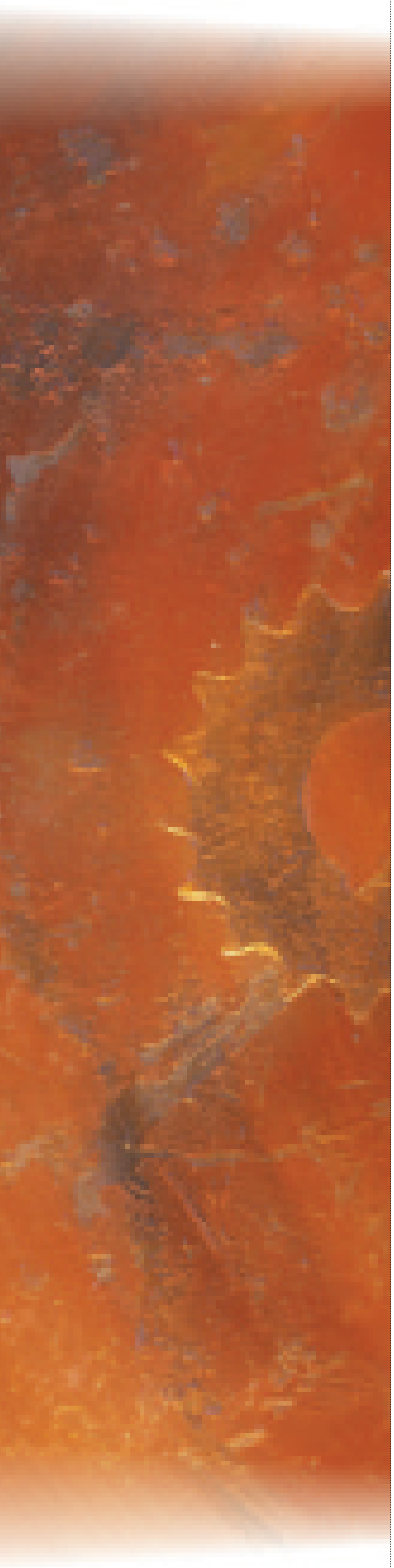
annual report 1998
DNO ASA



DNO has as its business strategy:
To increase oil recovery from mature fields and from time-critical, marginal oil fields. Investments in oil, rigs and oil services shall preferentially support this business strategy.

CONTENTS

This report is translated
from norwegian.

KEY FIGURES (GROUP)

	1994	1995	1996	1997	1998
ANNUAL RESULTS (MNOK)					
Operating income	56	54	61	278	263
Operating profit	(19)	(56)	(3)	105	(13)
Profit before tax	(8)	(74)	6	143	24
Annual profit	(6)	(71)	4	160	24
BALANCE SHEET (MNOK)					
Current assets	98	26	52	366	146
Fixed assets	158	113	125	250	633
Current liabilities	65	80	64	105	131
Long-term liabilities	87	22	49	23	65
Provisions	34	30	35	219	227
Shareholders' funds	70	9	29	270	355
Total assets	256	140	177	617	778

KEY RATIOS (GROUP)

	1994	1995	1996	1997	1998
RETURN ON TOTAL ASSETS					
Profit before tax + finance costs / Average total assets	3%	(32%)	8%	38%	7%
CURRENT RATIO					
Current assets / Current liabilities	151%	33%	81%	349%	111%
EQUITY RATIO					
Shareholders' funds / Total assets	28%	6%	16%	44%	46%
EARNINGS PER SHARE (NOK)*					
Group profit / Average no. of shares	(0.39)	(4.57)	0.24	6.81	0.84
CASH FLOW PER SHARE					
Profit + depreciation / Average no. of shares	1.19	(1.01)	1.40	8.12	1.90
EMPLOYEES (GROUP)	7	4	3	90	71

* Convertible debentures are in their entirety treated as liabilities.

Board of Directors´ Report

BOARD OF DIRECTORS' REPORT 1998

Heather operating costs down by 25 %.

80 million barrels of oil in Heather area.

1. SUMMARY

The main activity of DNO ASA (DNO) is the extraction of petroleum resources. In line with the company's strategy, DNO is primarily concerned with production of oil from time-critical and marginal reservoirs and boosting production from fields in the final production phase.

- DNO has petroleum licenses in the UK, Yemen and Timan Pechora in north-western Russia.
- DNO is also involved in offshore petroleum services, where part ownership of the drilling rig company Petrolia Drilling ASA (PDR) is the primary engagement.
- In June 1997 DNO assumed operating responsibilities for Heather/West Heather, and 1998 was therefore the first full year with DNO as operator.
- DNO implemented a number of cost reduction measures in 1998, reducing operating costs on the Heather platform by 25%. Starting in 1999, this amounts to net annual savings of NOK 25 mill. for DNO.
- In the second half of 1998, DNO acquired a 20% share in block 32 in Yemen. DNO is also the operator of this licence and now maintains an office in Sana'a, Yemen's capital.
- DNO's overall net production of oil in 1998 was 862,783 barrels, or a daily average of 2,363 barrels.
- The average market price for oil in 1998 was USD 12.85 per barrel; considerably below the budgeted figure.

2. ANNUAL RESULT 1998

Main items in the Group's financial statement for 1998:

- Ordinary after-tax profit was NOK 23.6 mill.
- Net cash flow from the operation was NOK 53.6 mill.
- Net finance income was NOK 36.6 mill., consisting primarily of net proceeds from sales of shares at NOK 23.0 mill. and of interest income and currency gains totalling NOK 13.6 mill.
- Cash on hand on 31 December 1998 was NOK 238.0 mill., including deposited reserves for removal of installations on the Heather field. On July 1, 2002 the company will receive an additional USD 15.0 mill. from a bank guarantee covering future removal costs on Heather.
- At the year end the book value of shareholders' funds had increased to NOK 354.8 mill.
- At the close of the accounting year, long term liabilities were NOK 65.4 mill.

3. THE PETROLEUM ACTIVITY

UK

Heather/ West Heather Ownership: 37.5%

In 1997 DNO assumed operating responsibility for blocks 2/4 and 2/5, encompassing the Heather field and the West Heather area. At the same time, DNO increased its share in these licences from 6.25% to 37.5%. 1998 was therefore the first full year with DNO as operator.

Total production from the Heather field in 1998 was 1,965,000 barrels (DNO's share was 736,929 barrels). This corresponds to a daily average of 5,384 barrels (DNO's share: 2,019 barrels per day).

With only minor additional costs, DNO increased water injection by about 50% during the 4th quarter of 1998, contributing to a larger than anticipated production rate towards the end of the year.

Concurrently with increasing water injection, DNO also implemented cost reduction measures on the Heather platform, lowering operating costs by 25% on an annual basis. This is equivalent to annual net savings of NOK 25 mill. for DNO alone. Planned total operating costs for 1999 on the Heather field are GBP 15.5 mill. (NOK 195 mill.), which is significantly lower than most comparable fields in the North Sea.

No wells have been drilled on the Heather field since 1991, and approximately 120 mill. barrels have been extracted, corresponding to about 26% of petroleum reserves in the field. DNO's estimates show that an additional 40 million barrels can be produced by means of drilling and other measures performed from the Heather platform. The calculations also show a potential of about 35-40 mill. additional barrels of oil in the West Heather field and other satellite fields around Heather. All these additional reserves can be connected to the Heather platform.

This results in total resources of almost 80 mill. barrels of oil. Together with reduced operating costs, these additional petroleum resources should provide satisfactory operating conditions in the Heather area for the years to come.

In addition to the increased resources mentioned above, there may be considerable potential in a structure identified in the Upper Jurassic in the West Heather area.

This reservoir alone may contain more than 100 mill. barrels of oil, and DNO plans to drill one well on this structure in 1999 in order to ascertain the magnitude of additional reserves.

DNO is currently negotiating future operational strategy and investment levels with the other partners in the Heather/West Heather licences. An agreement is expected during the first half of 1999.

Drilling and production platform on the Heather Field

Claymore Ownership: 1.0%

DNO's share of the production on the Claymore field was 125,864 barrels in 1998. This corresponds to an average of 344 barrels per day.

Based on recent technical and cost analysis, the operator expects continuous production until the year 2010, which is two years longer than originally planned.

The operator plans to drill several new wells in the field during the next three years.

Operator in Yemen.

Block 205/26a (Solan) Ownership: 3.70%

Estimated reserves remained constant during 1998 within the range of 30-50 mill. barrels. DNO's share is between 1.1 and 1.9 mill. barrels, and, according to the operator, development of the field has to be co-ordinated with the development of other discoveries nearby.

No drilling is planned on this licence in 1999.

Block AL008 Ownership: 27.0%

There are no registered activities or costs in 1998 in connection with this licence.

DNO drilling rig on Tasour Field in Block 32 - Yemen

Yemen

Block 32 Howarime Ownership: 20.0%

In 1998 DNO entered into an agreement with Norsk Hydro regarding the transfer of 20% of Hydro's 45% share of Block 32 onshore in Yemen.

In November 1998 the authorities in Yemen approved DNO as operator of this licence, and DNO subsequently established an office in Sana'a, the capital of Yemen. The program for 1999 calls for the drilling of three wells. The first two wells will be drilled on the Tasour structure where oil was discovered in 1997. The test of this structure indicated daily production of approximately 4,800 barrels. Because the equipment used during the test severely limited the flow rate, total daily production from the well is expected to be several thousand barrels higher. Local authorities have approved the work programme for 1999, and drilling of the first well starts in the beginning of March. If the drilling confirms operable reserves in the Tasour structure, development may start as early as the second half of 1999. The plan calls for a connection to existing pipelines for oil from the neighbouring block, where Canoxy is operator with a current production of about 200,000 barrels per day.

Oil field development in Yemen appears commercial at oil prices below USD 10 per barrel.

Block 53 East Sarr Ownership: 24.45%

DNO has management rights for a 24.45% share in Block 53 in Yemen, and has first options on all rights in this share, provided a commercial agreement is reached.

The authorities in Yemen have approved DNO as a licence participant. Block 53 is adjacent to Block 32, and the first well under the licence was started in the fourth quarter of 1998.

Results from production testing of the well are expected to be available sometime in the second half of 1999.

Timan Pechora - north-west Russia "MTMP" Fields Ownership: 10%

The 1998 activities on the DNO licence in Timan Pechora, consisted primarily of analysing the possibilities of early production and transportation via ocean routes from fields where DNO has a share.

DNO and its Russian partner AGD are currently in negotiations for a more active role for DNO on the licences. One possible outcome is a Production Sharing Agreement (PSA) with DNO as operator, or joint operator.

Additional investments in the project will be appraised in light of the PSA, resolution of all export and transportation difficulties, and the general situation in Russia.

The uncertainties around the project put DNO's investments in these licences at a certain risk.

Exploratory drilling in the fields indicates total reserves of approximately 570 mill. barrels, with DNO's share at around 57 mill. barrels.

Annual accounts for Ocean Energy Ltd. have not been submitted for 1998, and DNO's share has been incorporated into DNO's financial statement at cost.

4. OFFSHORE & OIL INDUSTRY SERVICES

Through its ownership of more than 30% of Petrolia Drilling ASA (PDR), DNO is working actively to develop PDR into a larger drilling company.

The SS "Petrolia" was contracted to Talisman in the UK during 1998 and to 21 January 1999. DNO is considering using the SS "Petrolia" for drilling, and possibly for production testing, in the West Heather area and on other licences in the UK where DNO wishes to become a partner.

The contract with Petrobras for the drillship DS "Valentin Shashin" in Brasil, provides valuable experience in cost effective drilling in deep waters, where most of the world's remaining offshore petroleum reserves are to be found.

In light of the low price of oil, DNO is investigating interesting opportunities for rental of drilling equipment. DNO invested in this business area during the fourth quarter of 1998.

5. THE FUTURE PROSPECTS

As operator, DNO has identified considerable additional reserves in the Heather/West Heather area. This, together with reduced costs of platform operation, provides a firm basis for oil production from the Heather/West Heather area for many years to come.

DNO's approval as an operator in Yemen, opens new and interesting possibilities for the company in a typically low cost region. If the 1999 drilling program identifies commercial reserves, start of production in the year 2000 is entirely feasible.

In the short term, the company seeks to consolidate its position in the Heather area and in Yemen. If the company succeeds with these projects, they will generate considerable growth in revenues and cash flow, and will materially strengthen the company's portfolio of oil reserves.

In the longer term, and provided that the conditions

Consolidating in the UK and Yemen.

described in chapter three are satisfied, development of the large oil reserves in Timan Pechora will generate considerable activity for DNO. Realisation of the potential in this area may contribute significantly to the economic value of the company.

New investments in petroleum licences are evaluated continuously, subject to strict criteria to ensure conformance with the company's overall strategy.

The company's investments in existing and new petroleum licences depend on expected trends in the price of oil. DNO's economic appraisal of such investments is based on an oil price of USD 12 per barrel for 1999, a price of USD 14 per barrel for the year 2000, and USD 16 per barrel thereafter. This price prognosis provides acceptable profits in the company's ongoing projects in the Heather area and Yemen. However, since planned oil production is expected to increase from the year 2000 and thereafter the economic prospects of these projects depend largely on the development of oil prices in the more distant future.

During April 1999, the price of oil increased to more than USD 15 per barrel. If the oil price stabilises at this level, the economy of the company's projects will improve correspondingly.

The rental of the drilling equipment during 1998 and investments in drilling rigs, are expected to generate satisfactory returns in the next few years.

DNO staff in Sana´a office, Yemen

6. SHAREHOLDERS

On 31 December 1998 the company had 29,307,043 shares with a nominal value of NOK 4 per share. The shares were distributed among 41,986 shareholders. At the end of the accounting year, the principle shareholder owned or controlled other companies, which together owned 9,301,738 shares. For more details regarding shareholders and ownership, see page 25.

Among the remaining shareholders, 22,286 owned 10 shares or less, while 15,296 owned between 10 and 100 shares. A total of 37,582 shareholders owned only 2.01% of the share capital at year's end. Most of these shareholders are original investors in DNO from the establishment of the company in 1971.

7. OTHER MATTERS

The members of the company's Board of Directors at the end of the accounting year, are listed in the table on page 25. Note 6 to the financial statements details salaries and other compensation to the Board of Directors, the Managing director and the auditor. The group had 71 employees as per 31 December 1998, and an additional staff of 60 in various affiliated networking companies.

The working environment in the company is considered good. DNO's objective is that all company activities shall be carried out without personal injury, damage to the environment or loss of material values. The Board of Directors note with satisfaction that no serious injuries occurred during 1998. The company's activities have been carried out in accordance with official criteria for stress or damage to the exterior environment.

In April 1999 DNO issued 2.9 million shares at an issue price of NOK 12 per share.

The company will seek to refinance its bank debt to ensure satisfactory liquidity during 1999.

8. TRANSITION TO THE YEAR 2000

In July 1998 the company established a professional team to evaluate necessary measures to ensure a smooth transition to the year 2000. The team is now looking into all critical activities, processes and systems to ensure that they are Year 2000 compatible. As an operator in the UK sector, DNO has also participated in a work group initiated by UKOOA (UK Offshore Operator's Association), which, together with the authorities (DTI), performed an audit of DNO's work. The audit found no weaknesses in the programme. A new audit is scheduled for July 1999 to ensure that all preparations for the transition to the year 2000 are in place.

The Board of Directors is of the opinion that with the work programme as described, DNO is identifying all necessary precautionary measures, and is adequately preparing for a safe transition to the year 2000.

9. ALLOCATIONS

On 31 December 1998 the book value of shareholders' funds was NOK 354.8 mill. for the group and NOK 433.9 mill. for the parent company.
The parent company realised a profit of NOK 16.9 mill. for 1998, and the Board of Directors recommends that the amount shall be allocated to free reserves.

Oslo, 20 May 1999

THE BOARD OF DIRECTORS IN DNO ASA

Jan M. Drange
Chairman

Anders Farestveit
Deputy Chairman

Farouk Al-Kasim   Helge Eide   Berge G. Larsen

Annual Accounts

PROFIT AND LOSS ACCOUNTS (NOK 1000)

For the accounting period 1 January to 31 December 1998.

PARENT COMPANY				GROUP	
1997	1998		NOTES	1998	1997
		OPERATING REVENUES			
18,348	11,208	Operating revenues, oil and gas		90,670	89,403
19,243	0	Operating revenues, Petrolia KS	14	0	19,243
187,282	28,791	Gain on sales LP, net	14	31,281	128,217
39,848	141,149	Bareboat charter SS Petrolia	15	141,149	39,848
9,355	17,778	Other operating revenues		325	800
274,076	**198,926**			**263,425**	**277,511**
		OPERATING COSTS			
16,071	16,941	Direct production costs, royalties, fees	4	114,733	68,542
9,598	0	Operating costs Petrolia KS	14	0	9,598
12,427	11,394	Wages and administration cost	6,7	18,992	23,695
0	2,281	Project costs		2,281	0
39,848	112,547	Bareboat charter SS Petrolia	15	112,547	39,848
7,722	5,148	Ordinary depreciation	3	29,850	23,384
7,258	0	Ordinary depreciation Petrolia KS		0	7,258
172	65,184	Write-down shares	2	0	0
0	(476)	Changes in inventory		(2,206)	237
93,096	**213,019**			**276,197**	**172,562**
180,980	**(14,093)**	**Operating profit (loss)**		**(12,772)**	**104,949**
		FINANCIAL INCOME (COSTS)			
33,209	32,930	Currency gains		47,281	21,740
(10,827)	(24,604)	Interest, bank fees, currency losses		(24,505)	(9,632)
49,120	22,894	Gains/losses on securities		22,894	49,120
(6,218)	0	Share financial costs Petrolia KS		0	(6,218)
(10,405)	0	Share affiliated companies	18	(9,098)	(16,850)
16,833	0	Liquidation of subsidiaries		0	0
71,712	**31,220**	**Financial items, net**	**5**	**36,572**	**38,160**
252,692	**17,127**	**Profit before tax**		**23,800**	**143,109**
538	(211)	Taxes	13	(211)	16,778
253,230	**16,916**	**Net profit for the year**		**23,589**	**159,887**
		Allocations and transfers			
160	0	Group contribution			
(27,182)	0	Proposed dividend			
		Reduction accumulated losses			
(226,208)	(16,916)	Allocated to free reserves			
253,230	**16,916**	**Total**			
		Earnings per share	**16**	**0,84**	**6,81**
		Earnings per share (diluted)	**16**	**0,77**	**5,90**

BALANCE SHEETS (NOK 1000)

PARENT COMPANY				GROUP	
31.12.97	31.12.98	ASSETS	NOTES	31.12.98	31.12.97
		CURRENT ASSETS			
204,667	66.736	Bank deposits	1	89,381	303,892
38,176	0	Securities		0	38,176
18,402	30.411	Accounts receivable		53,282	20,898
7,231	11.653	Receivables from subsidiaries		0	0
228	712	Inventory		3,000	3,513
268,704	**109,512**			**145,663**	**366,479**
		FIXED ASSETS			
0	148,566	Bank deposits	1	148,566	0
94,077	198,826	Shares in affiliated companies	2,18	198,826	28,568
22,030	21,949	Shares in subsidiaries	2	0	0
31,890	39,094	Receivables from subsidiaries		0	0
49	288	Other long term receivables	17	85,488	78,949
6,320	6,946	Machines, equipment, cars	3	6,946	6,349
5,975	0	Drilling vessel owned in LP		0	5,975
63,030	136,149	Oil and gas fields	3	192,929	130,379
223,371	**551,818**			**632,755**	**250,220**
492,075	**661,330**	**Total assets**		**778,418**	**616,699**

PARENT COMPANY				GROUP	
31.12.97	31.12.98	LIABILITIES AND SHAREHOLDERS' FUNDS	NOTES	31.12.98	31.12.97
		SHORT TERM LIABILITIES			
1,073	710	Payroll tax payable, tax withholdings, holiday allowance, etc.		709	1,073
21,774	59,999	Accounts payable and accrued costs		68,344	50,760
25,721	62,068	Current part of mortgage loans	9	62,068	25,721
27,182	350	Allocated to dividends		350	27,182
75,750	**123,127**			**131,471**	**104,736**
		LONG TERM LIABILITIES			
799	517	Pension commitments	7	517	799
12,300	12,300	Convertible bond loans	8	12,300	12,300
9,920	52,591	Mortgage loans	9	52,591	9,920
23,019	**65,408**			**65,408**	**23,019**
		PROVISIONS			
37,240	38,893	Abandonment	10	226,757	218,671
37,240	**38,893**			**226,757**	**218,671**
		SHAREHOLDERS' FUNDS			
107,692	117,228	Share capital (29,307,043 shares at NOK 4.-)		117,228	107,692
248,374	316,674	Other shareholders' funds	11	237,554	162,581
356,066	**433,902**			**354,782**	**270,273**
492,075	**661,330**	**Total liabilities and shareholders' funds**		**778,418**	**616,699**
		Secured debt, guarantees	12		
		Other	15,20		

Berge G. Larsen	Jan M. Drange	Anders Farestveit	Farouk Al-Kasim	Helge Eide	Asbjørn Svae
Group CEO	*Chairman*	*Deputy Chairman*		*Deputy Group CEO*	*Managing Director*

CASH FLOW STATEMENTS (NOK 1000)

PARENT COMPANY			GROUP	
1997	1998		1998	1997
		CASH FLOW FROM OPERATIONAL ACTIVITIES		
252,692	17,127	Profit before tax	23,800	143,109
(653)	(211)	Taxes paid	(211)	(653)
0	0	Losses/gains on sale of fixed assets	0	0
(253,235)	(51,685)	Losses on sale of securities/shares in LP	(54,175)	(177,338)
7,722	5,148	Ordinary depreciation and removal reserve	29,850	23,384
0	65,184	Write-down of fixed assets	0	0
136	(484)	Changes in inventories	513	851
(31,775)	(23,874)	Changes in accounts receivable	(38,801)	(5,211)
15,167	37,862	Changes in accounts payable/accrued costs	17,220	714
(296)	(282)	Difference between book value of pensions and in/out payments	(282)	(296)
20,463	6,976	Impact of changes in currency rates	11,673	22,409
(22,382)	(13,793)	Items classified as investing/financing activities	(25,878)	(12,108)
13,746	0	Profit in affiliated companies	9,098	20,191
1,585	**41,968**	**NET CASH FLOW FROM OPERATIONAL ACTIVITIES**	**(27,193)**	**15,052**
		CASH FLOW FROM INVESTMENT ACTIVITIES		
0	0	Proceeds from sale of fixed assets	0	0
(66,038)	(77,537)	Investments in fixed assets	(88,783)	(113,753)
416,130	99,284	Proceeds from sale of securities/LP shares	101,774	416,138
(280,181)	(173,381)	Investments in securities and LP shares	(173,381)	(280,181)
0	81	Proceeds from other investments/transactions	0	0
(21,844)	0	Investment in part of Unocal Britain Ltd (1997)	0	108,200
48,067	**(151,553)**	**NET CASH FLOW FROM INVESTMENT ACTIVITIES**	**(160,390)**	**130,404**
		CASH FLOW FROM FINANCIAL ACTIVITIES		
35,641	104,739	Proceeds from new loans	104,739	35,641
(31,028)	(25,721)	Repayment of debt	(25,721)	(31,028)
0	(26,832)	Dividends paid	(26,832)	0
6,312	7,114	Interest payments	8,532	7,512
108,576	60,920	Net proceeds from share issue	60,920	108,576
119,501	**120,220**	**NET CASH FLOW FROM FINANCIAL ACTIVITIES**	**121,638**	**120,701**
169,153	10,635	Net changes in cash and cash equivalents	(65,945)	266,157
35,514	204,667	Opening balance of cash and cash equivalents	303,892	37,735
204,667	215,302	Closing balance of cash and cash equivalents	237,947	303,892

COMMENTARY TO THE ACCOUNTS

ACCOUNTING PRINCIPLES

A Consolidation and ownership in limited partnerships (LP)

The consolidation is based on the purchase method of accounting, which implies that the parent company's cost price for shares in a subsidiary are eliminated against the subsidiary's shareholders' funds at the time of acquisition. Payments at the time of purchase in excess of book value of shareholders' funds (premium value), are transferred to the relevant assets and are capitalised under oil and gas fields in the Group accounts, and are depreciated in accordance with the unit-of-production method. Inter-company claims, gains, interest and other transactions between the Group companies are eliminated in the consolidated financial statement. Except for oil and gas fields, all balance sheet items are recalculated based on currency rates at the end of the accounting year. The profit and loss statement, on the other hand, is based on average currency rates for the year. Oil and gas fields are recalculated to reflect historical cost. The difference is carried as a financial item in the profit and loss statement.

B Full cost method, depreciation and removal

In DNO's financial statement, capitalisation of costs in connection with exploration and extraction of petroleum is based on the full cost method. Investments in each country are carried separately. Exploration costs accrued prior to allotment of licences (application costs, etc.) and projects with clearly negative results, are carried as ordinary operating costs.

All direct and applicable field development costs are capitalised until production starts. After production has started, investment in additional development is still capitalised, while other costs for each field are recognised as operating costs as they accrue.

At the end of each year a "ceiling-test" is prepared, where capitalised costs are appraised in view of anticipated future earnings. This is done in order to ensure that fixed assets are not overstated. Capitalisation of exploration and development costs in countries where there also is production, are depreciated in accordance with the unit-of- production method. This implies that the capitalised costs are distributed over estimated remaining extractable reserves. The calculations are performed separately for each country.

Pursuant to provisions in applicable law and the conditions in the extraction permits, the company is under obligation to remove all field installations when production stops. DNO routinely sets aside the appropriate provisions for this purpose in accordance with the unit-of-production method.

C Foreign currency

Current assets and liabilities in foreign currencies with due dates within one year, are converted to NOK at the currency rates on 31 December. The relevant currencies and rates were respectively USD 1= NOK 7,5130, and GBP 1 = NOK 12,5960. Unrealised currency gains and losses for the year on short term items, are in their entirety carried as a financial item in the profit and loss statement. Long term receivables (debt) are carried in the balance sheet at the lowest (highest) of the historic currency rate and the currency rate at year's end. Provisions for removal are carried at the currency rate on the balance sheet day. The company has no currency instruments as per 31 December 1998.

D Investments

Short term investments.

Short term investments are managed as a portfolio, and the values of shares, options and bonds are therefore based on an aggregate appraisal.

Book value is either cost to the company at purchase or the market value at 31 December, whichever is lower.

Tasur Field in Block 32

Investments in fixed assets.
These assets are carried at cost, and whenever they are subject to non-temporary value reductions, they are written down correspondingly. Investments in affiliated limited companies and limited partnerships are incorporated in accordance with the equity method of accounting. There are no provisions for deferred tax liability on the company's shares in the profits of affiliated Norwegian companies.

E Short term receivables and inventory

Short term receivables are valued at lowest of costprice or estimated market value.
The company's inventory consists of produced but not delivered petroleum and NGL. The inventory is carried at costprice or estimated market value, whichever is lower.

F Deferred tax liabilities

The tax costs shown in the profit and loss account, include both taxes payable for the accounting period and any changes in deferred tax liabilities. Changes in deferred tax liabilities reflect future tax liabilities generated by activities during the accounting year. Deferred tax liabilities reflect taxes payable on the part of the company's accumulated profits, which will be realised in future accounting periods. Deferred tax liabilities are calculated for the net positive temporary differences between accounting values and tax-related balance sheet values in Norway after balancing negative temporary differences and losses carried forward in accordance with the liability method. There is a deferred tax asset in the UK, which is not capitalized in the accounts.

G Pensions and benefit obligation

Net pension costs include accrued pensions including anticipated wage increases, plus interest on the liability less yield on invested pension funds. The item is adjusted for the distributed impact of changes in the pension plan and relevant estimates.
The appraisal of pension funds and calculation of accrued obligations are based on estimated values and liabilities at the end of the accounting year.
The impact of changes in estimates and differences between real and estimated yield, will be incorporated into the accounts over the remaining average accrual period (assumed to be 15 years) whenever the accumulated impact exceeds 10% of pension funds or pension obligations, whichever is larger.
Net pension costs are classified as wage costs in the profit and loss statement. In the balance sheet, net benefit obligations are shown as long term debt, while net capitalised funds are shown as fixed assets.

H Cash flow statement

DNO uses the indirect method. Securities that mature in three months or less, are defined as cash equivalents, while shares are not.

I Cost of share issue

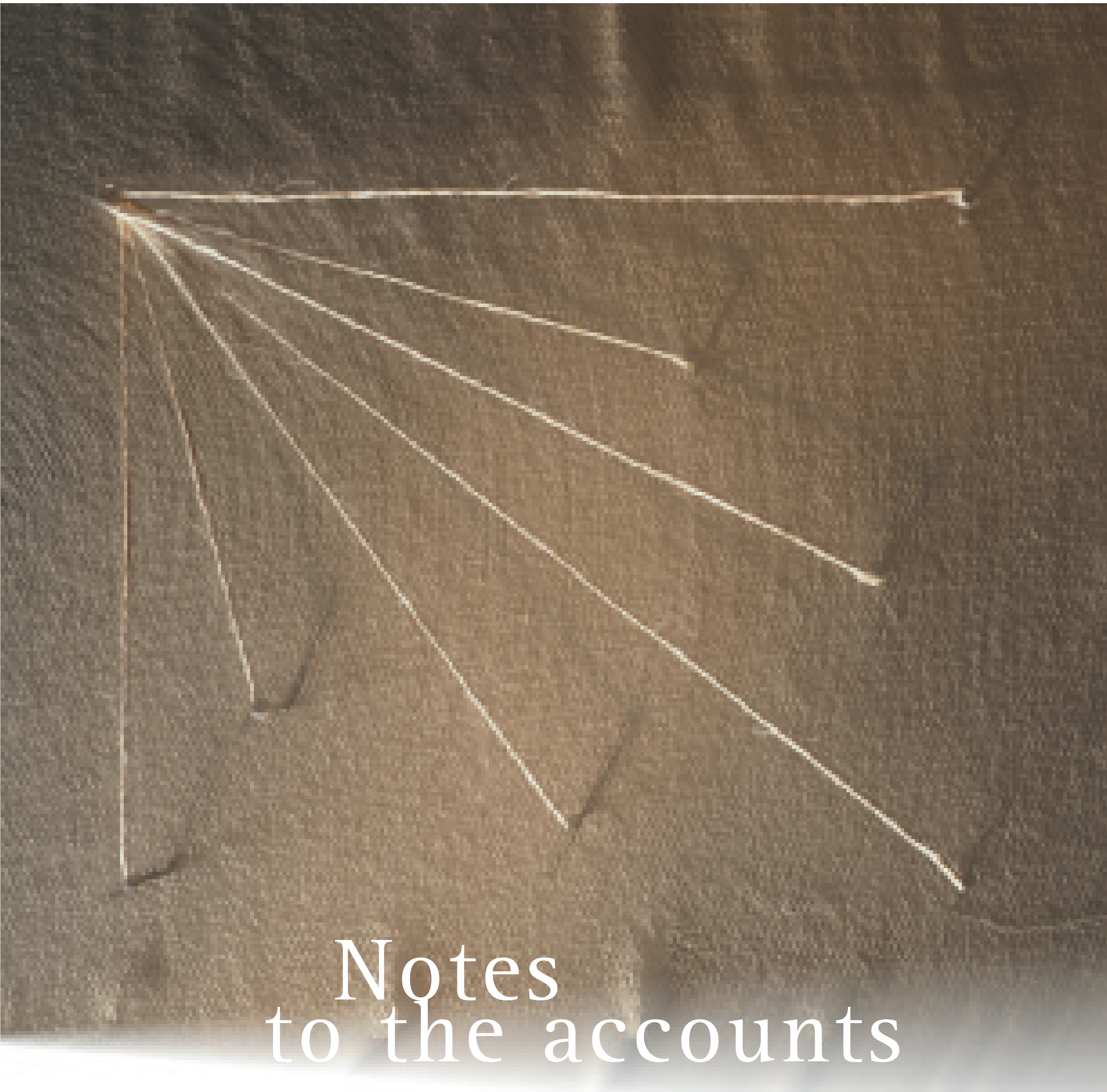
In the case of issuance of share capital, issue costs are carried against shareholders' funds.

J Contingencies

Probable and quantifiable contingent losses are incorporated into the financial statement.

K Reporting by segments

Reporting of economic information is based on the Group's internal administrative reporting system.



Notes to the accounts

NOTES

Note 1

Bank deposits

Restricted bank deposits total NOK 176 mill. for the Parent company and the Group. Restricted deposits of NOK 148 mill. are provisions for abandonment costs, and are classified as long term.

Note 2

SHARES			
OWNED BY PARENT COMPANY	DNO'S SHARES	COST PRICE TO DNO	BOOK VALUE 31.12.98
Long term shareholdings			
Petrolia Drilling ASA	10,465,961	264,010,064	198,826,000

	% Ownership	
Shares in subsidiaries		
Det Norske Oljeselskap A/S	100	50,000
The Norwegian Oil Company DNO (UK) Ltd.	100	1
DNO (Heather Oilfield) Ltd.	100	909
DNO Explorations Scandinavia A/S	100	50,000
DNO Heather Ltd.	100	21,848,021
DNO Limited	100	0
Total		**21,948,931**

Viking Shipping Ltd. was dissolved in 1998.
Shares in Petrolia Drilling ASA (PDR) were in 1998 written down by the parent company to NOK 198,826,000, which corresponds to the book value in Group accounts. Market value per 31 December 1998 was NOK 93,147,053. Less-value in connection with PDR shares is not incorporated into the balance sheet, because value adjusted equity does not differ significantly from book value.
DNO has an option to purchase the shares in DNO Production Ltd. at share value.
DNO ASA owns 28% (4,000 shares) in Ocean Energy Ltd., and in view of existing agreements, this is treated as a direct investment in oil and gas fields in Russia. The figures to be compared are adjusted accordingly. The cost price of the investment is NOK 111.1 mill.
Early in 1999 the subsidiaries in the UK were transferred to an intermediary parent company for the UK, DNO Britain Ltd., which is wholly owned by DNO ASA.

Note 3

Ordinary depreciation – parent company (6.25% Heather)

Depreciation for 1998 of operative units on the British Continental Shelf, is based on the previous operator's estimate of remaining oil reserves in the Heather field. The reserves are estimated at approximately 13 mill. barrels, assuming production cease by 2008.

Ordinary depreciation – group (37.5% Heather)

In addition to the Heather field, the consolidated financial statement also includes the Claymore field. These fields represent a cost pool, and depreciation is calculated jointly for the two fields, based on estimated remaining production. Production on Heather is expected to end in year 2008, and on Claymore in year 2010. Estimated cease of production on Heather has been changed from year 2002 to year 2008. Book values of removal costs and depreciation in the financial statement for 1998 are NOK 5.1 mill. and NOK 29.9 mill. respectively.

The extension of the remaining production period necessitates a cost increase in the 1998 accounts of NOK 8 mill. compared with the cost level in the 1997 accounts. This is primarily generated by increases in estimates of future investments.

INVESTMENTS IN AND DISPOSAL OF FIXED ASSETS THE LAST FIVE YEARS – PARENT COMPANY (NOK 1000)

	1994	1995	1996	1997	1998
Investments in fixed assets					
Buildings, machinery, equipment, cars	384	65	0	5,896	2,235
Oil and gas fields	1,239	3,124	4,112	62,958	75,302
	1,623	**3,189**	**4,112**	**68,854**	**77,537**
Disposal of fixed assets (sales value)					
Buildings, machinery, equipment, cars	0	0	150	70	0
Oil and gas fields	3,291	0	0	0	0
	3,291	**0**	**150**	**70**	**0**

INVESTMENTS IN AND DISPOSAL OF FIXED ASSETS THE LAST FIVE YEARS – GROUP (NOK 1000)

	1994	1995	1996	1997	1998
Investments in fixed assets					
Buildings, machinery, equipment, cars	384	71	28	5,896	2,235
Oil and gas fields	18,326	13,153	4,790	109,778	86,548
	18,710	**13,224**	**4,818**	**115,674**	**88,783**
Disposal of fixed assets (sales value)					
Buildings, machinery, equipment, cars	0	0	150	70	0
Oil and gas fields	3,291	0	82,472	0	0
	3,291	**0**	**82,622**	**70**	**0**

SUMMARY OF FIXED ASSETS – PARENT COMPANY (NOK 1000)

	PURCHASE COST 01.01.98	PURCHASE AT COST IN PERIOD	DISPOSAL AT COST IN PERIOD	DEPRE-CIATION IN PERIOD	ACCUMULATED DEPRECIATION 31.12.98	BOOK VALUE 31.12.98
Machinery, equipment and cars	18,577	2,235	0	1,609	13,866	6,946
Oil and gas fields						
-British Continental Shelf	396,949	24,302	0	2,949	396,244	25,007
-Russia	60,142	51,000	0	0	0	111,142
Total	**475,668**	**77,537**	**0**	**4,558**	**410,110**	**143,095**

SUMMARY OF FIXED ASSETS – GROUP (NOK 1000)

	PURCHASE COST 01.01.98	PURCHASE AT COST IN PERIOD	DISPOSAL AT COST IN PERIOD	DEPRE-CIATION IN PERIOD	ACCUMULATED DEPRECIATION 31.12.98	BOOK VALUE 31.12.98
Machinery, equipment and cars	18,697	2,235	0	1,609	13,986	6,946
Oil and gas fields						
-British Continental Shelf	667,302	35,548	0	23,876	621,063	81,787
-Russia	60,142	51,000	0	0	0	111,142
Gas projects in USA	35,902	0	0	0	35,902	0
Total	**782,043**	**88,783**	**0**	**25,485**	**670,951**	**199,875**

FIELD/LICENCE	BOOK VALUE FIXED ASSETS	BOOK VALUE REMOVAL RESERVE	NET BOOK VALUE
Claymore (1.00%)	13,350	(7,364)	5,986
Heather (6.25%)	2,775	(38,893)	(36,118)
Heather (31.25%)	36,000	(180,500)	(144,500)
Total producing fields UK	**52,125**	**(226,757)**	**(174,632)**
205/26A	4,810	0	4,810
Other UK licences	550	0	550
Total exploration licences UK	**5,360**	**0**	**5,360**
Yemen Bl. 32	24,302	0	24,302
Timan Pechora "MTMP"	111,142	0	111,142
Total Group	**192,929**	**(226,757)**	**(33,828)**

Note 4

Royalty

Royalty from the Heather and Claymore fields to the British authorities equals 12.5% of market value of produced petroleum products less treatment and transportation costs.

Note 5

FINANCIAL ITEMS EXCLUSIVE OWNERSHIP IN AFFILIATED COMPANIES (NOK 1000)

	PARENT COMPANY	GROUP
Liquidation of subsidiaries	55	55
Financial revenues	1,472	1,472
Interest income	11,873	23,573
Interest and bank costs	(7,255)	(7,255)
Financial costs	(3,135)	(3,135)
Currency gains/losses	5,316	8,066
Gains - shares and options	22,894	22,894
Total	**31,220**	**45,670**

Note 6

Salaries and administration costs

Compensation to the Managing Director for 1998 was NOK 667,379. Compensation to the Group Manager for the year was NOK 500,000. The Board of Directors received NOK 200,000 for the year, pursuant to the approval given by the Shareholders' General Meeting on 16 June 1998. Of this amount the Chairman of the Board received NOK 60,000. Loans to employees totalled NOK 22,500, and the Managing Director has a severance agreement giving him, on certain conditions, one year's salary upon termination of contract. Fees paid to the parent company's auditor in Norway for 1998, are as follows: auditing fees of NOK 388,000, assistance and advisory fees of NOK 130,500, for a total of NOK 518,500. The parent company has also paid NOK 30,000 in auditing fees for the auditing of some of the smaller subsidiaries.

Note 7

Pension plans

DNO has a collective pension benefit plan for its employees, with the funds placed in Storebrand. The principal conditions are 30 years accrual, pension payments of 67% of pensionable salary on the 1st of January the year the employee is 67, as well as spouse and children's pensions. All pension benefits will be co-ordinated with benefits from the National Insurance. This pension plan covers three active employees in the parent company as per 31 December 1998.

In addition the company has a supplementary pension scheme for pensionable salaries in excess of 12G. This scheme covers 1 person as per 31 December1998, and payroll tax is calculated for any underabsorption.

WHEN CALCULATING FUTURE PENSION OBLIGATIONS, THE FOLLOWING ASSUMPTIONS WERE MADE IN 1997 AND 1998:

	1997	1998
Discount rate	7.0%	6.0%
Expected yield on pension funds	8.0%	7.0%
Salary adjustments and inflation	3.3%	4.0%
Pension adjustments	2.5%	2.5%

THE PERIOD'S PENSION COSTS ARE GENERATED AS FOLLOWS (NOK 1000):

	PARENT COMPANY 1997	PARENT COMPANY 1998	GROUP 1997	GROUP 1998
Present value of pensions accrued in 1998	78	36	78	36
Amortisation of deviations in estimates	101	29	101	29
Interest on accrued pension commitments	190	199	190	199
Expected yield on pension funds	(261)	(159)	(261)	(159)
Payroll tax	49	10	49	10
Pension costs	**157**	**115**	**157**	**115**

PENSION COMMITMENTS AND PENSION FUNDS AS PER 31 DECEMBER

	PARENT COMPANY 1997	PARENT COMPANY 1998	GROUP 1997	GROUP 1998
Accrued commitments	2,981	3,551	2,981	3,551
Value of pension funds	(3,702)	(2,607)	(3,702)	(2,607)
Estimate deviations not recognised	1,520	(560)	1,520	(560)
Accrued payroll tax	0	133	0	133
Net pension (funds)/commitment	**799**	**517**	**799**	**517**

In connection with the acquisition of Unocal Britain Ltd., the DNO-Group paid approximately NOK 15 mill. in the UK to the Employee Benefit Trust. This is regarded as a supplementary scheme and is carried at cost in the item "shares in subsidiaries".

Note 8

Convertible loan per 31.12.98

In 1996 DNO obtained a NOK 24 mill. bond loan at 5%, and with a conversion price of NOK 5 per share. The loan runs to 01.09.2001. The balance per 31.12.98 is NOK 12.3 mill.

Note 9

Secured debt

In 1998 DNO obtained a bank loan of USD 14 mill., that is due on 29 October 2001. The loan was obtained in connection with the purchase of a 10% share in four fields in Russia (Ocean Energy Ltd.), and in connection with the issuence of shares in Petrolia Drilling ASA. Security is in the form of shares in Petrolia Drilling ASA. 50% of this loan must be repaid in 1999, and is carried as short term debt.

In 1998 DNO also obtained a loan at NOK 25 mill. The balance of NOK 9 mill. per 31.12.1998 was paid in January 1999.

Note 10

Abandonment costs (NOK 1000)

Abandonment cost for the Heather field is estimated to GBP 65 mill. (DNO ASA has a 6.25% share and DNO Heather Limited has a 31.25% share). The operator of Claymore estimates abandonment costs for that field to USD 135 mill. (DNO's share is 1%).

	PARENT COMPANY	GROUP
Abandonment provision Heather (6.25%)	38,893	38,893
Abandonment provision Heather (31.25%)	0	180,500
Abandonment provision Claymore (1.00%)	0	7,364
Total	38,893	226,757

Changes in abandonment provision are net of currency impacts and are carried as ordinary depreciation in the profit and loss statement.

Depreciation	4,558	25,485
Changes in abandonment provision UK	590	4,365
Ordinary depreciation	**5,148**	**29,850**

Note 11

Shareholders' funds (NOK 1000)

THE SHARE CAPITAL IN DNO PER 31 DECEMBER 1998 CONSISTED OF 29,307,043 SHARES AT NOK 4 EACH.

	01.01.98	ISSUES	DIVIDEND/ GROUP CONTRIBUTION	ANNUAL PROFIT	31.12.98
Share capital	107,692	9,536	0	0	117,228
Legal reserves	22,166	51,384	0	0	73,550
Free reserves	226,208	0	0	16,916	243,124
Total shareholders' funds	**356,066**	**60,920**	**0**	**16,916**	**433,902**

Proceeds from premium prices are allocated to legal reserve.

The Board is authorised to increase the number of shares by 12.5 mill. shares, of which authorisation for 2.9 mill. was used after 31 December 1998. To acquire own shares is also authorised, within the limitations imposed by the Norwegian Company Act.

CHANGE IN SHAREHOLDERS' FUNDS – GROUP (NOK 1000)	
(book value)	
Shareholders' funds 01.01.98	270,273
Issues	60,920
Profit for the year	23,589
Shareholders' funds 31.12.98	**354,782**

Note 12

SECURED DEBT AND GUARANTEES (NOK 1000)

	BOOK VALUE PARENT COMPANY	BOOK VALUE GROUP
Shares	198,826	198,826
Bank deposits	175,612	175,612
Receivables	0	85,200

In all, 10,465,961 of the shares in Petrolia Drilling ASA are used as collateral. The loan agreement stipulates that the exchange value of the mortgaged shares must not be less than 150% of the loan balance. However, the lender have waived this requirement until 30 June 1999 given certain contractual provisions. Earlier down payment of the loan will have no effect on its classification as short or long term liabilities. The bank has issued a letter of credit for abandonment cost of the Heather field for an amount of USD 35 mill., with a corresponding guarantee from DNO. In addition, the bank has guaranteed for USD 3 mill. on behalf of DNO ASA.

The long term claim described in Note 17 is secured.

Note 13

CALCULATION OF TAX-RELATED ANNUAL RESULT - PARENT COMPANY (NOK MILL.)	1997	1998
Profit for the year	253	17
Change in temporary differences exclusive shares and parts in LP	(2)	65
Activities taxed abroad	8	11
Taxes and costs related to share issues	(1)	0
Companies taxed as affiliated Ltd. companies	14	(10)
Application of tax losses	(244)	(83)
	0	0

RISK-amount as per 01.01.1999 is estimated at NOK 0 per share.

TAX EXPENSE - GROUP (NOK 1000)	1997	1998
Changes in deferred tax	0	0
Tax in the UK	16,778	(211)
	16,778	**(211)**

LOSSES CARRIED FORWARD FOR THE PARENT COMPANY IN NORWAY	(NOK MILL)
Losses carried forward 01.01.98	(188)
Tax profit 1998	83
Losses carried forward 31.12.98	**(105)**

Most of losses carried forward were generated in 1995. In addition, some of the subsidiaries have some minor losses to be carried forward.

Temporary differences in Norway for the parent company at 31.12.98 (NOK mill.)

Presumed insupportable claims on subsidiaries and write-down of shares in subsidiaries, are carried as costs in the accounts, but tax allowances will not be claimed until realisation. The difference between amounts carried on the books in DNO's Norwegian financial statement, and the tax-related treatment of this item, is regarded as a "temporary difference". The amount, which may be deducted in future tax returns, is represented by a negative, temporary difference. This is treated as an addition to losses carried forward.

TEMPORARY DIFFERENCES	31.12.97	31.12.98
Pensions	(1)	(1)
Operating assets	0	0
Receivables	(218)	(218)
Loss account	(40)	(40)
Other	(3)	(3)
Shares	(71)	(136)
Limited partnerships (KS)	12	0
Total negative differences	**(321)**	**(398)**

When the Heather platform is removed, DNO's subsidiary, DNO Heather Ltd., may potentially realise a substantial capital allowance to be deducted in its taxable result in the UK. No reserves are allocated for deferred tax liabilities for the Group in connection with excess value of oil fields, because the Group does not carry any deferred tax asset in its balance sheet in connection with abandonment provisions in the UK.

Note 14

Part ownership in the limited partnership K/S Petrolia Shashin

In January 1998, DNO sold its share of 23% in K/S Petrolia Shashin to Petrolia Drilling ASA. The transaction was settled by DNO receiving 869,150 shares in Petrolia Drilling ASA. The sale resulted a gain of NOK 28.8 mill. to DNO. Gains from sale of ownership parts in limited partnerships are in their entirety included as income in the parent company's accounts. In the group's accounts the gains are prorated over the anticipated remaining economic life of the drilling vessel. Reference is also made to Note 2.

Note 15

Transactions with related parties

In addition to the members of the Board of directors and the company's management, Larsen Oil & Gas A/S, Increased Oil Recovery AS and Petrolia Drilling ASA are also regarded as related parties.

In 1998 DNO sold its share of the limited partnership K/S Petrolia Shashin to the related company Petrolia Drilling ASA. The transaction was settled at market value.

In 1998 DNO bareboated one of the rigs from Petrolia Drilling ASA and forwarded the rig on a bareboat charter to Larsen Oil & Gas Drilling Ltd. DNO paid Petrolia Drilling ASA USD 35,000 per day and received a minimum of USD 40,000 per day plus incentives based on operative performance. The agreement ended 31December 1998.

DNO has entered into a consulting agreement with related parties for a limited number of personnel. The agreement is based on a mutually accepted market price per hour. The Chairman of the Board of directors has received NOK 382,000 in compensation for legal services.

Related parties own the material part of a convertible bond loan.

Reference is also made to Note 20.

Note 16

Earnings per share

Earnings per share is calculated by dividing the Group's annual profit by the average number of shares, which was 28,115,043 (not weighted over time). Diluted earnings per share in 1998 takes into account a convertible loan at 2,460,000 shares (total shares: 30,575,043). Interest costs in connection with the convertible loan are insignificant compared with diluted earnings per share.

Note 17

Other long term receivables

The Group's financial statement includes an outstanding receivable of USD 15.3 mill. in connection with the acquisition of Unocal Britain Ltd. (DNO Heather Ltd.) The receivable matures in its entirety in the year 2002 and is discounted at 8%. The interest is carried as income in the five-year period.

Note 18

SHARES IN AFFILIATED COMPANIES IN ACCORDANCE WITH THE EQUITY METHOD OF ACCOUNTING (GROUP) (NOK 1000)

	PETROLIA DRILLING ASA 34%	KS PETROLIA SHASHIN 0%	TOTAL
Book value 01.01.98	28,568	5,975	34,543
Additions disposals 1998	179,356	(5,975)	173,381
Share of profit	(9,098)	0	(9,098)
Book value 31.12.98	**198,826**	**0**	**198,826**

Note 19

REPORTING BY SEGMENTS (NOK 1000)								
	PETROLEUM		OFFSHORE		OTHER			
	OIL AND GAS		RIG		INVESTMENT ACTIVITIES		GROUP	
	1998	1997	1998	1997	1998	1997	1998	1997
Operating revenues	90,995	90,203	172,430	187,308	0	0	263,425	277,511
Operating costs	126,203	92,474	120,144	49,446	0	0	246,347	141,920
Depreciation	29,850	23,384	0	7,258	0	0	29,850	30,642
Operating profit	(65,058)	(25,385)	52,286	130,334	0	0	(12,772)	104,949
Gain/loss sale securities	0	0	0	0	22,894	49,120	22,894	49,120
Total assets	341,545	240,088	198,826	34,543	237,947	342,068	778,418	616,699
Interest-free liabilities	296,677	280,424	0	0	0	27,182	296,677	307,606
Investments in the period	88,783	113,753	179,356	318,357	0	38,176	268,139	470,286

The definitions of segments are based on the company's internal management and reporting system. Oil and gas, rig and investing are clearly different activity areas when it comes to earnings and risk, but the division of activity areas is equally logical from an operational standpoint.

Bank deposits and securities are in their entirety handled as financing activities. Interest-free liabilities include the abandonment provision. There are no significant transactions between the various segments. Administrative costs are distributed among the areas based on an appraisal of the respective activity levels, and may therefore not be mathematically exact. Activities on the British Continental Shelf contribute 34% of operating income (33% in 1997), and the rest is generated in Norway and the Norwegian Sector.

Note 20

Leasing commitments

DNO has entered into a leasing agreement with Gjensidige Bank in respect of leasing of drilling equipment rental to a related company. Total leasing commitments are USD 5.0 mill. and the agreement runs for four years.

Note 21

Implementing the new accounting law

Implementation of the new accounting law per 01.01.99, may lead to a reduction of approximately NOK 80 mill. in the book value of the parent company's shareholders' equity per 01.01.99. However, this depends on an appraisal of the accounting-related treatment of deferred tax assets, and possible reversals of write-downs already performed.

LICENCE PORTFOLIO

LICENCES WHERE DNO IS OPERATOR

BLOCK	FIELD	DNO SHARE	RESERVES MILL. BARRELS		PRODUCTION BARRELS PER DAY	
			TOTAL	DNO	TOTAL	DNO
UK 2/4 + 2/5	HEATHER + SATELITES	37.5 %	77,6	29,1	5,384	2,019
UK 210/29a	-	100.0 %	-	-	-	-
YEMEN 32	TASOUR	20.0 %	-	-	-	-

The reserves shown above are based on DNO's estimates.

LICENCES WHERE DNO IS A PARTNER

BLOCK	FIELD	DNO SHARE	RESERVES MILL. BARRELS		PRODUCTION BARRELS PER DAY	
			TOTAL	DNO	TOTAL	DNO
UK 14/19	CLAYMORE	1.0 %	100,0	1,0	34,400	344
UK 205/26A	SOLAN	3.7 %	30-50	1,1-1,9	-	-
NW. RUSSL.	MTMP	10.0 %	570,0	57,0	-	-

The reserves shown are based on the operator's estimates.

SHARE OWNERSHIP

DNO's 10 largest shareholders per 12.04.99:

SHAREHOLDERS	NUMBER OF SHARES	% OF TOTAL SHARE CAPITAL
Increased Oil Recovery AS*	6,578,942	22.5
Larsen Oil & Gas A/S*	2,515,148	8.6
Huntington Invest AS	698,000	2.4
NOR Forsikring	550,000	1.9
Storebrand Livsforsikring AS	538,000	1.8
New Century Holdings AS	398,000	1.3
Fortius A/S	300,000	1.0
Merrill Lynch & Co.	267,600	0.9
Petrolium Drilling AS*	207,648	0.7
Arnesen, Finn Espen	170,000	0.6
Other shareholders	17,083,705	58.3
Total shares	**29,307,043**	**100%**

THE COMPANY'S ELECTED OFFICERS AND THEIR HOLDINGS OF DNO SHARES ON 31.12.98

DNO'S ELECTED OFFICERS	NUMBER OF SHARES
Members of the Board of Directors	
Jan M. Drange, Chairman	15,500
Anders Farestveit, Deputy Chairman	0
Helge Eide	100,000
Farouk Al-Kasim	100,000
Berge Gerdt Larsen	9,301,738
The company's management	
Berge Gerdt Larsen, Group CEO*	9,301,738
Helge Eide, Deputy Group CEO	100,000
Asbjørn Svae, Managing Director	35,000
The company's auditor	
Arthur Andersen & Co.	0

* Berge Gerdt Larsen is Group CEO in DNO and controls approximately 30% of the shares in DNO through the wholly owned companies Larsen Oil & Gas A/S and Petrolium Drilling AS, and the 60% owned company Increased Oil Recovery A/S.

AUDITORS REPORT

ARTHUR ANDERSEN

Arthur Andersen & Co.
Statsautoriserte Revisorer

Drammensveien 165
Postboks 228 Skøyen
0212 Oslo
22 92 80 00 Telefon
22 92 89 00 Telefax

Medlemmer av
Den norske Revisorforening

TRANSLATION FROM NORWEGIAN

AUDITORS' REPORT FOR 1998

To the Annual General Meeting of
DNO ASA

We have audited the annual accounts of DNO ASA for 1998, showing net profit of NOK 16,916,000 for the company and a net profit of 23,589,000 for the group. The annual accounts, which consist of the Board of Directors' report, profit and loss account, balance sheet, cash flow statement, notes and the corresponding consolidated financial statements, are the responsibility of the Board of Directors and the Group manager.

Our responsibility is to examine the company's annual accounts, its accounting records and the conduct of its affairs.

We have conducted our audit in accordance with applicable laws, regulations and generally accepted auditing standards. We have performed the auditing procedures we considered necessary to determine that the annual accounts are free of material errors or omissions. We have examined, on a test basis, the accounting material supporting the financial statements, the appropriateness of the accounting principles applied, the accounting estimates made by management and the overall presentation of the annual accounts. To the extent required by generally accepted auditing standards we have also evaluated the company's asset management and internal controls.

The appropriation of net profit, as proposed by the Board of Directors, complies with the requirements of corporate law.

In our opinion, the annual accounts have been prepared in conformity with corporate law and present fairly the company's and the group's financial position as of 31 December 1998 and the result of its operations for the fiscal year in accordance with generally accepted accounting principles.

Without affecting the conclusion in the preceding paragraph, we would emphasize the uncertainty as descibed in the Board of Directors' report related to whether the net book value of the investment in Timan Pechora can be realized through future development of the license or through a sale.

ARTHUR ANDERSEN & CO.

Morten Drake (sig.)
State Authorised Public Accountant (Norway)

Oslo,
20 May 1999

Jernbaneveien 5
4005 Stavanger
51 84 12 00 Telefon
51 55 69 95 Telefax

Bradbenken 1
Postboks 4092 Dreggen
5835 Bergen
55 30 39 30 Telefon
55 30 39 31 Telefax

Jomfrugaten 18
7010 Trondheim
73 99 35 00 Telefon
73 99 35 01 Telefax

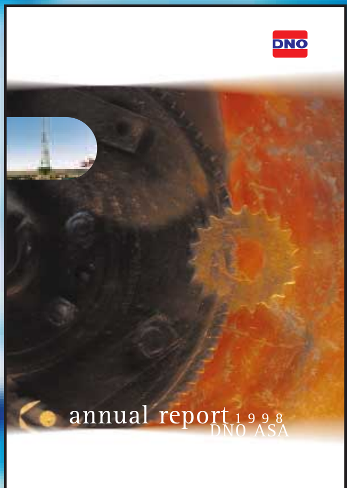
Samarbeidende selskaper:
Andersens Revisjonsbyrå as, 2300 Hamar
Bakke & Hjelmaas Larsen, 1361 Billingstad
Terje Bjerkan, 6880 Stryn
Gulliksen & Holmen ANS, 3015 Drammen
Jensen & Co. ans, 9000 Tromsø
[illegible]

Office address: Stranden 1, Aker Brygge • 0250 Oslo

Mail address: P.O. box 1345 • Vika 0113 Oslo

Telephone: +47 22 83 35 00 • Telefax: +47 22 83 23 13

DNO



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