687 |
| **Financial obligations:** | | | | |
| Long-term liabilities, including 1st year's instalment | 561 110 | 561 110 | 651 134 | 651 134 |
| **Instruments used to manage currency exposure:** | | | | |
| Assets | - | 16 430 | - | -6 220 |
| Obligations | | | | |
| **Instruments used to hedge crude oil prices:** | | | | |
| Assets | - | -17 690 | - | - |
| Obligations | | | | |

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 reserves for the years 2002, 2001 and 2000. The table also shows proved and probable developed reserves of oil and gas for the same period. The company uses proved and probable developed 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 independent estimates. Proved and probable, developed reserves represent estimated volumes of oil, gas and NGL which, based on geological and technical data with a reasonable degree of certainty can be produced from known reservoirs in the future, under current commercial and operational conditions.

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

**Proved and probable reserves**

| | **NORWAY** | | **UK** | | **INT** | | **GROUP** | |
|---|---|---|---|---|---|---|---|---|
| | **Oil mmb** | **Gas 1) mmb** | **Oil mmb** | **Gas 1) mmb** | **Oil mmb** | **Gas 1) mmb** | **Oil mmb** | **Gas 1) mmb** |
| **Proved and probable reserves at 31 December 1999** | **-** | **-** | **34.0** | **-** | **-** | **-** | **34.0** | **-** |
| Revision of previous estimates | - | - | 19.9 | - | - | - | 19.9 | - |
| Extensions and discoveries | - | - | 1.0 | - | 9.6 | | 10.6 | - |
| Acquisitions and sale of reserves | 2.4 | - | - | - | - | - | 2.4 | - |
| Production 2000 | -0.6 | - | -1.8 | - | -0.2 | - | -2.6 | - |
| **Total proved and probable reserves at 31 Dec. 2000** | **1.8** | **-** | **53.1** | **-** | **9.4** | **-** | **64.3** | **-** |
| Revision of previous estimates | -0.3 | - | 2.6 | - | 1.4 | - | 3.7 | - |
| Extensions and discoveries | 3.3 | 6.4 | 8.1 | - | - | - | 11.4 | 6.4 |
| Acquisitions and sale of reserves | 5.4 | 0.1 | -1.0 | - | - | - | 4.4 | 0.1 |
| Production 2001 | -1.6 | | -2.0 | - | -1.2 | - | -4.8 | - |
| **Total proved and probable reserves at 31 Dec. 2001** | **8.6** | **6.5** | **60.8** | **-** | **9.6** | **-** | **79.0** | **6.5** |
| Revision of previous estimates 2) | 7.1 | 6.6 | 7.0 | | 7.7 | | 21.8 | 6.6 |
| Extensions and discoveries | | | 8.8 | | - | | 8.8 | - |
| Acquisitions and sale of reserves 3) | 4.2 | | | - | | 6.6 | 4.2 | 6.6 |
| Production 2002 | -2.5 | | -1.7 | | -3.9 | | -8.2 | - |
| **Total proved and probable reserves at 31 Dec. 2002** | **17.4** | **13.1** | **74.9** | **6.6** | **13.4** | **-** | **105.7** | **19.7** |
| | | | | | | | | |
| **The above figures include the following proved and probable, developed reserves:** | | | | | | | | |
| At 31 December 1999 | - | - | 10.1 | - | - | - | 10.1 | - |
| At 31 December 2000 | 1.8 | - | 10.7 | - | 6.3 | - | 18.8 | - |
| At 31 December 2001 | 5.3 | 0.1 | 11.7 | - | 5.9 | - | 22.9 | 0.1 |
| **At 31 December 2002** | **7.4** | **0.1** | **11.1** | **-** | **11.1** | **-** | **29.6** | **0.1** |

1) Gas stated in barrels of oil equivalent

2) Revision in 2002 of PL 203 is the operator's P50 reserve estimate

3) Includes 20 million barrels added in connection with the Thistle acquisition and disposal of 20 million barrels under the Broom "farm-out" agreement

## Note 22 Health, safety and the environment

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

No serious injury or damage occurred in 2002.

## Note 23 Transactions with related parties and network companies

All transactions, agreements and business activities with related parties are conducted according to normal business terms and conditions.

DNO Britain Ltd in 2002 contracted two to three consultants from Increased Oil Recovery Ltd. In addition, DNO Britain Ltd rented out a small office to Increased Oil Recovery Ltd.

Lease agreements have been entered into between companies in the Group, in which also the parent company is a party. A lease agreement also exists between the subsidiary IOT AS and the associated company PDR ASA.

According to the current agreement, Larsen Oil & Gas AS' actual administrative expenses, including expenses relating to office premises in Bergen, IT system, travels and secretarial services are covered by DNO. Under this agreement, KNOK 1 906 was expensed in 2002, KNOK 1 800 in 2001 and KNOK 1 475 in 2000.

To establish better contact with the international petroleum and financial society, the company set up an office in London in 2001. In this connection , the parent company's agreement with the Group Chief Executive was changed. Services are now being contracted from Increased Oil Recovery Ltd at an agreed rate. See also note 8.

Reference is made to note 8 for information about remuneration of directors and executives, including options and severance pay agreements.

At 31 December 2002, the parent company DNO ASA's claim on the associated company PDR ASA, after write-downs and conversion of debt to shares, amounted to KNOK 24 200, of which KNOK 21 900 has been settled in 2003. The corresponding claim on Group level after write-down and conversion is KNOK 36 200.

During the period 1996 - 2002, DNO's total payments as sponsor amounted to KNOK 2 320, of which KNOK 1 660 was paid to Hartlepool football club, in which the Group Chief Executive holds a 32 per cent interest. The support to Hartlepool, which was part of the profiling of the company in the UK, has been of significant importance to the position which the company has gained as operator of two producing fields in the UK.

## Note 24 Contingencies and events occurring after the balance sheet date

In connection with the agreements entered into with the Russian partner for the Timan Pechora project, including the shareholder agreement relating to DNO Explorations Scandinanvia AS, each partner's interest in DNO Explorations Scandinanvia AS may be changed, so that DNO ASA becomes the main shareholder of the company again, or the shareholding may be sold. DNO has issued certain guarantees under these agreements.

In 2003, DNO has taken over the remaining 14.5 per cent of Island Petroleum Development (IPD) Ltd.

The Seven Heads gas project has been approved by Irish authorities in 2003. DNO participates with 12.5 per cent in the project through its wholly-owned subsidiary Island Petroleum Development (IPD) Ltd. The field operator (Ramco) holds the remaining 87.5 per cent in the project.

The agreements for acquisition of IPD and Thistle contain clauses which enable DNO to return the acquired assets at cost under certain circumstances.

In 2003, the Heather satellites have been given official field status, and in future will be regarded as one field under the name of "Broom".

In 2003 the subsidiary Det Norske Oljeselskap AS together with Marathon and ConocoPhillips have acquired interests in PL 088B and PL 036C from TotalFinaElf. Three wells are planned to be drilled in PL 203/PL 088B in 2003 to verify and increase the reserves in the area. The plan for development and operation (PDO) is expected to be presented in the course of the year. DNO takes over 15 per cent in PL 088B and 6.8 per cent in PL 036C. The agreement presupposes government approval of the actual transfers and of separation from the existing licences in PL 088 and PL 036, respectively.

The subsidiary Det Norske Oljeselskap AS has taken over BP's 20 per cent interest in PL 167, approved by Norwegian authorities in 2003. Statoil is operator and holds a 80 per cent interest in the licence. One well is planned to be drilled in this prospect in 2003.

In 2003, the subsidiary Det Norske Oljeselskap AS was approved as operator of PL 148 and PL 006C. DNO holds a 100 per cent interest in both licences. The potential of the licences will be reassessed in 2003, and various development concepts will be considered.The work will largely consist of various studies and analyses of seismic data, and costs will be limited.

DNO has asked Lehman Brothers investment bank to carry out a strategic survey of the future development of the company. The purpose of the survey is to optimise the company's licence portfolio to ensure profitable growth and added value in the future.

DNO in 2003 received KNOK 21 900 in payment from Petrolia Drilling ASA in connection with a short-term credit given in the autumn of 2002.

A hedging contract was entered into in 2003 relating to crude oil prices, for 75 000 barrels per month (in all 600 000 barrels) for the period July 2003 to February 2004. The agreed price is USD 26.10 per barrel. The agreement secures the company a fixed oil price of USD 26.10 per barrel for the given volume.

In 2003, DNO continues to buy treasury shares in accordance with the authorisation granted by the annual general meeting in 2002. In March 2003, DNO sold 2 million shares at a price of 14 per share. At the same time, a call option for 2 million shares was bought at a strike price of NOK 7 and an option premium of NOK 7.43 per share. A put option was issued for the same number of shares at a strike price of NOK 7 per share. For this, DNO received an option premium of NOK 0.10 per share. The options expire on 23 June 2003.

ERNST & YOUNG

■ Statsautoriserte revisorer

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N-0213 Oslo

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To the Annual Shareholders' Meeting of
DNO ASA

## Auditor's report for 2002

We have audited the annual financial statements of DNO ASA as of 31 December 2002, showing a loss of NOK 57.164.000 for the parent company and a loss of NOK 76.631.000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the profit and loss statements, the cash flow statements, the accompanying notes and the consolidated accounts. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2002, and the results of its operations and its 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 the accounting 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 assumption, and the proposal for the coverage of the loss is consistent with the financial statements and comply with law and regulations.

Oslo, 31 March 2003
ERNST & YOUNG AS

Asbjørn Rødal (sign.)
State Authorised Public Accountant (Norway)

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

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

# Shareholder relations

**DNO's overall objective is to create long-term value for its shareholders through profitable investment in petroleum activities, by increasing the value of the company's shares and making dividend payments.**

Over the past few years the Company has significantly increased value but has not paid any dividend since the 1997 accounting year, as a result of investing considerable sums in licences and in exploration and development activities. Disbursement of dividend in the future will depend upon the level of investments and future oil prices. The table below shows dividend and earnings per share since 1997.

| Year | Earnings per share (NOK) | Dividend per share (NOK) |
|---|---|---|
| 1997 | 6.81 | 1.01 |
| 1998 | 0.84 | 0 |
| 1999 | -0.82 | 0 |
| 2000 | 1.15 | 0 |
| 2001 | 2.64 | 0 |
| 2002 | -1.50 | 0 |

### Investor Relations

DNO aims to have a profile that ensures confidence and transparency through the distribution of relevant and detailed information to the stock market. DNO aims to increase interest in DNO's shares among both Norwegian and international investors.

The company realises the importance of an open dialogue with the stock market, and informs its shareholders and the market about conditions influencing share.

DNO holds quarterly presentations on the company's operations and financial results. In addition the company discloses monthly updates on its oil production, and has an open dialogue with the financial markets through notification of the stock exchange, press releases, presentations to the investor market as well as participation at relevant conferences.

The company's website includes a separate investor relations pages with annual reports, interim reports and presentations.

The company's accounting year is identical to the calendar year. Interim reports are provided on a quarterly basis. Accounting figures are presented in Norwegian kroner (NOK).

### Market capitalisation, share price development and turnover

Above is shown a graph comparing the development in the company's share price in 2002 with the Oslo Stock Exchange's energy index.

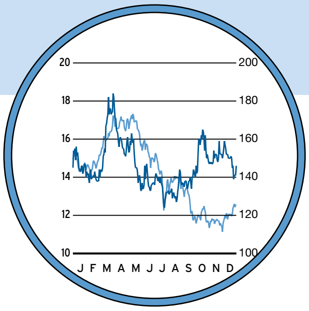
Close to 58 million DNO shares were traded during the year, corresponding to a turnover rate of 107.8 per cent.

### Number of shares and nominal value

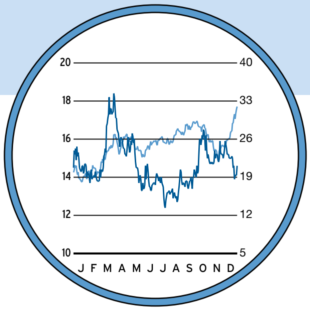
The total number of shares in circulation at the end of 2002 was 54 182 197. The nominal value of the share was NOK 4.

### Treasury shares

At DNO's Annual General Meeting on 21 May 2002, the Board of Directors was authorised to buy DNO shares limited to




**Market price of the DNO share/**
**Oslo Stock Exchange Energy Index**




**Market price of the DNO share/**
**Brent Blend Oil Price**

10 per cent of the share capital. This authorisation is valid until the next ordinary annual general meeting.

On 31 December 2002, the company held 1 181 382 treasury shares, each with a nominal value of NOK 4. The shares were purchased in 2002 through brokers at market price.

### Shareholders

On 31 December 2001, DNO ASA had 10 384 shareholders, of whom 157 were foreign. The foreign shareholders owned a total of 5 968 907 shares, corresponding to an ownership interest of 11.02 per cent. The table to the right shows the company's major shareholders on 31 December 2002, according to the Norwegian Registry of Securities.

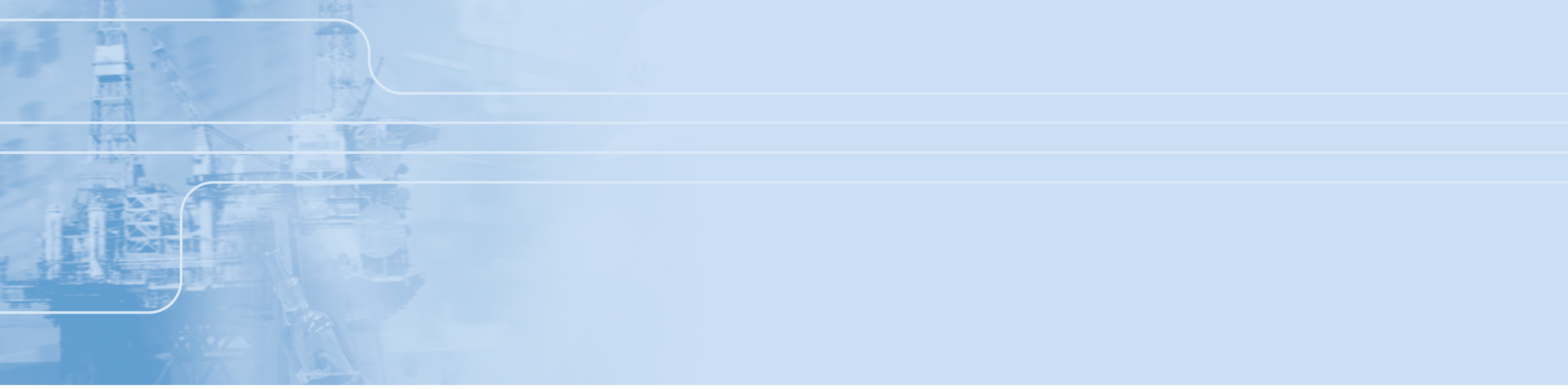
DNO makes use of options programmes to attract and motivate key personnel and management. (See table to the right.)

### DNO ASA's major shareholders 31 December 2002

| Shareholder | Number of shares | Interest |
|---|---|---|
| Increased Oil Recovery AS | 6 563 142 | 12.11% |
| Det Stavangerske Dampskipsselskap | 2 000 000 | 3.69% |
| Larsen Oil & Gas AS | 1 802 148 | 3.33% |
| The Law Debenture Trust | 1 710 000 | 3.16% |
| Unistar Holdings Inc | 1 537 000 | 2.84% |
| Skagen Vekst | 1 399 759 | 2.58% |
| Sletthei AS Leif Inge | 1 371 333 | 2.53% |
| DNO ASA | 1 181 382 | 2.18% |
| KAS Depository Trust Clients Account | 1 045 000 | 1.93% |
| Livius Interiør AS C/O Larsen Oil & Gas AS | 1 004 500 | 1.85% |
| Vesta Liv AS Aksjer | 884 000 | 1.63% |
| BUS AS | 801 000 | 1.48% |
| Sparebanken Sogn og Fjordane | 603 000 | 1.11% |
| First Nordic Norge | 600 000 | 1.11% |
| Other shareholders | 31 679 933 | 58.47% |
| Total | 54 182 197 | 100.00% |

### Number of shares and share options directly and indirectly held and controlled by the Board of Directors and management of DNO at 31 December 2002

| Name | Shares | Options |
|---|---|---|
| Companies controlled by Berge G. Larsen, Group Chief Executive | 9 369 790 | - |
| Anders Farestveit, Vice-Chairman | - | 112 500 |
| Helge Eide, Managing Director | 100 000 | 225 000 |
| Farouk Al-Kasim, Director | - | 112 500 |
| Haakon Sandborg, Chief Financial Officer | - | 100 000 |
| Torstein Sannes, General Manager, Det Norske Oljeselskap AS | 166 | 225 000 |
| Magne Norman, General Manager, DNO International | 75 000 | - |
| Stewart Watson, General Manager, DNO Britain Ltd. | - | - |
| Other executives | - | 705 000 |
| Total number of shares/options | 9 544 956 | 1 480 000 |



# Corporate Governance

**DNO has been through a period of growth with operational focus. During this period there has also been an increasing emphasis on corporate governance both internationally and in Norway.**

The OECD, the Oslo Stock Exchange, the London Stock Exchange and other institutions are in the process of concluding on guidelines and recommendations for corporate governance. The guidelines and recommendations will concern the capital market's requirements to external reporting, documentation, management and internal control, transparency, corporate responsibility, equality and independence of roles and decisions.

To meet the new requirements and demands, DNO will make efforts to further develop its corporate governance processes to ensure compliance at all times.

### The Board of Directors

According to DNO's Articles of Association, the company's Board of Directors must have at least three and at most five members.

The current Board of Directors of DNO comprises the chairman and three directors. DNO is currently in the process of restructuring the company's governing bodies, to adapt the organisation to international and national corporate governance requirements. This may for example result in changes in the future composition of the Board and may in future lead to additional Non-Executive Directors being appointed.

The composition of the Board of Directors and the backgrounds and expertise of its members will mirror the challenges DNO faces in the years ahead. When selecting Board members, DNO will seek to recruit individuals with different and complementing backgrounds and insights.

The Board will be responsible for the overall supervision of strategy, finance, budgets and organisational issues. All board members will have equal responsibility for the management of the company's activity. Non-executive directors will have a particular responsibility for ensuring that strategies and activities proposed by management are carefully discussed and considered.

In order for the Board to be able to carry out its duties, it has full access to all relevant information from the company. The Board may also, as required, obtain external expertise at the company's expense.

Board meetings are held regularly, with additional meetings when necessary. The Board of Directors maintains continuous contact with the company's management in order to follow up on the company's activities.

### Committees and boards

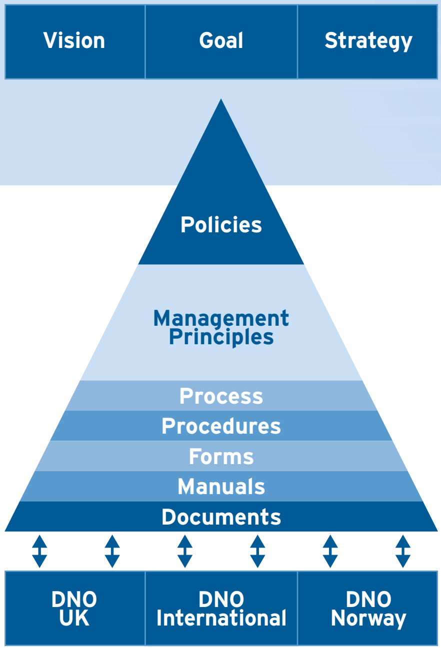
As part of its efforts to adapt to international and national corporate governance requirements, DNO is preparing for establishing a number of committees and boards. All committees and boards will consist of individual directors of DNO ASA as well as non-executive directors. The following committees and boards will be established:

#### Audit Committee

To handle and supervise the audit of the company's internal control, management and financial statements.

#### Risk Committee

To evaluate the risk associated with projects in which the company is involved as well as with the company itself.




### Remuneration Board

To determine and control the remuneration of members of the board and senior management.

### Advisory Board

To be of assistance in connection with the company's strategy and business development.

## Business management system

The Board of Directors is responsible for the proper organisation and management of the company. The Board of Directors determines the company's overall plans and budgets and is responsible for staying continually informed about the attainment of defined goals and for effectuating any correctional measures it finds necessary. Apart from this, the Board is responsible for ensuring that the company is subject to satisfactory control measures.

During 2001 and 2002, the Board of Directors has invested considerable time and resources on the development and implementation of systems and routines for those processes assessed to be most vital for the company. All processes have been described, documented and systematized through a common business management system.

The main purposes of DNO's business management system are:

- To document and communicate within the company how the company should be governed and managed
- To establish a structure for the group and for each business segment that contributes to ensuring a common understanding of the company's major goals, critical processes and individual responsibilities for attaining goals

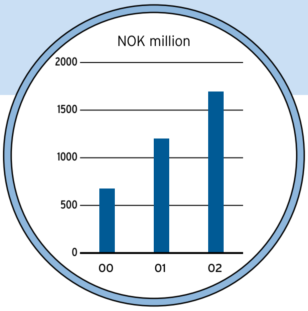
## Investor relations

Investor relations are given high priority. DNO holds quarterly presentations regarding the company's operations and results. Reports on the company's oil production are published monthly. The company is also in dialogue with the market on a regular basis through stock exchange releases, various company presentations and participation at relevant professional conferences. DNO's website also contains information about the company.

The company is continually developing its internal reporting to the management and the Board of Directors. The group's internal reporting is built on the concept of Value Based Management and Balanced Scorecard Principles. Further, the company's ambition is to combine financial and non-financial information in its market reporting to be able to provide optimal information about the underlying value creation, and thus be able to contribute positively to accurate analysis and evaluation of the company.

# Information for financial analysts

**DNO's objective is to create value for its shareholders through profitable growth in mature segments of the petroleum industry based on operatorships or active participation in licences. The company's petroleum activity is organised on a regional Business Unit basis and covers Norway, UK and International.**




**Operating revenues**

An important element of DNO's strategy is to focus on fields where DNO can rapidly bring hydrocarbons to the market. This implies taking over mature producing fields or fields in the vicinity of existing infrastructure where the development period can be reduced to a minimum.

DNO's financial results and cash flows are influenced by several factors.

### Production and reserves

One of the most important factors influencing the company's earnings is its petroleum production volume. Production volumes depend on the scope of reserves in production and on access to and development of new reserves. DNO's production volume increased by 69 percent from 2001 to 2002. The increase was achieved through a high activity level in drilling and field development.

The development of its reserve base and reserves replacement ratio will be decisive for DNO's long-term revenues and profitability. The company's proved and probable reserves increased by 47 per cent in 2002. The addition of new reserves was 4.3 times as high as the production for the year, providing an important contribution to the continued growth of the company.

### Crude oil prices and foreign currencies

The level and volatility of crude oil prices strongly influence an oil company's earnings. The development in the price of crude oil over the past few years has been affected by an unstable world economy. After a decline in the fourth quarter of 2001, crude oil prices increased in the second and third quarters of 2002 resulting in a significant increase in revenues for those two quarters. For 2002 as a whole, the price of Brent Dated increased by 2 per cent compared to 2001.

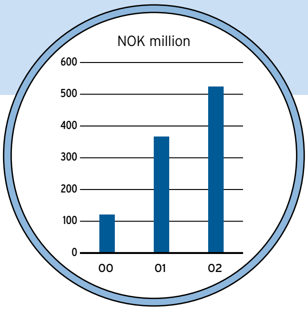
DNO's revenues are primarily in USD, whereas the company's financial statements are in NOK and a significant share of its total costs accrue in NOK and GBP. Thus the movement of the USD in relation to NOK and GBP significantly affects the company's results and cash flow. The decline in the USD exchange rate in relation to NOK of approximately 18 per cent in 2002 had a negative effect on DNO's results for the year. The effect of currency fluctuations is attempted reduced through the use of hedging instruments.

### Production costs

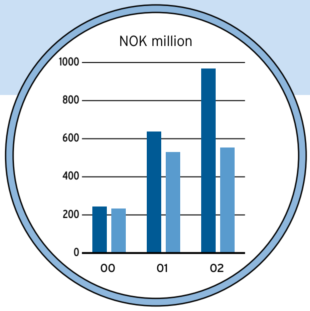
DNO's profitability depends on the cost of extracting the oil. In 2002 the company further reduced its direct production and transport costs cutting direct lifting costs by 29 per cent. The decline is mainly due to a higher overall production and relatively higher production from fields with low lifting costs.

### Taxes and fees

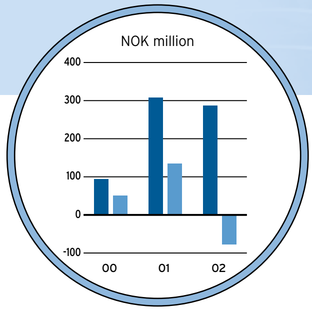
Taxes and fees levied on petroleum activity including terms of production sharing agreements with the authorities in the different countries set important frameworks for achievable results. DNO's taxes increased significantly in 2002 primarily as a result of high production and high revenues, and also because of lower tax allowances in Yemen and Norway.



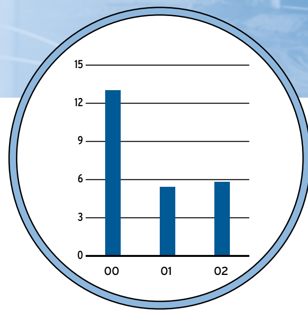

**Operating profit**




**EBITDA/**
**Netback**




**Profit before taxes/**
**Profit after taxes**




**Reserve replacement rate**

## Sensitivity analysis

The table below shows how changes in the price of crude oil and fluctuations in the NOK/USD rate may affect the company's net profit result before financial items and taxes (EBIT) based on its activity level in 2002.

| | NOK mill |
|---|---|
| Crude oil price (+/- USD 1/bbl) | 65 |
| USD/NOK (+/- NOK 0.5) | 100 |

## Key figures

DNO's management system is based on cash flow return and liquidity montitoring. DNO's objectives and reporting particularly emphasise financial key figures relating to the company's cash flow from operations.

Cash return on gross investment (CROGI) is a performance indicator that describes the relationship between investments and their cash return. DNO uses CROGI as its main management parameter. CROGI significantly exceeds the company's capital costs, underscoring the positive value created in 2001–2002.

| | 2002 | 2001 |
|---|---|---|
| ROACE % | -2.3 | 13.1 |
| ROACE adjusted* | 15.3 | 17.3 |
| CROGI % | 25.5 | 21.7 |

* adjusted for Petrolia Drilling ASA and Timan Pechora

There has been a general positive development in the above key figures during the period 1998-2002.

## Valuation

### Tangible assets

DNO applies various valuation methods emphasising the discounted cash flow method and net present value calculations for licence interests and business areas. Another valuation method used by the company is the calculation of market value based on an estimated value per barrel of the company's proved and probable reserves.

### Intangible assets

Intangible assets are very important to DNO's market value. These include the company's expertise and experience in focus areas, its management systems and overall track record.

# activities | in Norway

**Torstein Sannes**, General Manager Det Norske Oljeselskap AS. Sannes has been employed in DNO since 2000. From 1972 to 1999 he held several executive positions in Saga Petroleum, in Norway and abroad. Sannes holds a degree in geology from the Norwegian Institute of Technology (NTH).

## Activities on the Norwegian continental shelf

**In 2002 DNO was approved as an operator on the Norwegian shelf. This was an important step forward for the company, proving that it has an organisation that satisfies the requirements of the Norwegian authorities and that the company is thus able in the future to take on a more comprehensive role on the Norwegian shelf.**

DNO reestablished its activity on the Norwegian shelf in 2000 as part of its overall strategy of focusing on small petroleum field development and extending production from mature fields. The company currently holds interests in six Norwegian licences.

### Highlights in 2002

2002 was a successful year for DNO in Norway.

- After DNO took over Conoco's 37.5 per cent interest in production licence 103B, the company was approved as an operator on the Norwegian shelf on 5 July 2002
- Production from the Glitne field, of which Statoil is the operator, developed positively and remains near plateau, declining less than expected by the partnership
- DNO acquired BP's 20 per cent interest in production licence 167 of which Statoil is the operator (80 per cent interest)

### Licence activities

The development in the last few years with an increasing number of fields maturing on the Norwegian shelf increases the opportunities for acquiring additional interests. The company is well positioned to take advantage of these opportunities.

### The Jotun field

Production from the Jotun field, in which DNO participates through its interest in production licence 103B, started in 1999/2000. The acquisition of Conoco's 37.5 per cent interest in 2001 was decisive in gaining an operatorship on the Norwegian shelf. The takeover increased DNO's interest in production licence 103B to 70 per cent and, consequently, its interest in Jotun is 7 per cent.

Production from Jotun in 2002 was somewhat lower than forecast because of delays during drilling of additional wells. Several additional wells have now been drilled with positive results. The production target is 44 000 barrels of oil per day in 2003, of which DNO's share is approximately 3 000 barrels per day.

Well data and new 4D seismic data are now being interpreted to position additional wells to increase production and reserves. From production start until 31 December 2002, just less than 100 million barrels of the 184 million barrels of the recoverable reserves in the Jotun field had been produced.

### The Glitne field

Production from the Statoil operated Glitne oil field began in August 2001. Glitne, which was discovered in 1995, is the smallest field on the Norwegian shelf with an stand-alone development solution. The field is located some 40 kilometres northwest of the Sleipner area.

The field is operated using the Petrojarl 1 production and storage ship which is connected to four production wells and one water injection well.

Production from Glitne has developed positively and is still approximately 32 000 barrels per day. The forecast water breakthrough indicated by reservoir simulations has not occurred resulting in a longer production life for the field than anticipated.

Based on these results, the partners have decided to drill an additional well in Glitne in 2003 and oil reserves have been upgraded to approximately 38 million barrels.

### Production licence 203

Production licence 203 is an exploration licence located northwest of the Jotun field. DNO's interest in the licence is 15 per cent. The licence contains three formerly drilled structures with discoveries of oil and gas. This includes Gekko and Kameleon, which contain both oil and gas, and Kobra which only contains oil. Drilling of the Kneler structure in the first quarter of 2003 revealed only oil. This size of this new oil find is currently under assessment.

When Marathon Oil took over Norsk Hydro's 35 per cent interest in production licence 203, Marathon also took over as operator of


**Operating revenues** | **EBITDA** | **Operating profit**

the licence. DNO is actively cooperating with Marathon to evaluate development concepts and locate appraisal wells.

### Production licence 148

DNO took over 100 percent in production licence 148 when Amerada Hess withdrew in 2002. Hence DNO will assume the operatorship of the licence in 2003, provided the necessary approvals are given from the Norwegian authorities.

### Production licence 006c

After the so-called Tyr prospect was drilled in 2002 without finds of hydrocarbons, DNO has acquired a 100 percent interest and the operatorship of the part of production licence 006c containing the Southeast Tor discovery. The company will further mature this discovery to prospective profitability.

### PL 167

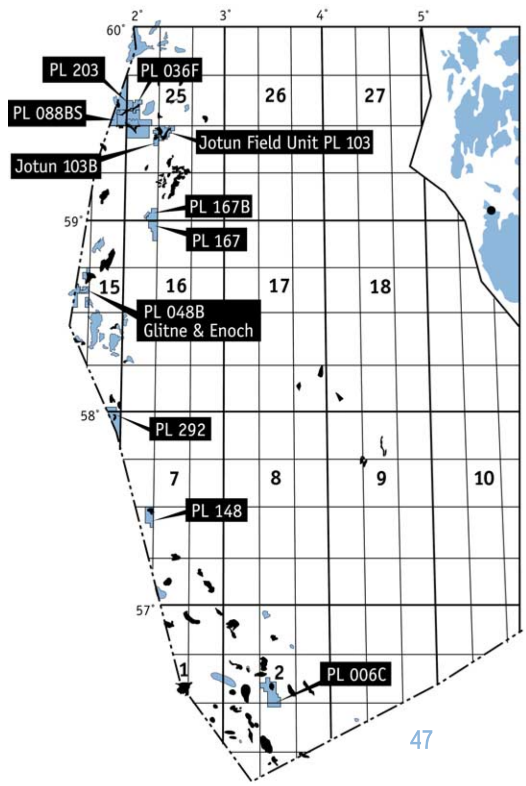
DNO has taken over BP's 20 percent interest in the exploration licence of which Statoil is the operator, holding an 80 percent interest.

Drilling of a prospect with considerable potential is scheduled for 2003.

### Outlook

The approval of DNO as an operator improves the company's position on the Norwegian shelf and enables DNO to pursue more comprehensive tasks in the future, thus better exploiting its potential of the Norwegian shelf. This validates DNO's long-term strategy of being a complementary partner to the major companies by focusing on extended production from mature fields and the development of petroleum fields.

In keeping with the wishes of the Norwegian authorities, DNO is one of the most active players on the Norwegian shelf. In 2003 DNO will participate in several of the planned drilling projects. This includes drillings at the currently producing Jotun and Glitne fields, at PL 203, where considerable volumes of oil and gas have been identified, and at PL 167, which has considerable potential for growth.



# activities | in the UK

**Stewart Watson**, General Manager DNO Britain Ltd. Watson has been employed in DNO since 1997. He has 22 years of experience from British and international petroleum industry; his previous employers include DSM Energy, BP Exploration, Britoil and Shell International. Watson holds a doctorate degree in geology from the University of St. Andrews, an MSc in geology from the University of Newcastle upon Thyne and a BSc in geology from the University of St. Andrews.

## DNO's activities on the UK continental shelf (UKCS)

**In August 2002 DNO entered into an agreement to farm out 45 percent interest in the Broom Field (formerly the West Heather and North Terrace accumulations). Two wells were drilled in the field in 2002, confirming that the field contains in excess of 100 million barrels of oil-in-place, of which approximately 35 million barrels are recoverable.**

DNO's participation on the UK continental shelf is through the wholly owned subsidiary DNO Britain Limited. The background for this presence is that DNO acquired, through a corporate buy-out of Unocal Britain Limited, operatorship of the Heather Field in 1997. As a result, DNO became the first Norwegian company with operatorship on the UK continental shelf. At that time DNO produced approximately 800 barrels per day and had a reserves base of approximately three million barrels. In 2002, DNO expanded its presence by acquiring operatorship and a 99 percent interest in the Thistle and Deveron Fields. As of first quarter 2003, the company was producing approximately 9 000 barrels of oil per day from the UK continental shelf. The company's proven and probable reserves base on the UK continental shelf is now around 75 million barrels.

### Highlights in 2002

DNO Britain had a particularly successful year in 2002:

- In August, DNO entered into an agreement to farm-out a 45 percent interest in the Broom Field.
- In the second half of the year, DNO drilled two wells in the Broom Field structure. The results from these wells exceeded expectations.
- At the end of the year, DNO acquired operatorship and a 99 percent interest in the Thistle and Deveron Fields. The agreement is effective from 1st May 2002.

### Licence activities

DNO's activities on the UK continental shelf are focussed on blocks 2/4 and 2/5 (Heather area), 211/18 (Thistle and Deveron fields), 210/29a, and 205/26a, west of Shetland.

### The Heather Field

The Heather Field is an important part of DNO's activities on the UK continental shelf. Since first-oil production began in 1978 until today, more than 127 million barrels of oil have been produced from Heather.

During 1997, DNO took over the operatorship and increased its interest in blocks 2/4 and 2/5 to 37.5 per cent. In 1999 DNO increased its interest to 100 percent, but will only be responsible for 37.5 per cent of future abandonment costs.

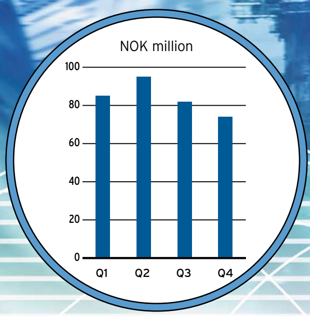
For the fifth year in a row the Heather Platform was available for more than 99 percent of the planned uptime. Production averaged around 4 800 barrels of oil per day during 2002.

### The Broom Field

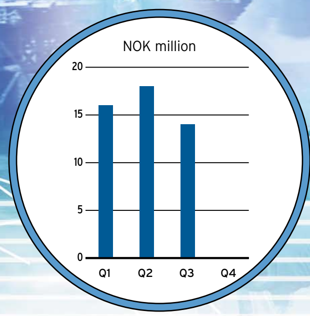
In addition to the Heather field, DNO's licences in blocks 2/4 and 2/5 include two proven oil satellite accumulations known as West Heather and the North Terrace, which comprise the Broom Field. These are located within a radius of approximately 8 kilometres from the Heather Alpha production platform.

In order to accelerate appraisal of the Broom field in 2002, DNO entered into an agreement to farm-out 45 percent of licence P.242 (Block 2/5 outside Heather) and licence P.902 (Block 2/4a) to Challenger Minerals Inc. (a subsidiary of Global Santa Fe Inc.) and Palace Exploration Company. As part of the farm-out arrangement, the new co-venturers contributed around 80 percent of the cost of the drilling of the two Broom field wells.

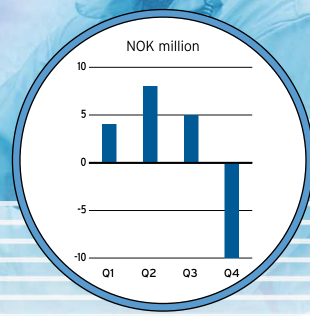
The results from these wells surpassed expectations and confirm the presence of approximately 35 million barrels of recoverable oil reserves in the West Heather structure (West Heather). In addition, a further approximately 10 million barrels of reserves are recognised in the North Terrace. The total recoverable proven and probable reserves in the Broom Field are approximately 45 million barrels of oil, of




**Operating revenues**




**EBITDA**




**Operating profit**

which DNO's share is approximately 25 million barrels.

A development plan for the Broom field is scheduled to be presented to the UK authorities in the first half of 2003, with the start of production planned for 2004. Because of the development of the Broom Field, the Heather Platform can continue production until 2012 or longer. In all, approximately 75 million barrels of oil can be produced from the Heather and Broom fields of which DNO's share is approximately 55 million barrels.

### The Thistle Field

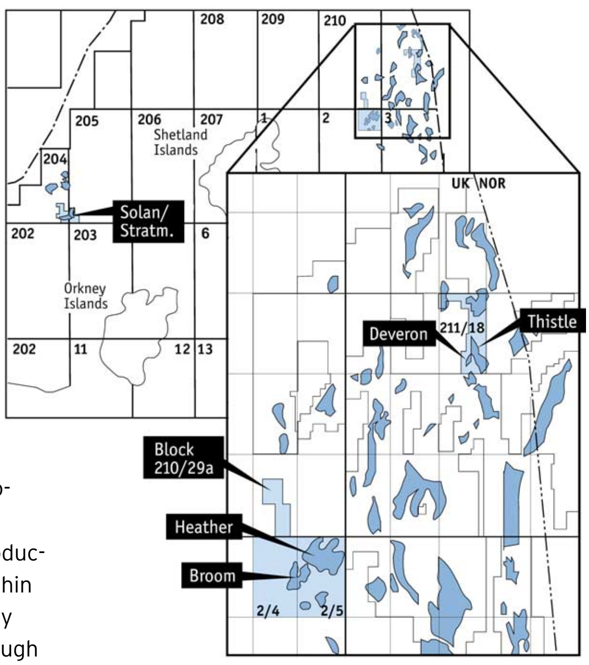
In line with DNO's strategy to redevelop and extend the life of mature oil fields, DNO entered into an agreement with BP and Conoco in September 2002 to acquire operatorship and a 99 percent interest in the Thistle and Deveron Fields in UKCS Block 211/18. In addition, DNO acquired various minority interests in the Northern North Sea pipeline and terminal infrastructure, sufficient to transport 15 000 barrels of oil per day to the terminal in Sullom Voe, Shetland.

The Thistle field was discovered in July 1972. Since being brought into production in October 1978 it has produced over 400 million barrels of oil, from some 850 million barrels of oil initially in place.

DNO's plan for the Thistle field is to use the experience gained from the Heather Field to extend production through the reduction of operating expenses and the implementation of various initiatives to increase the production of oil. DNO recognises the potential to extract another 20 million barrels of oil from the Thistle Field.

### Prospects

The acquisition of operatorship in the Thistle Field has strengthened DNO's position on the UK continental shelf. The development of the Broom Field and the extended production from the Heather and Thistle fields offers the potential to triple production from the UK continental shelf within the next two years. DNO plans to apply the positive experience gathered through operatorships of mature fields to further develop the company's activities on the UK continental shelf. New engagements on the UK continental shelf will be evaluated in keeping with view of the main strategy of the DNO group.



**Magne Normann**, Sr. Vice President, DNO International Ltd. From 1974 to 1999 Normann held positions in Smedvig, Mobile Exploration and Saga Petroleum. Normann holds degrees in petroleum engineering and mechanical engineering from the Norwegian Institute of Technology (NTH).

## Activities in Yemen and Ireland

**DNO further strengthened its position in Yemen. The results of the company's activities in Yemen have far exceeded expectations. In 2002 DNO's production from Yemen increased by more than 70 per cent.**

DNO International is one of DNO ASA's three geographical business areas. DNO International has three licence interests and two operatorships in Yemen and a licence interest in the Seven Heads Gas Field, offshore Ireland.

DNO International's strategy is to acquire additional interests in licences located near existing infrastructure with easy access to a petroleum or gas market and with a time horizon that will ensure early cash flow.

### Highlights in 2002

- DNO's production from Yemen increased steadily in 2002, with production results significantly over forecast levels.
- The appraisal well in the Tasour field was successfully completed, doubling reserves.
- The successful drilling of appraisal wells in the Sharyoof field increased reserves by approximately 40 per cent.

### Licence activities

#### The Tasour field (Block 32, Yemen)

The Tasour field came onstream towards the end of 2000. It is DNO's first field development as operator, and has provided the company with very valuable experience and expertise.

The appraisal well (Tasour-7) in the Tasour field was successfully completed in 2002, with production start in November. Based on the positive results of this well, reserve estimates were adjusted considerably upwards, from 10.7 million to 19.7 million barrels of recoverable oil.

The Tasour-8 production well went onstream in January 2003. This is the sixth production well in the field. With all production wells producing at capacity, the field can produce almost 20 000 barrels per day, of which DNO's share is slightly less than 8 000 barrels per day.

DNO intends to drill more exploration wells in block 32 in 2003, in the Tasour field as well as in other of the licence's structures. New seismic survey data acquired towards the end of 2002 have refined the interpretation of the block's various geological structures.

#### Sharyoof field (Block 53, Yemen)

The Sharyoof field was discovered in 2000 and the development of the field continued throughout 2001.

The development concept used for Sharyoof is the same as for the Tasour field. As an active licence partner, DNO has contributed to bringing on the positive experience from the Tasour field to the Sharyoof development. During 2003 DNO will participate in the drilling of several exploration wells in block 53, in the field itself and in other structures of the licence.

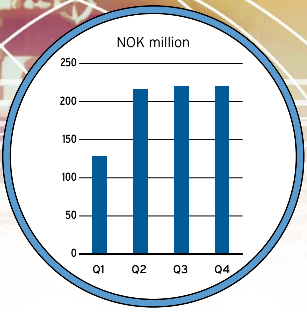
#### Block 43 (Yemen)

In September 2001, DNO acquired operatorship and a 75 percent interest in block 43. Block 43 is an exploration licence located near existing infrastructure. Block 43 borders on Block 14, which is operated by Nexen and produces an average of 230 000 barrels per day.

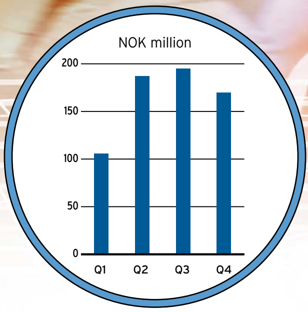
After DNO took over the operatorship of block 43, a new work programme was approved by Yemenite authorities. Originally, DNO had been instructed to carry out 500 kilometres of seismic surveys and drill two wells. This has now been changed to slightly over 130 kilometres of seismic survey and three wells. This means that DNO will have drilled three wells in this block by April 2004, the end of the exploration period. DNO has identified several interesting structures in the block.

#### Seven Heads Gas Field (Ireland)

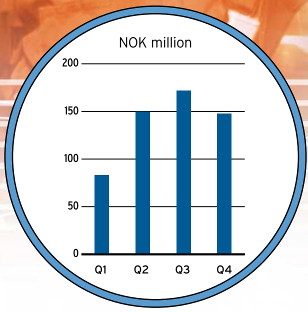
In October 2002, DNO acquired Island Petroleum Developments Limited (IPDL), a privately owned company registered on Isle of Man.



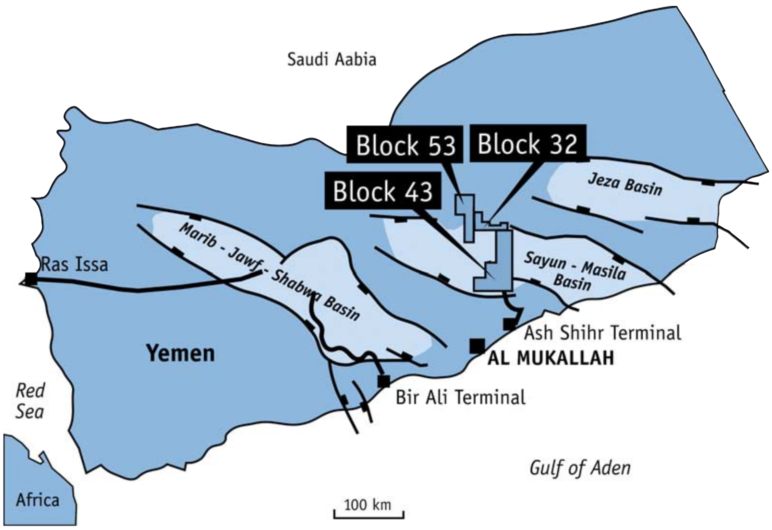

**Operating revenues**




**EBITDA**




**Operating profit**




IPDL holds a 12.5 per cent interest in the Seven Heads Gas Field in the Celtic Sea off Ireland. The operator of Seven Heads, Ramco Oil and Gas Limited, recently declared the field commercial, with plans to develop the field with production start scheduled for the end of 2003. Seven Heads contains 300 billion cubic feet (300 bcf) of recoverable gas reserves, corresponding to approximately 50 million barrels of oil equivalent. DNO's share is approximately 7 million barrels of oil equivalent. Seven Heads is expected to produce gas until 2018.

### Outlook

In future DNO International will focus its activities outside of the North Sea, with special emphasis on the Middle East.

DNO expects the existing oil fields in Yemen to produce oil for another 10 to 12 years.

In the first quarter of 2003, DNO has been awarded a small interest in an offshore licence in Equatorial Guinea. This is the company's first engagement in West Africa. DNO emphasises having a diversified portfolio of petroleum licences. As gas often has a longer period of production than oil and is less influenced by price fluctuations, the company may in future enter into other gas projects.

## profit and loss statements (unaudited) per quarter 2002 (group)

NOK million

| OPERATING REVENUES | Q1 | Q2 | Q3 | Q4 | 2002 |
|---|---|---|---|---|---|
| Operating revenues | 368 325 | 456 838 | 435 089 | 424 812 | 1 685 064 |
| Other operating revenues | 60 | 297 | 5 101 | 492 | 5 950 |
| Total operating revenues | 368 385 | 457 135 | 440 190 | 425 304 | 1 691 014 |
| | | | | | |
| **OPERATING EXPENSES** | | | | | |
| Exploration expenses | -33 154 | -53 125 | -6 868 | -21 006 | -114 153 |
| Production and transportation expenses | -120 431 | -126 972 | -119 032 | -123 141 | -489 576 |
| Ordinary depreciation, abandonment costs | -92 623 | -99 625 | -82 156 | -93 228 | -367 632 |
| Impairment, amortisation and losses | -5 400 | -5 400 | -5 400 | -46 925 | -63 125 |
| Payroll and payroll-related expenses | -6 821 | -6 605 | -8 970 | -13 127 | -35 523 |
| Other operating expenses | -17 291 | -21 267 | -22 237 | -37 109 | -97 904 |
| Total operating expenses | -275 720 | -312 994 | -244 663 | -334 536 | -1 167 913 |
| | | | | | |
| OPERATING PROFIT (LOSS) | 92 665 | 144 141 | 195 527 | 90 768 | 523 101 |
| | | | | | |
| **FINANCIAL REVENUES AND FINANCIAL EXPENSES** | | | | | |
| Interests in associated companies | -3 925 | -121 812 | -19 888 | -46 089 | -191 714 |
| Net other financial items | -13 272 | -29 549 | -9 964 | 8 868 | -43 917 |
| | | | | | |
| PROFIT (LOSS) BEFORE TAXES | 75 468 | -7 220 | 165 675 | 53 547 | 287 470 |
| | | | | | |
| Taxes | -50 979 | -60 487 | -119 701 | -132 934 | -364 101 |
| | | | | | |
| QUARTERLY / ANNUAL NET PROFIT | 24 489 | -67 707 | 45 974 | -79 387 | -76 631 |

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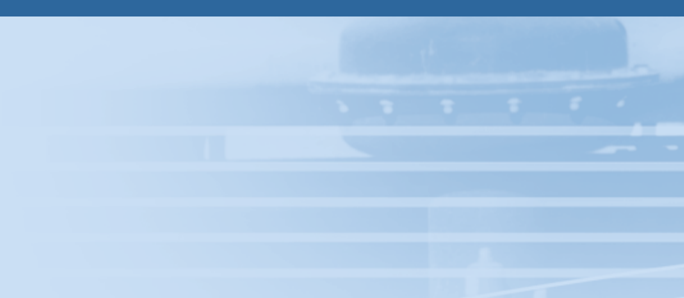

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