DNO INTERNATIONAL ASA

INTERIM REPORT FOURTH QUARTER AND FULL YEAR 2011

Photo: Hans Fredrik Asbjørnsen

DNO

Highlights

- DNO delivered record production and revenues in 2011.
- The working interest (WI) production for the full year was 39,966 bopd, versus 17,381 bopd in 2010. In the fourth quarter the WI production was 34,656 bopd.
- Record operating revenues of NOK 2,070 million were achieved in 2011 – an increase of 65% over the previous year. For the fourth quarter, the operating revenues were NOK 905 million.
- Net profit for the full year was NOK 653 million and NOK 203 million in the fourth quarter.
- The second payment in the amount of NOK 353 million (USD 60 million) received in September related to exports from the Tawke field in the Kurdistan region of Iraq has been recognized as revenues in the fourth quarter. Previously capitalized costs related to the export production from Tawke have been expensed in the fourth quarter. The cash position at year end was NOK 1,752 million.
- The merger with RAK Petroleum's MENA assets was completed and registered on 10 January 2012 and the integration of personnel and assets is on fast track for completion before end of February.

Key figures

						Full year	
NOK million	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Key financials							
Sales [1]	904.6	152.4	732.0	281.2	302.0	2,070.2	1,251.8
Gross profit	279.8	52.3	431.3	141.0	157.3	904.5	633.1
Profit/-loss from operating activities	210.8	17.4	355.2	74.2	86.8	657.7	156.8
Net profit/-loss	203.1	299.3	216.1	-65.4	-30.9	653.2	-282.9
EBITDA	662.8	44.5	564.9	146.3	159.3	1,418.6	473.7
Netback	649.3	7.8	547.6	117.0	139.9	1,321.6	379.6
Acquisition and development cost	162.3	94.1	94.8	70.4	54.3	421.6	151.6
Exploration cost expensed	7.6	6.4	39.8	49.2	25.3	103.1	56.2
Production							
Gross production	59,452	62,966	81,446	52,814	26,863	64,185	28,994
Working interest production	34,656	36,773	48,582	39,945	16,252	39,966	17,381
Key performance indicators [2]							
Lifting cost (USD/bbl)	9.55	3.97	3.82	3.35	8.36	5.01	8.05
Netback (USD/bbl)	35.89	0.42	22.97	5.75	16.20	16.35	10.13

[1] Sales include USD 60 million recorded as revenues in Q4 and USD 104 million in Q2 which are both related to export production from the Tawke field in Kurdistan.
[2] Key performance indicators are based on WI production volumes.

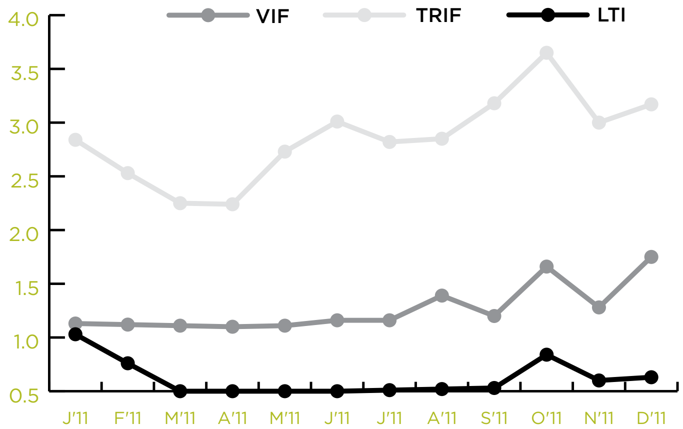
Operational review

HSE

The overall HSE performance continues at satisfactory levels. The Total Recordable Incident Frequency is slightly above target mainly due to the closing down of activities in Mozambique leading to a reduced number of man hours. By year-end, the HSE performance was as follows (incident frequency per one million man hours):

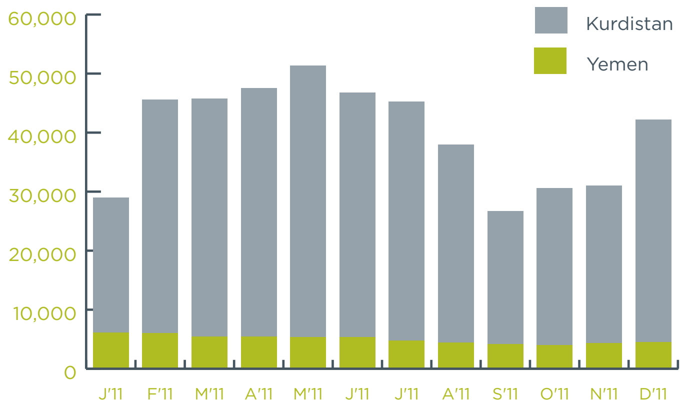
Vehicle incident frequency (VIF):	1.8
Total Recordable Incident Frequency (TRIF):	3.2
Lost Time Incident Frequency (LTI):	0.6

HSE Performance Trends (January 2011–December 2011)



PRODUCTION

Monthly working interest production (January 2011–December 2011)



The average WI production to DNO in 2011 was around 40,000 bopd, an all time high. The 2011 exit WI production to the Company was around 42,000 bopd.

The monthly production levels during the year are affected by the variable deliveries from the Tawke field in Kurdistan. A maximum monthly WI production of 51,000 bopd was achieved in May when the Tawke field was producing around 70,000 bopd (gross), its current capacity level.

The production from Yemen has shown a decline as expected, with a 2011 exit WI production to DNO of around 4,000 bopd.

The production figures (daily average) are reported as follows:

Gross production

						Full year	
bopd	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	10,682	10,913	13,588	14,965	15,646	12,521	17,149
Kurdistan	48,770	52,053	67,858	37,849	11,217	51,664	11,845
Total	**59,452**	**62,966**	**81,446**	**52,814**	**26,863**	**64,185**	**28,994**

Working interest production

						Full year	
bopd	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	4,311	4,439	5,390	5,881	6,156	4,999	6,720
Kurdistan	30,345	32,334	43,192	34,064	10,095	34,966	10,661
Total	**34,656**	**36,773**	**48,582**	**39,945**	**16,252**	**39,966**	**17,381**

Net entitlement production *

						Full year	
bopd	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	2,424	2,661	2,869	3,939	3,872	2,968	4,122
Kurdistan	18,933	9,970	25,099	22,709	6,730	19,142	7,107
Total	**21,357**	**12,631**	**27,968**	**26,648**	**10,602**	**22,110**	**11,229**

* The net entitlement for Kurdistan is an estimate based on the terms of the PSC, but the Company does not currently receive payment for the full entitlement production

APPRAISAL AND FIELD DEVELOPMENT

Test production at Bastora-1A in the Erbil license in Kurdistan continued during the fourth quarter with the oil produced delivered to the local market. A development plan for the Bastora and Benenan discoveries was submitted in December and approval is expected during February 2012.

Drilling of the Tawke-16 appraisal well commenced on 29 December with the main objective to test additional resource potential within the northern flank of the Tawke field. The drilling is progressing according to plan and the well is expected to be completed during the first quarter of 2012.

There has been limited appraisal and development work in Yemen in the fourth quarter. In Block 47, there are some delays in the development plans due to the current situation in the country. The first oil production from the Yaalen field is expected in the second quarter 2013.

EXPLORATION

The oil and gas discoveries in the Summail-1 exploration well in the Dohuk PSC are currently being evaluated. The well has been suspended for possible re-entry and further testing at a later stage. A 3D seismic campaign across the entire Summail structure will be undertaken as part of the 2012 work program.

Drilling of the Peskhabir-1 exploration well in the Tawke PSC commenced on 4 September. The objective of the well is to test the hydrocarbon potential in the Cretaceous, Jurassic and Triassic formations. The well has now reached the Cretaceous section which is the first target zone in the well. Oil shows have been observed while drilling through the top interval of Cretaceous and an open-hole Drill Stem Test (DST) confirmed movable oil. Drilling will now proceed through the remaining part of the Cretacous and into the Jurassic and Triassic intervals.

In October, DNO signed its first concession in Tunisia, the Fkirine exploration block. The Hammamet offshore license (non-operated) is now also part of DNO's portfolio following the merger with RAK Petroleum's MENA assets. In addition, the Company is currently pursuing other opportunities within Tunisia and has opened an office in Tunis.

RESERVES AND RESOURCES

A year end audit of the Company's reserves and resources is being undertaken and the results will be disclosed to the market upon completion. The Annual Reserve Statement (ASR) will be submitted to the Oslo Stock Exchange before the end of April 2012.

Financial review

REVENUES, PROFITS AND CASHFLOW

DNO reached record operating revenues of NOK 2,070 million in 2011. Export payment related to Tawke crude oil of USD 60 million received in September was recognized as revenue in the fourth quarter. Fourth quarter revenues increased to NOK 905 million, up from NOK 302 million in the same period a year earlier.

All cost of goods sold related to the operations of the Tawke field have now been charged to expense, with an effect of NOK 346 million in the fourth quarter (included in this amount is NOK 296 million previously capitalized costs as of the third quarter).

The operating profit for the year increased to NOK 658 million (NOK 157 million) and the net profit was NOK 653 million versus NOK -283 million in 2010. In the fourth quarter, the operating profit was NOK 211 million (NOK 87 million) and the net profit NOK 203 million (NOK -31 million).

The net finance items in 2011 were NOK 70 million (NOK -363 million) and include NOK 255 million in profit from the divestment of 11.7% in Det norske oljeselskap ASA (DETNOR) in the third quarter.

The cash position was NOK 1,752 million at the end of the year, up from NOK 1,385 million in 2010.

Netback Variance Analysis (NOK million)	Variation
Netback fourth quarter 2010	**139.9**
Production/Export payment received	525.9
Oil price	92.9
Exchange rates	-16.0
Operating expenses	-113.5
Impairment charges	14.4
Taxes paid	5.8
Netback fourth quarter 2011	**649.3**
Netback full year 2010	**379.6**
Production/Export payment received	640.3
Oil price	243.7
Exchange rates	-65.1
Operating expenses	136.4
Impairment charges	-10.1
Taxes paid	-2.9
Netback full year 2011	**1,321.6**

Netback is calculated as EBITDA adjusted for paid taxes.

COST OF GOODS SOLD

In 2011, the total cost of goods sold were NOK 1,166 million compared with NOK 619 million in the same period a year earlier. All cost of goods sold related to the operations of the Tawke field have now been charged to expense. For further details see Note 4.

Lifting costs

Lifting costs were NOK 173 million in the fourth quarter, compared to NOK 74 million in the same period a year earlier. The costs in the quarter include approximately NOK 71 million in previously capitalized costs in relation to the Tawke export production. The lifting costs for Kurdistan show fluctuations over the quarters in 2011 due to such capitalization of costs through the third quarter. However, at year end and going forward, all lifting costs are charged to expense. The lifting cost per barrel for the year was USD 2 for the Kurdistan operations. For the Company overall, the lifting cost per barrel in 2011 was USD 5. The lifting costs in Yemen are somewhat higher than last year mainly due to decline in production.

Lifting cost						Full year	
NOK mill	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	61.1	66.9	57.5	56.0	48.3	241.5	217.0
Kurdistan	111.6	6.2	33.5	12.1	23.9	163.4	84.7
Total	**172.7**	**73.0**	**91.0**	**68.1**	**72.2**	**404.9**	**301.7**
USD/bbl	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	28.52	31.59	22.66	19.45	15.10	24.95	15.27
Kurdistan	7.00	0.38	0.94	0.69	4.39	2.11	3.64
Total	**9.55**	**3.97**	**3.82**	**3.35**	**8.36**	**5.01**	**8.05**

Depreciation, Depletion and Amortisation (DD&A)

Total DD&A costs were NOK 451 million in the fourth quarter and include approximately NOK 226 million in previously capitalized costs related to the Tawke export production. All depreciation charges related to the Tawke field are now charged to expense. In the fourth quarter, an additional NOK 59 million has been adjusted related to the calculation of DD&A in the first half of the year. Depreciation charges based on new reserve estimates and expected future capital expenditure at year end will be revised in the first quarter 2012.

Depreciation, Depletion and Amortisation (DD&A)						Full year	
NOK mill	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	20.5	22.8	25.2	35.4	30.9	103.9	136.8
Kurdistan	430.2	3.6	184.0	36.2	41.0	654.0	177.4
Total	**450.8**	**26.5**	**209.2**	**71.5**	**71.9**	**757.9**	**314.2**
USD/bbl	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q1 '11**	**Q4 '10**	**2011**	**2010**
Yemen	16.95	17.96	18.52	18.30	15.35	18.02	15.65
Kurdistan	58.29	17.51	13.50	10.88	11.31	43.56	11.44
Total	**52.46**	**17.89**	**134.47**	**13.61**	**12.75**	**34.69**	**12.96**

EXPLORATION AND CAPITAL EXPENDITURE

Exploration cost expensed

Total expensed exploration for the full year was NOK 103 million compared to NOK 56 million in 2010. The increase is mainly due to dry well costs in Mozambique (Inhaminga High-1) and in Yemen (Alsaiq-1 in Block 47). Exploration costs in the fourth quarter were NOK 8 million compared with NOK 25 million in the same period 2010. There were no dry well costs during the quarter, but other geological and geophysical work in Kurdistan totaled NOK 4 million.

Exploration cost expensed | Full year

NOK mill	Q4 '11	Q3 '11	Q2 '11	Q1 '11	Q4 '10	2011	2010
UK	0.9	1.0	3.1	1.8	1.8	6.8	4.8
Yemen	0.3	0.2	24.1	7.4	2.3	32.1	7.7
Kurdistan	4.3	5.2	10.4	7.3	6.9	27.2	23.2
Africa	2.1	0.0	2.4	32.7	14.3	37.2	30.6
Other	-	-	-0.2	-	-	-0.2	-10.1
Total	**7.6**	**6.4**	**39.8**	**49.2**	**25.3**	**103.1**	**56.2**

Acquisition and Development costs (incl. intangible assets)

Total capital expenditure for 2011 was NOK 422 million compared with NOK 152 million the year before. The main costs are related to the development of the Benenan and Bastora discoveries in the Erbil license, the infill drilling and projects at the Tawke field and the drilling of the Summail well in the Dohuk license. In the fourth quarter, total capital expenditure was NOK 162 million compared to NOK 54 million in the same period a year earlier.

Acquisition and Development cost | Full year

NOK mill	Q4 '11	Q3 '11	Q2 '11	Q1 '11	Q4 '10	2011	2010
UK	-	0.1	1.3	0.8	-	2.3	-
Yemen	15.4	6.4	28.1	28.1	22.2	78.0	130.6
Kurdistan	142.9	86.8	65.3	43.0	30.9	337.9	17.8
Africa	4.0	0.8	0.1	-1.5	1.2	3.4	3.2
Total	**162.3**	**94.1**	**94.8**	**70.4**	**54.3**	**421.6**	**151.6**

Outlook

DNO expects the production to continue to increase into 2012, and the Company plans to build additional production capacity during the year through facility upgrades and drilling of development wells. Going forward, the Company will report production figures on a quarterly basis.

DNO will commence work to upgrade the capacity of the Tawke facilities to 100,000 bopd in 2012. As part of this upgrade the Company plans to drill four development wells at the Tawke field. Upon completion of this upgrade, another 30,000 bopd will be added to the gross field production capacity (approximately 19,000 bopd WI production capacity to DNO).

DNO has an extensive drilling plan for 2012, with a total of 18 wells expected to be drilled during the year. Two wells are currently in progress in Kurdistan with results expected during the first quarter. In Oman, the first of a three well development drilling program in Block 8 is currently ongoing. The first well (West Bukha-5) is scheduled for completion in the second quarter. In Yemen, the Company expects to re-commence drilling in the first quarter.

In the Erbil license, the Benenan and Bastora development plan was submitted in December and approval is expected during February. The first stage of the development plan is scheduled to commence in the second quarter, which includes drilling of two horizontal development wells back-to-back.

The merger of the RAK Petroleum's MENA operating subsidiaries into DNO was completed on 10 January 2012 and full integration of assets and people is on fast track. The financials for the RAK Petroleum's MENA assets will be consolidated into DNO financials from 1 January 2012. The corporate management reorganization has been completed with key management positions filled by experienced leaders from both teams.

Work has also commenced in preparations for the planned London listing of the Company's shares, and subject to market conditions a dual listing in Oslo/London could occour around mid 2012.

DNO is now entering a new era with exciting opportunities ahead. The Company seeks to continue to expand and grow into a significantly larger player in the Middle East and North Africa (MENA) region.

Consolidated Statements of Comprehensive Income

NOK mill	Note	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Sales	2, 3	904.6	152.4	732.0	281.2	302.0	2,070.2	1,251.8
Cost of goods sold	4	-624.8	-100.1	-174.5	-140.2	-144.7	-1,039.5	-618.7
Expensing of capitalized 2009 production costs	4	-	-	-126.2	-	-	-126.2	-
Gross profit		**279.8**	**52.3**	**431.3**	**141.0**	**157.3**	**904.5**	**633.1**
Other operating income		-1.4	3.1	4.6	0.9	0.9	7.2	8.9
Tariffs and transportation		-2.6	-1.4	-2.1	-2.7	-1.7	-8.8	-22.8
Administrative expense/Other operating expenses	5	-71.8	-30.2	-14.3	-15.8	-44.3	-132.1	-406.3
Impairment/Reversal impairment oil and gas assets	9	14.4	-	-24.5	-	-	-10.1	-
Exploration cost expensed	6	-7.6	-6.4	-39.8	-49.2	-25.3	-103.1	-56.2
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	0.1
Profit/-loss from operating activities		**210.8**	**17.4**	**355.2**	**74.2**	**86.8**	**657.7**	**156.8**
Financial income	7	20.0	339.0	14.8	6.5	11.6	380.2	44.7
Financial expenses	7	-39.4	-37.8	-129.5	-103.2	-138.4	-309.8	-407.7
Profit/-loss before income tax		**191.5**	**318.6**	**240.6**	**-22.5**	**-40.0**	**728.2**	**-206.2**
Income tax expense	8	11.6	-19.3	-24.4	-42.9	9.1	-74.9	-76.6
Net profit/-loss		**203.1**	**299.3**	**216.1**	**-65.4**	**-30.9**	**653.2**	**-282.9**
Other comprehensive income								
Currency translation differences	13	31.0	88.4	-20.9	-58.8	10.0	39.7	0.8
Fair value changes available-for-sale financial assets	10	-	-140.2	28.9	24.9	57.2	-86.4	96.8
Total other comprehensive income, net of tax	8	**31.0**	**-51.8**	**8.0**	**-33.9**	**67.3**	**-46.7**	**97.6**
Total comprehensive income, net of tax		**234.1**	**247.5**	**224.1**	**-99.2**	**36.4**	**606.5**	**-185.2**
Net profit/-loss attributable to:								
Equity holders of the parent		203.1	299.3	216.1	-65.4	-30.9	653.2	-282.9
Total comprehensive income attributable to:								
Equity holders of the parent		234.1	247.5	224.1	-99.2	36.4	606.5	-185.2
Earnings per share, basic		0.22	0.32	0.23	-0.07	-0.03	0.70	-0.31
Earnings per share, diluted		0.22	0.32	0.23	-0.07	-0.03	0.70	-0.31

Condensed Consolidated Statements of Financial Position

Assets

NOK mill	Note	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Non-current assets								
Deferred income tax assets	8	50.1	-	-	-	-	50.1	-
Other intangible assets	9	691.5	611.8	782.2	885.1	930.7	691.5	930.7
Property, plant and equipment	9	2,259.2	2,339.0	1,944.3	1,991.0	2,212.8	2,259.2	2,212.8
Available for sale investments	10	-	-	409.4	397.8	360.0	-	360.0
Total non-current assets		**3,000.7**	**2,950.8**	**3,135.9**	**3,273.8**	**3,503.5**	**3,000.7**	**3,503.5**
Current assets								
Inventories	4	93.5	374.4	253.1	306.4	211.6	93.5	211.6
Trade and other receivables	11	190.5	214.6	195.9	243.7	290.3	190.5	290.3
Other financial assets at fair value through P&L	7	-	-	2.2	4.1	2.6	-	2.6
Cash and cash equivalents	12	1,751.8	1,969.4	1,244.8	983.7	1,384.7	1,751.8	1,384.7
Total current assets		**2,035.8**	**2,558.3**	**1,696.0**	**1,537.9**	**1,889.2**	**2,035.8**	**1,889.2**
TOTAL ASSETS		**5,036.5**	**5,509.1**	**4,832.0**	**4,811.6**	**5,392.7**	**5,036.5**	**5,392.7**

Equity and liabilities

NOK mill	Note	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Equity								
Share capital	13	217.5	233.2	237.5	237.5	237.5	217.5	237.5
Other reserves	13	275.1	704.7	844.3	836.4	870.1	275.1	870.1
Retained earnings		1,665.2	1,451.7	1,152.4	936.2	1,001.6	1,665.2	1,001.6
Total equity		**2,157.7**	**2,389.7**	**2,234.1**	**2,010.1**	**2,109.1**	**2,157.7**	**2,109.1**
Non-current liabilities								
Interest-bearing liabilities	14	1,377.4	1,616.4	1,544.1	1,493.0	1,555.5	1,377.4	1,555.5
Deferred income tax liabilities		84.0	69.8	68.2	78.4	65.5	84.0	65.5
Provisions for other liabilities and charges	15	173.6	115.4	93.1	314.6	403.2	173.6	403.2
Total non-current liabilities		**1,634.9**	**1,801.7**	**1,705.5**	**1,885.9**	**2,024.2**	**1,634.9**	**2,024.2**
Current liabilities								
Trade and other payables	16	85.8	458.8	71.0	377.1	552.2	85.8	552.2
Income taxes payable		23.6	11.9	25.8	10.0	13.9	23.6	13.9
Current interest-bearing liabilities	14	265.0	-	-	-	257.5	265.0	257.5
Provisions for other liabilities and charges	15	869.5	847.1	795.6	528.5	435.8	869.5	435.8
Total current liabilities		**1,243.9**	**1,317.8**	**892.4**	**915.6**	**1,259.4**	**1,243.9**	**1,259.4**
TOTAL EQUITY AND LIABILITIES		**5,036.5**	**5,509.1**	**4,832.0**	**4,811.6**	**5,392.7**	**5,036.5**	**5,392.7**

Condensed Consolidated Cash Flow Statements

NOK mill	Note	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	2011 (Full year)	2010 (Full year)
Operating activities								
Profit/-loss before income tax		191.5	318.6	240.6	-22.5	-40.0	728.2	-206.2
Adjustments to add (deduct) non-cash items:								
+/- Net interest expense (-income)		21.5	21.0	31.4	25.2	21.2	99.1	95.2
Previously capitalised exploration and evaluation expenses	6	-2.8	-0.9	24.1	28.6	9.2	49.0	17.2
Depreciation of PP&E	4	452.0	27.1	209.7	72.1	72.5	760.9	317.0
Impairment loss/Reversal of impairment loss on PP&E	9	-14.4	-	24.5	-	-	10.1	-
(Gain)/loss on PP&E		-	-	-	-	-	-	-0.1
(Gain)/loss on shares		-	-253.4	-5.0	-1.1	-7.0	-259.5	-8.3
Impairment/Reversal of impairment of financial assets		-	-	0.3	-	1.3	0.3	204.6
Other		67.9	-19.2	35.8	-18.4	44.1	66.1	90.6
Changes in working capital:								
- Inventories		54.0	-51.5	-1.3	-9.2	-16.9	-8.0	-54.2
- Trade and other receivables		24.1	-18.7	47.7	46.7	21.4	99.7	-93.2
- Other financial assets at fair value through P&L		-	2.2	1.9	-1.5	0.2	2.6	-0.8
- Trade and other payables		-373.0	387.8	-306.2	-175.1	80.9	-466.5	361.3
- Provisions for other liabilities and charges		22.4	13.0	43.8	41.1	-4.5	120.3	4.2
Cash generated from operations		443.1	426.0	347.2	-14.0	182.4	1,202.3	727.2
Income taxes paid		-13.6	-37.0	-17.1	-29.3	-19.3	-97.0	-94.0
Interest paid		-26.4	-25.3	-36.8	-30.6	-25.8	-119.1	-108.3
Net cash (used in)/from operating activities		**403.2**	**363.7**	**293.3**	**-74.0**	**137.3**	**986.2**	**524.9**
Investing activities								
Purchases of intangible assets	9	-70.0	-56.8	-40.0	-25.0	-41.4	-191.8	-95.1
Proceeds from sale of intangible assets		-	-	-	-	-	-	-
Purchases of tangible assets	9	-92.3	-37.0	-54.8	-45.4	-13.0	-229.5	-115.0
Purchases of available-for-sale financial assets	10	-	-	-	-13.8	-5.8	-13.8	-7.3
Proceeds from sale of available-for-sale financial assets	10	-	524.2	23.4	2.0	17.3	549.6	25.9
Interest received		4.8	4.3	5.3	5.4	4.6	19.8	13.1
Net cash (used in)/from investing activities		**-157.5**	**434.7**	**-66.0**	**-76.9**	**-38.3**	**134.2**	**-178.3**
Financing activities								
Proceeds from borrowings		-	-	1,309.1	-	-	1,309.1	-
Repayment of borrowings	14	-	-1.6	-1,268.3	-257.5	-	-1,527.4	-1.4
Purchase of treasury shares, including options	13	-466.0	-92.0	-	-	-	-558.0	-
Proceeds from sale of treasury shares		-	-	-	-	-	-	367.1
Proceeds from issuance of shares	13	-	-	-	-	348.6	-	348.6
Net cash (used in)/from financing activities		**-466.0**	**-93.6**	**40.8**	**-257.5**	**348.6**	**-776.3**	**714.3**
Net increase/(decrease) in cash and cash equivalents		**-220.3**	**704.8**	**268.1**	**-408.3**	**447.6**	**344.1**	**1,061.1**
Cash and cash equivalents at beginning of the period		1,969.4	1,244.8	983.7	1,384.7	936.2	1,384.7	303.4
Exchange gain/-losses on cash and cash equivalents		2.8	19.8	-7.0	7.4	0.9	23.0	20.2
Cash and cash equivalents at end of the period		**1,751.8**	**1,969.4**	**1,244.8**	**983.7**	**1,384.7**	**1,751.8**	**1,384.7**

Condensed Consolidated Statements of Changes in Equity

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2010		**213.7**	**80.6**	**1,284.4**	**1,578.7**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	96.8	-	96.8
Currency translation differences		-	0.8	-	0.8
Other comprehensive income/-loss		-	97.6	-	97.6
Loss for the period		-	-	-282.9	-282.9
Total comprehensive income		-	97.6	-282.9	-185.2
Issue of share capital		11.3	337.3	-	348.6
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		12.5	354.6	-	367.1
		23.8	691.9	-	715.7
Balance at 31 December 2010	13	**237.5**	**870.1**	**1,001.6**	**2,109.1**

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2011		**237.5**	**870.1**	**1,001.6**	**2,109.1**
Reclassification within equity		-	-10.4	10.4	-
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-86.4	-	-86.4
Currency translation differences		-	39.7	-	39.7
Other comprehensive income/-loss		-	-46.7	-	-46.7
Profit for the period		-	-	653.2	653.2
Total comprehensive income		-	-46.7	653.2	606.5
Issue of share capital		-	0.2	-	0.2
Purchase of treasury shares		-20.0	-538.1	-	-558.1
Sale of treasury shares		-	-	-	-
		-20.0	-537.9	-	-557.9
Balance at 31 December 2011	13	**217.5**	**275.1**	**1,665.2**	**2,157.7**

Notes to the Interim Condensed Consolidated Financial Accounts

Note 1 || Basis of Preparation and Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS standards issued and effective at date of reporting as adopted by the EU. The interim report has also been prepared in accordance with Stock Exchange regulations.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010. The interim financial information for 2011 and 2010 is unaudited.

The condensed consolidated financial statements have been prepared on a historical cost basis, with the following excemption:
– All derivatives, all financial assets and liabilities held for trading, liabilities related to share-based payments and all financial assets that are classified as available-for-sale, are recognized at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

Note 2 || Segment Information

Three months ended 31 December 2011 NOK million	**Note**	**NE**	**YEM**	**KUR**	**AFR**	**OTHER**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information									
External sales	3	-	134.8	769.7	-	-	904.6	-	**904.6**
Inter-segment sales		-	-0.4	4.4	-0.1	-	3.9	-3.9	**-**
Cost of goods sold	4	-0.5	-81.7	-542.2	-0.2	-	-624.5	-0.3	**-624.8**
Gross profit		**-0.5**	**52.7**	**232.0**	**-0.3**	**-**	**283.9**	**-4.2**	**279.8**
Segment result		**-4.7**	**75.9**	**206.1**	**-6.9**	**-0.3**	**270.1**	**-56.3**	**213.8**
Interest - net									**-22.3**
Gain/-loss on sale of shares									**-**
Income tax expense		-	11.6	-	-	-	11.6	-	**11.6**
Net profit/-loss									**203.1**
Segment assets		**19.9**	**633.2**	**2,715.1**	**33.9**	**0.6**	**3,402.7**	**1,583.7**	**4,986.4**

Three months ended 31 December 2010 NOK million	**Note**	**NE**	**YEM**	**KUR**	**AFR**	**OTHER**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information									
External sales	3	-	178.7	123.2	-	-	302.0	-	**302.0**
Inter-segment sales		-	5.5	2.8	0.7	-	9.0	-9.0	**-**
Cost of goods sold	4	-	-79.2	-65.2	-	-	-144.4	-0.2	**-144.7**
Gross profit		**-**	**105.0**	**60.8**	**0.7**	**-**	**166.5**	**-9.2**	**157.3**
Segment result		**-2.4**	**100.9**	**44.7**	**-14.0**	**-1.0**	**128.2**	**-116.9**	**11.3**
Interest - net									**-58.4**
Gain/-loss on sale of shares									**7.0**
Income tax expense		-	9.1	-	-	-	9.1	-	**9.1**
Net profit/-loss									**-30.9**
Segment assets		**16.0**	**674.8**	**2,904.2**	**181.8**	**-**	**3,776.7**	**1,616.0**	**5,392.7**

Note 2 || Segment Information continues

Twelve months ended 31 December 2011 NOK million	Note	NE	YEM	KUR	AFR	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information									
External sales	3	-	637.7	1,432.5	-	-	2,070.2	-	**2,070.2**
Inter-segment sales		-	9.7	17.6	1.8	-	29.0	-29.0	**-**
Cost of goods sold	4	-0.5	-345.4	-692.3	-0.3	-	-1,038.5	-1.0	**-1,039.5**
Gross profit		**-0.5**	**301.9**	**631.6**	**1.5**	**-**	**934.5**	**-30.1**	**904.5**
Segment result		**-17.9**	**278.2**	**570.1**	**-67.4**	**-10.3**	**752.7**	**-80.2**	**672.5**
Interest - net									**-203.7**
Gain/-loss on sale of shares									**259.4**
Income tax expense			-74.9				-74.9		**-74.9**
Net profit/-loss									**653.2**
Segment assets		**19.9**	**633.2**	**2,715.1**	**33.9**	**0.6**	**3,402.7**	**1,583.7**	**4,986.4**

Twelve months ended 31 December 2010 NOK million	Note	NE	YEM	KUR	AFR	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information									
External sales	3	-	706.3	545.5	-	-	1,251.8	-	**1,251.8**
Inter-segment sales		-	11.0	5.6	1.1	-	17.8	-17.8	**-**
Cost of goods sold	4	-	-353.9	-263.4	-0.1	-	-618.0	-0.7	**-618.7**
Gross profit		**-0.6**	**363.4**	**287.7**	**1.0**	**-**	**651.6**	**-18.5**	**633.1**
Segment result		**-6.8**	**346.6**	**-65.9**	**-29.9**	**-6.8**	**237.1**	**-281.1**	**-44.0**
Interest - net									**-170.6**
Gain/loss on sale of shares									**8.3**
Income tax expense		-	-76.6	-	-	-	-76.6	-	**-76.6**
Net profit/loss									**-282.9**
Segment assets		**365.8**	**674.8**	**2,904.2**	**181.8**	**-**	**4,126.5**	**1,266.2**	**5,392.7**

Note 3 || Sales

DNO is presenting its operations governed by Production Sharing Agreements/Production Sharing Contracts (PSA/PSC) according to the net entitlement method.

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Sale of petroleum products *	904.6	152.4	732.0	281.2	302.0	2,070.2	1,251.8
Other income	-	-	-	-	-	-	-
Total sales	**904.6**	**152.4**	**732.0**	**281.2**	**302.0**	**2,070.2**	**1,251.8**

DNO received USD 103.7 million (NOK 564.4 million) in June as partial payment for the oil export from the Tawke field in the period 2 February to 27 March 2011. The received amount was recognized as revenue in the second quarter as the criterias for revenue recognition were considered to be fulfilled in accordance with IAS 18 for that specific payment.

DNO received a second partial payment of USD 60 million in September related to the Tawke export production. As DNO did not have sufficient information to conclude that the revenue recognition criterias were met for the second payment, this amount was recorded as a prepayment in Q3. Based on new information and an updated evaluation, the revenue recognition criteria are considered to be fulfilled, and the USD 60 million (NOK 353 million) has been recorded as revenue in Q4. Going forward, revenues will be recognized based on cash received.

Note 4 || Cost of Goods Sold

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Lifting costs *	-172.7	-73.0	-91.0	-68.1	-72.2	-404.9	-301.7
Depreciation, depletion and amortisation	-452.0	-27.1	-209.7	-72.1	-72.5	-760.9	-317.0
Total cost of goods sold	**-624.8**	**-100.1**	**-300.7**	**-140.2**	**-144.7**	**-1,165.7**	**-618.7**

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

Lifting costs and depreciation, depletion and amortisation related to the 2011 export production in Kurdistan have during 2011 been capitalized as inventory in line with the accounting treatment in 2009. (See Q4 2009 report for further information.) As a result of the recognition of the partial payment from the Q1 Tawke export production, the accompanying lifting costs and depreciation were moved from inventory to profit or loss in Q2. In connection with the recognition of the second payment for export in Q4, the remaining capitalized production costs for 2011 were expensed. All production costs including the depreciation for the Tawke field have now been expensed in 2011. In Q4, NOK 346 million was expensed (including previously capitalized cost of NOK 296 million as at the end of September) based on a new assessment of facts and circumstances concluding that capitalization was not supported for 2011 production costs.

The capitalized production costs from 2009 related to the export production from Tawke were expensed in Q2 2011 (DD&A of NOK 112.7 million and lifting cost of NOK 13.5 million). The expense was due to the fact that DNO had not received any payment for the 2009 export sale, while a partial payment for the Q1 export sale had been received. Due to the uncertainty related to export payment, DNO expensed the capitalized production costs in Q2 2011. See Q2 report for further details.

The depreciation related to the Water Purification Project (WPP) in Kurdistan in Q4 2011 amounts to NOK 44 million.

Note 5 || Administrative/Other Expenses

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Salaries and social expenses *	-1.8	-8.2	-0.9	8.1	-23.0	-2.7	-29.6
General and administration expenses	-50.5	-21.9	-13.4	-23.9	-21.3	-109.6	-376.7
Other operating expenses **	-19.6	-0.1	-	-	-	-19.7	-
Total administrative/other expenses	**-71.8**	**-30.1**	**-14.3**	**-15.8**	**-44.3**	**-132.1**	**-406.3**

* Salaries and social expenses directly attributable to operations are reclassified to lifting cost and exploration cost in profit or loss.

** Other operating expenses of NOK 19.6 million in Q4 are mainly related to an acccrual for license acreage fee at the Tawke field in Kurdistan.

Note 6 || Exploration Cost Expensed

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Exploration expenses (G&G and field surveys)	-8.9	-6.2	-13.9	-17.9	-9.0	-46.9	-37.7
Seismic costs	-	-0.1	0.1	0.3	-3.5	0.3	-9.4
Exploration costs capitalised in previous years carried to cost	0.1	-	-	-2.0	-	-2.0	-
Exploration costs capitalised this year carried to cost	2.7	0.9	-24.1	-26.6	-9.2	-47.1	-17.2
Other exploration cost expensed	-1.5	-1.1	-1.8	-3.0	-3.6	-7.4	8.1
Total exploration cost expensed *	**-7.6**	**-6.4**	**-39.8**	**-49.2**	**-25.3**	**-103.1**	**-56.2**

* For details on geographic spread of exploration cost expensed, see the Financial review section.

Note 7 || Net Finance

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Interest received	4.8	4.3	5.3	5.4	4.6	19.8	13.1
Exchange rate gain/-loss, unrealised items	1.3	70.7	-	-	-	72.0	22.6
Exchange rate gain/-loss, realised items	4.2	-	-	-	-	4.2	-
Other financial income *	0.8	255.9	5.3	1.1	7.0	263.1	9.0
Capitalised interest	8.8	8.1	2.3	-	-	19.2	-
Reversal impairment of financial assets	-	-	1.8	-	-	1.9	-
Financial income	20.0	339.0	14.8	6.5	11.6	380.2	44.7
Interest expense	-36.8	-35.5	-39.1	-30.1	-25.8	-141.4	-108.3
Exchange rate gain/-loss, realised items	-	0.8	-2.9	2.0	-0.4	-	3.6
Exchange rate gain/-loss, unrealised items	-	-	-14.7	-24.6	-71.5	-39.2	-13.4
Fair value gain/-loss on financial instruments [1]	-	-0.3	-0.6	1.5	-0.2	0.6	-
Impairment of financial assets	-	-	-0.3	-	-1.3	-0.3	-204.6
Other financial expenses	-2.6	-2.8	-72.0	-52.0	-39.3	-129.4	-84.9
Financial expenses	-39.4	-37.8	-129.5	-103.2	-138.5	-309.8	-407.7
Net finance	**-19.3**	**301.2**	**-114.7**	**-96.7**	**-126.8**	**70.4**	**-363.0**

* Included in Other financial income is gain on sale of shares in Det norske oljeselskap ASA of NOK 255 million in Q3 2011.

[1] Fair value gain/-loss on financial instruments

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Interest rate derivatives	-	-	-	-	-	-	-
Oilprice derivatives	-	-	-	-	-	-	-0.8
Other financial assets at fair value through profit or loss	-	-0.3	-0.6	1.5	-0.2	0.6	0.8
Fair value gain/-loss on financial instruments, net	**-**	**-0.3**	**-0.6**	**1.5**	**-0.2**	**0.6**	**-**

The oil price derivatives matured at 31 December 2010 and the carrying value was zero. Other financial assets at fair value through profit or loss relate to the shares in Nordic Mining ASA, which were sold in Q3.

Note 8 || Taxes

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Deferred taxes	36.9	3.8	8.5	-17.4	35.1	31.8	31.3
Income taxes payable related to production sharing agreements (PSAs)	-25.3	-23.1	-32.9	-25.4	-25.9	-106.7	-108.0
Total income tax expense	**11.6**	**-19.3**	**-24.4**	**-42.9**	**9.1**	**-74.9**	**-76.6**

The interim period income tax expense relates to the Yemen operations and is calculated by applying the tax rate appliccable to the expected total annual earnings. According to the net entitlement method, income taxes payable related to PSAs consist of the corporate tax rate applicable under the agreements.

The positive income tax expense for the fourth quarter 2011 is due to the recognition of deferred tax asset related to cost oil position in Block 47 in Yemen.

The positive income tax expense for the fourth quarter 2010 was due to adjustment of deferred tax liability in Yemen as a result of higher utilization of cost oil in Block 43.

There are no tax consequences attached to items recorded in other comprehensive income.

DNO has applied for credit method for deduction in Norwegian taxes (kreditfradrag) for the results of operations in the Kurdistan region of Iraq similar as for the operations in Yemen. When the application for credit deduction is finally approved, the recorded revenues will be grossed up with a corresponding income tax expense (corporate tax) and a deferred tax liability of approximately NOK 527 million (USD 88 million).

Note 9 || Property, Plant and Equipment/Intangible Assets

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Acquisitions of PP&E *	92.3	37.0	54.8	45.4	13.0	229.5	56.5
Acquisitions of Intangible assets **	70.0	56.8	40.0	25.0	41.4	191.8	95.0
Net book amount PP&E	**2,259.2**	**2,339.0**	**1,944.3**	**1,991.0**	**2,212.8**	**2,259.2**	**2,212.8**
Net book amount Intangible assets	**691.5**	**611.8**	**782.2**	**885.1**	**930.7**	**691.5**	**930.7**
Sale of PP&E							
Proceeds	-	-	-	-	-	-	-
Carrying value	-	-	-	-	-	-	-
Net gain/-loss							
Impairment/reversal of impairment of PP&E	-14.4	-	24.5	-	-	10.1	-

* Acquisitions related to development assets, assets in operation and other PP&E
** Acquisitions related to capitalised exploration costs and license interest

Total capital expenditure for the fourth quarter was NOK 162.3 million. The acquisitions of PP&E of NOK 92.3 million mainly consist of development costs in Yemen of NOK 18 million related to facilities and infill well Bayoot-10 in Block 53, development of the Yaalen field in Block 47 and gas engine project in Block 43. In Kurdistan, the infill drilling and projects at the Tawke field contributed with NOK 20 million and development of the Benenan/Bastora field in Erbil PSC with 11 million. The capitalization of production bonuses for Erbil PSC contributed with NOK 37.3 million. Acquisition of intangible assets in the quarter of NOK 70 million was mainly related to the drilling of the exploration wells Peshkabir-1 in the Tawke PSC and the Summail-1 well in the Dohuk PSC.

The reduction in net book amount for intangible assets from 2010 to 2011 is mainly due to reclassification to development assets and depreciation.

NOK 18.6 million of the previous impairment charge on Block 43 in Yemen has been reversed in Q4. In addition an impairment charge of NOK 4.2 million has been recorded for DNO's license interest in Block P in Equatorial Guinea. The impairment of NOK 24.5 million in Q2 was also related to this license interest in Equatorial Guinea.

Note 10 || Available-for-Sale Financial Assets

Available-for-sale financial assets are revalued at fair value (market price, where available) at the end of each period, with changes charged to other comprehensive income. Impairment will be charged to profit or loss, while reversal of impairment will be taken through other comprehensive income.

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Beginning of the period	-	409.4	397.8	360.0	308.8	360.0	478.4
Additions *	-	-	-	13.8	5.8	13.8	7.3
Sales **	-	-269.2	-17.0	-0.9	-10.6	-287.1	-17.9
Revaluation surplus/deficit transfer to equity	-	-140.2	28.9	24.9	57.3	-86.4	96.8
Impairment ***	-	-	-0.3	-	-1.3	-0.3	-204.6
End of the period [1)]	**-**	**-**	**409.4**	**397.8**	**360.0**	**-**	**360.0**
Non-current portion	-	-	409.4	397.8	360.0	-	360.0
Current portion	-	-	-	-	-	-	-

* Additions in Q1 2011 and Q4 and Q3 2010 relate to the investment in Rocksource ASA. Additions in 2009 related to the investment in Det norske oljeselskap (DETNOR), which previously was classified as investment in associated company. After DETNOR merged with Aker Exploration in December 2009, DNO's shareholding in DETNOR was 11.66% and thereby classified as Available-for-sale investment.

** Sales in Q3 2011 relate to sale of the remaining shares in Petrolia ASA and DETNOR. Sales in Q2 2011 relate to sale of shares in Petrolia ASA and the remaining shares in Rocksource ASA. Sales in Q1 2011 and in 2010 relate to sale of shares in Rocksource ASA.

*** Impairment of NOK 204.6 million in 2010 was related to the shares in Petrolia ASA (NOK 6.2 million), Rocksource ASA (NOK 3.3 million) and DETNOR (NOK 195.1 million). Impairment of NOK 0.3 million in Q2 2011 was related to the shares in Petrolia ASA.

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

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
– Det norske oljeselskap ASA	-	-	408.1	373.1	349.8	-	349.8
– Petrolia ASA	-	-	1.3	3.3	2.4	-	2.4
– Rocksource ASA	-	-	-	21.3	7.8	-	7.8
[1)] Total available-for-sale financial assets	**-**	**-**	**409.4**	**397.8**	**360.0**	**-**	**360.0**

Note 11 || Trade and Other Receivables

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Trade receivables	47.5	63.2	64.2	71.5	84.3	47.5	84.3
Less: provisions for impairment of receivables	-	-	-	-	-	-	-
Trade receivables - net	47.5	63.2	64.2	71.5	84.3	47.5	84.3
Prepayments	10.3	13.5	16.4	55.0	7.4	10.3	7.4
Underlift, entitlement method	40.4	24.0	32.6	24.7	83.0	40.4	83.0
VAT receivable	7.8	4.9	4.0	5.2	3.6	7.8	3.6
Other short-term receivables *	84.6	109.1	78.4	87.3	112.1	84.6	112.1
Total trade and other receivables	**190.5**	**214.6**	**195.9**	**243.7**	**290.3**	**190.5**	**290.3**

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

Note 12 || Cash and Cash Equivalents

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Cash and cash equivalents , non-restricted	1,744.1	1,965.1	1,238.2	978.9	1,377.5	1,744.1	1,377.5
Cash and cash equivalents , restricted	7.7	4.3	6.6	4.9	7.2	7.7	7.2
Total cash and cash equivalents	**1,751.8**	**1,969.4**	**1,244.8**	**983.7**	**1,384.7**	**1,751.8**	**1,384.7**

Note 13 || Equity

Share capital

NOK million	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2010	**904,856**	**226.2**	**-12.5**	**213.7**
Share option scheme:				
- value of services provided	-	-	-	**-**
- proceeds from shares issued	-	-	-	**-**
Treasury shares purchased/sold	-	-	12.5	**12.5**
Share issues	45,000	11.3	-	**11.3**
At 31 December 2010	**949,856**	**237.5**	**-**	**237.5**
At 1 January 2011	**949,856**	**237.5**	**-**	**237.5**
Share option scheme:				
- value of services provided	-	-	-	**-**
- proceeds from shares issued	-	-	-	**-**
Treasury shares purchased/sold	-	-	-20.0	**-20.0**
Share issues	-	-	-	**-**
At 31 December 2011	**949,856**	**237.5**	**-20.0**	**217.5**

In November 2010, DNO made a private placement of 45 million shares at a subscription price of NOK 8 per share. Total proceeds from the private placement were approximately NOK 360 million. The total number of ordinary shares is 949,856,912 shares with a par value of NOK 0.25 per share. All issued shares are fully paid.

DNO has acquired treasury shares as part of the share buy back program announced on 10 August 2011. As of 31 December 2011, DNO held 80 million treasury shares. The shares were acquired as part of the merger with RAK Petroleum, and were transferred to RAK Petroleum in January 2012.

Other reserves

NOK mill	Share premium	Other paid-in capital	Available-for-sale investm.	Other reserves	Translation	Total
Balance at 1 January 2010	**32.5**	**339.2**	**-**	**-133.2**	**-157.8**	**80.6**
Revaluation, net of tax	-	-	96.8	-	-	96.8
Treasury shares:						
- Sale of treasury shares	-	8.2	-	346.4	-	354.6
- Purchase of treasury shares	-	-	-	-	-	-
Other paid in capital	337.3	-	-	-	-	337.3
Derivative contracts treasury shares	-	-	-	-	-	-
Currency translation differences:						
- Group					0.8	0.8
- Associates	-	-	-	-	-	-
Balance at 31 December 2010	**369.8**	**347.4**	**96.8**	**213.2**	**-157.0**	**870.1**
Balance at 1 January 2011	**369.8**	**347.4**	**96.8**	**213.2**	**-157.0**	**870.1**
Reclassification within equity	-	-	-10.4			-10.4
Revaluation, net of tax	-	-	-86.4	-	-	-86.4
Treasury shares:						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-538.1	-	-538.1
Other paid in capital	-	-	-	-	-	-
Issue of share capital	0.2	-	-	-	-	0.2
Derivative contracts treasury shares	-	-	-	-	-	-
Transferred from retained earnings	-	-	-	-	-	-
Currency translation differences:	-	-	-	-	-	-
- Group	-	-	-	-	39.7	39.7
- Associates	-	-	-	-	-	-
Balance at 31 December 2011	**370.0**	**347.4**	**-**	**-324.9**	**-117.3**	**275.1**

Note 13 || Equity continued

Retained earnings

NOK mill	
Balance at 1 January 2010	**1,284.4**
Loss for the period	-282.9
Dividend	-
Reclassified from other reserves	-
Balance at 31 December 2010	**1,001.6**
Balance at 1 January 2011	**1,001.6**
Profit for the period	653.2
Dividend	-
Reclassified from other reserves	10.4
Balance at 31 December 2011	**1,665.2**

Note 14 || Interest-Bearing Liabilities

						Full year	
NOK mill	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**2011**	**2010**
Non-current							
Bonds	1,377.4	1,616.4	1,544.1	1,493.0	1,555.5	1,377.4	1,555.5
Total non-current interest-bearing liabilities	**1,377.4**	**1,616.4**	**1,544.1**	**1,493.0**	**1,555.5**	**1,377.4**	**1,555.5**
Current							
Current portion of bonds	265.0	-	-	-	257.5	265.0	257.5
Total current interest-bearing liabilities	**265.0**	**-**	**-**	**-**	**257.5**	**265.0**	**257.5**
Total interest-bearing liabilities	**1,642.4**	**1,616.4**	**1,544.1**	**1,493.0**	**1,813.0**	**1,642.4**	**1,813.0**

					Balance	
NOK mill	**Currency**	**Amount**	**Interest**	**Maturity**	**Q4 2011**	**Q3 2011**
Bond loan (ISIN NO0010606197)	NOK	560.0	Nibor + 7,5%	11/04/2016	560.0	560.0
Bond loan (ISIN NO0010606189)	USD	140.0	Libor + 7,5%	11/04/2016	839.0	817.8
Bond loan (ISIN NO0010270523)	USD	17.3	Libor + 3,5%	06/06/2012	-	101.1
Bond loan (ISIN NO0010283732)	NOK	48.0	Fixed 7,215%	12/10/2012	-	48.0
Bond loan (ISIN NO0010283724)	NOK	105.5	Nibor + 3,5%	12/10/2012	-	105.5
Bond loan (ISIN NO0010478019)	USD	1.3	Fixed 6,445%	12/10/2012	-	7.6
Borrowing issue costs					-21.6	-23.6
Total non-current interest-bearing liabilities					**1,377.4**	**1,616.4**

The bond loans with maturity in 2012 have been classified as current liabilities at 31 December 2011.

Note 15 || Provisions for Other Liabilities and Charges

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Non-current							
Asset retirement obligations	17.1	16.2	14.5	14.4	14.9	17.1	14.9
Other long-term obligations	156.5	99.2	78.6	300.1	388.3	156.5	388.3
Total non-current provisions for other liabilities and charges	**173.6**	**115.4**	**93.1**	**314.6**	**403.2**	**173.6**	**403.2**
Current							
Other provisions and charges	869.5	847.1	795.6	528.5	435.8	869.5	435.8
Total current provisions for other liabilities and charges	**869.5**	**847.1**	**795.6**	**528.5**	**435.8**	**869.5**	**435.8**
Total provisions for other liabilities and charges	**1,043.1**	**962.5**	**888.8**	**843.0**	**839.0**	**1,043.1**	**839.0**

NOK mill	Asset retirem. oblig.	Other non-current	Other current	Total
Balance at 31 December 2010	**14.9**	**388.3**	**435.8**	**839.0**
Charged to consolidated income statement:				
- Additional provisions	-	-	-	-
- Unused amounts reversed or reclassified	2.2	-231.8	433.7	204.1
Charged to equity:				
- Additional provisions	-	-	-	-
- Unused amounts reversed	-	-	-	-
- Contracts exercised	-	-	-	-
Exchange differences	-	-	-	-
Incurred and charged against the provision during the period	-	-	-	-
Balance at 31 December 2011	**17.1**	**156.5**	**869.5**	**1,043.1**

Included in Other long-term obligations is provision for the Water Purification Project (WPP) in Kurdistan. The WPP was capitalized in 2009 and is depreciated over the period of production. The WPP liability will not be payable until export revenues have been received by DNO. The monthly installments are contingent on defined gross revenue levels and will be fully recovered through cost oil. The WPP liability is recorded at net present value, where the unwinding of interest is charged to profit or loss. Most of the WPP liability has been classified as short-term at 31 December 2011 and included in Other provisions and charges (current).

Note 16 || Trade and Other Payables

NOK mill	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Full year 2011	Full year 2010
Trade creditors	10.5	13.9	14.7	6.7	6.6	10.5	6.6
Public duties payable	8.8	2.8	5.3	3.0	6.9	8.8	6.9
Prepayment from customers	0.4	351.0	2.4	0.5	42.7	0.4	42.7
Other accrued expenses	66.1	48.9	48.6	358.2	496.0	66.1	496.0
Overlift, entitlement method	-	42.1	-	8.7	-	-	-
Total trade and other payables	**85.8**	**458.8**	**71.0**	**377.1**	**552.2**	**85.8**	**552.2**

Prepayment from customers of NOK 351 millon in Q3 2011 was related to the second partial payment from the KRG which had not been recognized as revenue. See Note 3 for further details. In Q4 2010 the prepayment was related to local sales contracts for Tawke field in Kurdistan.

Other accrued expenses in 2010 included provisions for claims and legal costs related to arbitration proceedings. The arbitration was settled outside of the arbitration process in the beginning of 2011. See Q1 2011 report for further details.

Note 17 || Impairment assessments

DNO has performed impairment assessments for its assets at year-end 2011, according to IAS 36 Impairment of Assets. IAS 36.9 requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If such indication exists, the recoverable amount shall be estimated.

Oil and gas assets have been assessed for impairment as of 31 December 2011. Booked values of the assets have been compared to the net present value (before tax) of the assets. DNO has defined field level as the lowest level where separate cash flows can be identified. Field level is thereby the aggregation level for depreciation purposes, and also when assessing impairment. Net present value per field is calculated by discounting the future cash flows and comparing to the booked value. The following assumptions have been used in calculating net present value; the oil price is based on the forward curve as of 31 December 2011 adjusted for any discounts in oil quality applicable to each field. The discount rate used for impairment purposes is based on DNO's WACC (Weighted Average Cost of Capital). Based on these assumptions no impairment is necessary for the producing blocks in Yemen or Kurdistan.

An assessment of the value of DNO's license interest in Equatorial Guinea has resulted in an impairment charge of NOK 4.2 million for the fourth quarter and NOK 28.7 million year-to-date 2011. NOK 18.6 million of the previous impairment charge on Block 43 in Yemen has been reversed in Q4.

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

Legal disputes

As of 31 December 2011, DNO is involved in several legal cases and disputes.

In December 2011, Petrolia Invest AS and Erik J. Frydenbø filed a request for an injunction with Oslo byfogdembete (Oslo Enforcement, bankruptcy and probate court) seeking to prohibit the completion of the merger with RAK Petroleum PCL's MENA operating subsidiaries. On 6 January 2012, the court dismissed the request for injunction and in addition awarded DNO NOK 1 million in compensation to cover its legal costs. On 27 January 2012, Petrolia Invest AS and Erik J. Frydenbø filed a writ of summons with Oslo tingrett (Oslo District Court) in which they asked that the resolution by the extraordinary general meeting on 1 November 2011 to approve the merger with RAK Petroleum PCL's MENA operating subsidiaries and increase of share capital in DNO International be declared invalid and alternatively that DNO pay damages of maximum USD 1 million to Petrolia Invest AS and USD 40,000 to Erik J. Frydenbø. DNO considers the claims as groundless. The merger and capital increase was completed and registered in the Norwegian Register of Business Enterprises on 10 January 2012.

Based on resolutions in the Extraordinary General Meeting in November, two requests for investigation have been submitted to the court. DNO has asked both requests to be dismissed as unfounded. The court has already dismissed the request for investigation related to the resolution on the Annual General Meeting in June. The court ruling dismissing the request has been appealed.

Petrolia has also given notice of a possible legal action against the Norwegian board members for compensation following the merger with RAK.

DNO does not consider these legal actions as representing any economical risk to the Company and therefore no provisions have been recorded in the financial statements for 2011.

Completion of the DNO-RAK MENA merger and capital increase

Reference is made to stock exchange notices from 1, 2 and 3 November 2011 with regards to the merger between DNO International ASA and RAK Petroleum PCL´s MENA operating subsidiaries. DNO's shareholders approved the merger with a 76.5 percent majority vote at the extraordinary general meeting (EGM) on 1 November 2011. The standard two months creditor notification period following the registration of the EGM decision expired in the beginning of January 2012, and the transaction was completed and registered at the Norwegian Register of Business Enterprises (Foretaksregisteret, Brønnøysund) on 10 January 2012.

In accordance with the resolution approved by the EGM, the board decided to increase the share capital by NOK 18,355,585.75 by issuing 73,422,343 new shares as a partial consideration for the merger. An additional 80,000,000 treasury shares were transferred from DNO to RAK Petroleum as further consideration for the merger. Following the capital increase, the share capital in DNO International ASA is NOK 255,819,813.75 comprised of 1,023,279,255 shares of NOK 0.25 each.

In January 2012, DNO paid USD 31.9 million to RAK Petroleum PCL as a working capital adjustment according to the integration agreement.

Note 18 || Contingencies and Events after the balance sheet date continued

Ongoing drilling operations

Kurdistan:
The main objective for the Tawke-16 appraisal well is to test additional resource potential within the northern flank of the Tawke field. The drilling is progressing according to plan, and it is expected that the well will reach the main target within the next few weeks.

The drilling of the Peskhabir-1 exploration well is ongoing. The objective of the well is to test the hydrocarbon potential in the Cretaceous, Jurassic and Triassic formations. The well has now reached the Cretaceous section which is the first target zone. Oil shows have been observed while drilling through the top interval of Cretaceous and an open-hole Drill Stem Test (DST) confirmed movable oil. Drilling will now proceed through the remaining part of Cretaceous and into the Jurassic and Triassic intervals.

Oman:
The drilling campaign on the Bukha/West Bukha fields commenced on 2 December 2011. The plan is to drill two new development wells at the West Bukha Field (WB-4 and WB-5) and one new development well at the Bukha Field (B-4). The first well in the program is the West Bukha-5 well, which is currently drilling at approximately 3,300 meters.

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