

DNO INTERNATIONAL ASA  
INTERIM REPORT SECOND QUARTER 2011



## Highlights

- ➔ All time high working interest production of 48,582 bopd in the second quarter 2011 including export from the Tawke field.
- ➔ The revised estimate of reserves at the Tawke field in the Kurdistan region of Iraq more than doubled from 306 million barrels to 636 million barrels (P50 gross ultimate recoverable reserves) following an intermediate review and assessment by independent reservoir engineers.
- ➔ Payment of USD 104 million related to February and March crude oil exports from the Tawke field was received in the beginning of June. The exports continued during the second quarter with average gross deliveries at 66,502 bopd.
- ➔ The operating revenues, including payment for exports, were NOK 732 million in the second quarter, up from NOK 285 million in the second quarter of 2010. Similarly, the quarterly operating profit increased to NOK 355 million, compared to NOK 99 million last year.
- ➔ The cash position was further strengthened to NOK 1,245 million at the end of the quarter, resulting from the payment related to Tawke exports.
- ➔ Test production from the Benenan-1A horizontal sidetrack in the Erbil license in the Kurdistan region of Iraq commenced in the quarter, and a declaration of commerciality for the Benenan and Bastora discoveries was filed with the Kurdish authorities.
- ➔ The Summail-1 exploration well in the Dohuk PSC was spudded on 19 April and drilling operations continue into the third quarter.

## Key figures

Year to date

NOK million	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010
<b>Key financials<sup>1)</sup></b>							
Sales	732.0	281.2	302.0	406.6	284.7	1,013.3	543.2
Gross profit	431.3	141.0	157.3	221.4	129.0	572.4	254.4
Profit/-loss from operating activities	355.2	74.2	86.8	-123.5	99.0	429.5	193.5
Net profit/-loss	216.1	-65.4	-30.9	-145.7	-121.1	150.8	-106.3
EBITDA	564.9	146.3	159.3	-12.3	171.2	711.2	326.8
Netback	547.6	117.0	139.9	-39.6	140.6	664.5	279.3
Acquisition and development cost	94.8	70.4	54.3	-8.8	36.5	165.2	106.1
Exploration cost expensed	39.8	49.2	25.3	3.1	11.1	89.0	27.7

<sup>1)</sup> Sales revenues in Q2 2011 include part-payment received related to Q1 export production from Tawke field in Kurdistan.

## Operational review

### HSE

The HSE performance in the second quarter was within our target KPIs. We experienced a slight increase in total recordable incident frequency compared to the first quarter mainly due to reduced headcount in Mozambique.

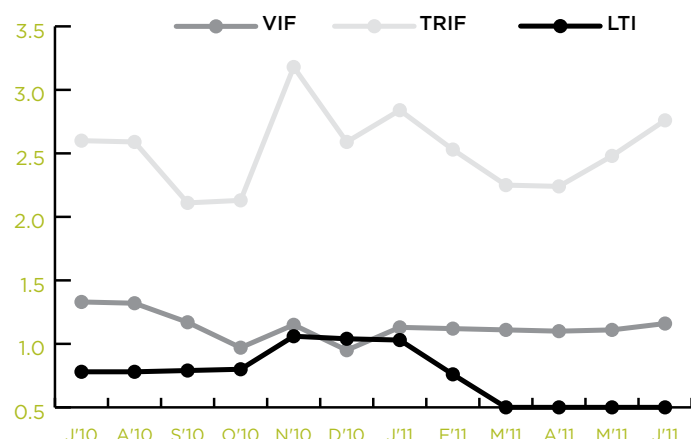
We are pleased to announce that on 25 June, DNO Yemen AS and its subcontractor reached 365 days (1 year) since the last Lost Time Incident (LTI).

The security situation in Yemen is continuously monitored and assessed. Our field operations have continued to be unaffected during the second quarter, and contingency plans are in place to enable business continuity.

By 30 June, the HSE performance was as follows (incident frequency per one million man hours):

Vehicle incident frequency (VIF):	1.2
Total Recordable Incident Frequency (TRIF):	2.8
Lost Time Incident Frequency (LTI):	0.5

HSE Performance Trends (July 2010–June 2011)



### PRODUCTION

DNO's working interest production including Tawke export was 48,582 bopd in the second quarter.

The Tawke field can currently deliver gross levels in excess of 70,000 bopd. Due to a 3-day shut down of the Iraqi-Turkey pipeline in June, the gross exported crude oil volume from the Tawke field was 66,502 bopd in the second quarter. Additional third party crude oil was delivered and exported via the DNO operated facilities at Fishkabour at an average rate of 15,369 bopd, and this brings the overall exported rate through the facilities to 81,871 bopd in the second quarter.

In Yemen, the operations have been running as normal during the quarter. The second quarter WI production was 5,390 bopd and the NE production 2,869 bopd. There is an overall decline in production as expected, but production year-to-date is maintained somewhat higher than forecast.

### Working interest production (Production figures include diesel)

All Tawke exported volumes in Q1 and Q2 2011 are shown in the working interest volumes below. The Tawke WI production is allocated as described in the 2010 Annual Statement of Reserves and is estimated to vary between 62% and 64% over field life.

Year-to-date							
mboe	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	0.491	0.529	0.566	0.597	0.620	1.020	1.289
Kurdistan local prod	0.078	0.888	0.929	1.699	0.814	0.966	1.264
Kurdistan export	3.852	2.178	-	-	-	6.030	-
<b>Total</b>	<b>4.421</b>	<b>3.595</b>	<b>1.495</b>	<b>2.296</b>	<b>1.433</b>	<b>8.016</b>	<b>2.553</b>

Year-to-date							
bopd	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	5,390	5,881	6,156	6,494	6,808	5,634	7,121
Kurdistan local prod	861	9,863	10,095	18,462	8,940	5,337	6,983
Kurdistan export	42,331	24,201	-	-	-	33,316	-
<b>Total</b>	<b>48,582</b>	<b>39,945</b>	<b>16,252</b>	<b>24,956</b>	<b>15,748</b>	<b>44,287</b>	<b>14,104</b>

### Production net entitlement (Production figures include diesel)

DNO does not report net entitlement production from the exported Tawke crude volumes until further information is made available.

Year-to-date							
bopd	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	2,869	3,939	3,872	3,852	3,890	3,401	4,386
Kurdistan local prod	483	6,575	6,730	12,308	5,960	3,512	4,655
<b>Total</b>	<b>3,352</b>	<b>10,514</b>	<b>10,602</b>	<b>16,161</b>	<b>9,849</b>	<b>6,914</b>	<b>9,042</b>

### APPRAISAL AND FIELD DEVELOPMENT

Drilling of the Tawke-13 production well commenced on 25 June with DQE rig-9, and the drilling operations continue into the third quarter.

In Yemen, ZPEB rig 905 has been stacked for a 60-day period from 8 June. The next well to be drilled is Nabrajah-21 in Block 43, which is planned as a horizontal infill well in the Qishn reservoir at Nabrajah. In Block 53, planning of the Bayoot-11 infill well is ongoing, as the first well in the new drilling campaign in the block, which is expected to commence in the third quarter.

In Block 47, a clarification meeting regarding the Yaalen development in Yemen was convened with the authorities in the second quarter. DNO still targets first oil around mid-year 2012.

The gas-engines replacement of diesel engines, for the purpose of reducing operating costs in Block 43 has been somewhat slower as a result of the security situation in Yemen. However, the construction work recommenced in mid May.

## EXPLORATION

Test production from the Bastora-1A horizontal sidetrack in the Erbil PSC started on 27 May and crude oil produced is trucked to the Tawke facilities for further export. The test production has demonstrated that the well can deliver a sustainable gross fluid production of around 2,000 bpd but with significant volumes of water. A declaration of commerciality of the combined Benenan and Bastora discoveries was filed with the KRG on 25 June and the next step is to prepare a development plan before year-end.

Drilling of the Summail-1 well commenced on 19 April. An open hole test (DST) was undertaken at the top of the Cretaceous interval, and the well flowed 4 million standard cubic feet of gas per day (scf/d) through a restricted choke size (24/64 inches). Due to certain operational requirements resulting from the gas encountered at this interval, extraordinary drilling equipment was installed before recommencement of drilling. The well has now drilled through the remainder of the Cretaceous interval and into the Jurassic interval. Good oil shows have been observed while drilling through several intervals both in the Cretaceous and Jurassic sections. The forward plan is to deepen the well into the Triassic interval, and thereafter flow test the various intervals where hydrocarbons have been observed while drilling.

Preparations are ongoing to start drilling of the exploration well Peshkhabir-1 in the Tawke PSC in the third quarter.

In Block 47 in Yemen, the Alsaq-1 exploration well was drilled to a total of 2,960 meters. Oil shows were encountered and tested but did not flow hydrocarbons to the surface. The well has been plugged and abandoned and expensed as a dry well in the second quarter, and the rig has been re-located and temporarily stacked at the Nabrajah field in Block 43.

In Block 72 in Yemen, further evaluation of the Gabdain discovery is undertaken to define additional possible appraisal drilling.

As previously reported DNO has decided to exit Mozambique. DNO has applied for a prospecting permit in Tunisia and a JV agreement is currently being negotiated.

## UPDATE ON RESERVES AND RESOURCES IN KURDISTAN

Following an intermediate review and assessment by a firm of independent reservoir engineers, the Tawke field's ultimate P50 recoverable reserves are estimated at 636 million barrels versus a year-end 2010 figure of 306 million. Tawke's original oil-in-place is now estimated at 1,748 million barrels and the estimated recovery factor of 36.4 per cent is based on the 2011 production profile and updated geological and reservoir models.

Separately, DNO has undertaken to estimate the size of other discoveries on its licenses in the Kurdistan region of Iraq as well as the potential of all undrilled prospects and geological horizons in response to a request by the Kurdistan Ministry of Natural Resources pursuant to the regional government's survey of its oil and gas reserves and resources.

Within the Erbil license, the combined ultimate P50 recoverable resources for the Benenan and Bastora oil discoveries are estimated at 136 million barrels (Benenan 36 million barrels and Bastora 100 million barrels) based on an estimated original oil-in-place of 950 million barrels for the two fields and a combined recovery factor of 14 per cent (Benenan 9 percent and Bastora 18 percent). These revised (unaudited) estimates are principally attributable to the new Bastora discovery and confirmed by recent positive test results from the Bastora-1A horizontal sidetrack section.

In the report to the Ministry of Natural Resources, DNO has estimated that the three licenses operated by the Company in the Kurdistan region of Iraq have a gross oil in place potential of 3,050 million barrels (unrisked) in known but undrilled prospects and geological horizons.

## OTHER

On 9 June, the Annual General Meeting elected a new board of directors. The new board consists of Bijan Mossavar-Rahmani (Executive Chairman), Gunnar Hirsti (Deputy Chairman), Shelley Watson (Director), Marit Instanes (Director) and Karen Sund (Director).

According to a notice from the Oslo Stock Exchange the DNO International share was from 17 June again included in the OBX Index. The OBX Index consists of the 25 most traded securities in the OSEBX (Oslo Stock Exchange Benchmark).

On 4 July, DNO announced that the Company and RAK Petroleum have signed a heads of agreement to merge RAK's Middle East and North African operating subsidiaries into DNO. The definitive agreements, once reached, will be presented to the shareholders of DNO and RAK Petroleum at separate extraordinary general meetings for final approval. Further on, DNO's board of directors has confirmed the intention to list the enlarged company on the London Stock Exchange in addition to the Oslo listing.



## Financial review

### REVENUES, PROFITS AND CASHFLOW

The received cash advance of USD 103.7 million related to the exports from Kurdistan during February and March has been recognized as revenues in the second quarter. However, no revenues from the export from Kurdistan in the second quarter have been included in the financial statement as the IFRS revenue recognition requirements are not yet fulfilled. On a working interest basis, the export from Kurdistan constitutes 87 per cent of the production in the second quarter and will hence have a substantial effect on the reported financials when included.

The costs directly related to the outstanding export payment have been capitalized (NOK 157 million in the second quarter and NOK 172 million year-to-date) in the balance sheet as other inventory in line with the principles applied in 2009.

Including the received export payment, the second quarter operating revenues were NOK 732 million, compared to NOK 285 million in the same quarter of 2010. The operating profit increased to NOK 355 million compared to NOK 99 million in the same quarter last year.

The net finance costs in the second quarter were NOK 115 million and include calculated interest costs in relation to the water purification project in Kurdistan (NOK 55 million) in accordance with new estimates and IFRS accounting standards.

Net profit for the quarter was NOK 216 million, compared to a loss of NOK 121 million in the same quarter last year (impacted by an impairment loss related to shares in Det norske oljeselskap).

The cash position increased to NOK 1,245 million at the end of the quarter due to the payment from the KRG related to Tawke crude export volumes.

Netback Variance Analysis (NOK million)	Variation
<b>Netback second quarter 2010</b>	<b>140.6</b>
Production	-192.4
Oil price	99.5
Export payment received	564.4
Exchange rates	-24.2
Operating expenses	-29.2
Impairment charges	-24.5
Taxes paid	13.2
<b>Netback second quarter 2011</b>	<b>547.6</b>
<b>Netback year to date 2010</b>	<b>279.3</b>
Production	-118.3
Oil price	54.7
Export payment received	564.4
Exchange rates	-30.7
Operating expenses	-61.1
Impairment charges	-24.5
Taxes paid	0.8
<b>Netback year to date 2011</b>	<b>664.5</b>

Netback is calculated as EBITDA adjusted for paid taxes.

### COSTS OF GOODS SOLD

In the second quarter, the total cost of goods sold were NOK 301 million compared to NOK 156 million in the same period last year. The figure includes NOK 126 million in previously capitalized costs (NOK 14 million lifting costs and NOK 113 million in depreciation charges) related to the exported Tawke volumes in 2009.

#### Lifting costs

Lifting costs were NOK 91 million in the second quarter, compared to NOK 83 million in the same period last year. For the Tawke export in the second quarter, NOK 31 million has been capitalized. The lifting costs per barrel were USD 22.3 per barrel – an increase from USD 9.6 per barrel in the second quarter 2010. The increase in unit cost is due to low recorded volumes in Kurdistan (Tawke local sales). In Yemen, cost saving projects will serve to maintain reasonably low lifting costs – however, due to the security situation, we see some temporary increase in costs related to our operations. Proforma lifting cost including export is shown in the table below.

Lifting cost	Year to date						
NOK mill	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	57.5	56.0	48.3	54.5	63.0	113.5	114.2
Kurdistan	33.5	12.1	23.9	19.5	20.4	45.6	41.3
<b>Total</b>	<b>91.0</b>	<b>68.1</b>	<b>72.2</b>	<b>74.0</b>	<b>83.4</b>	<b>159.1</b>	<b>155.5</b>

USD/bbl	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	22.66	19.45	15.10	15.48	17.03	20.97	15.23
Kurdistan	19.34	2.43	4.39	1.87	4.06	3.62	15.61
<b>Total</b>	<b>22.25</b>	<b>8.66</b>	<b>8.36</b>	<b>5.31</b>	<b>9.57</b>	<b>12.45</b>	<b>15.33</b>

Proforma calculated lifting cost including export	Year to date						
USD/bbl	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Kurdistan incl. export	1.78	1.59	4.39	1.87	4.06	1.69	5.50
<b>Total</b>	<b>3.98</b>	<b>4.08</b>	<b>8.36</b>	<b>5.31</b>	<b>9.57</b>	<b>4.01</b>	<b>10.36</b>

#### Depreciation, Depletion and Amortisation (DD&A)

Total DD&A costs were NOK 209 million in the second quarter compared to NOK 71 million the year before.

Depreciation charges related to the Tawke export volumes in the second quarter have been capitalized as inventory with NOK 126 million. The depreciation charges for Tawke will be revised in the third quarter based on the new and increased reserve estimates.

Depreciation, Depletion and Amortisation (DD&A)	Year to date						
NOK mill	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	25.2	35.4	30.9	32.4	32.7	60.6	73.5
Kurdistan	184.0	36.2	41.0	78.3	38.4	220.1	58.1
<b>Total</b>	<b>209.2</b>	<b>71.5</b>	<b>71.9</b>	<b>110.6</b>	<b>71.1</b>	<b>280.7</b>	<b>131.6</b>
USD/bbl	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
Yemen	18.52	18.30	15.35	15.45	15.42	18.47	15.88
Kurdistan	13.49	10.88	11.31	11.28	11.50	11.28	11.61
<b>Total</b>	<b>17.89</b>	<b>13.61</b>	<b>12.75</b>	<b>12.25</b>	<b>13.03</b>	<b>14.79</b>	<b>13.66</b>

## Outlook

Based on the increased reserve estimates at the Tawke field, work will be undertaken to evaluate options to increase the production capacity through fine-tuning and modifications of current facilities, and possibly invest in new facilities to accommodate increased plateau production. The Tawke production will now for a period return to around 50,000 bopd to undertake certain reservoir monitoring activities, including pressure measurements in selected wells in order to calibrate our reservoir model. Further investments at the Tawke facilities are subject to clarification of export payments.

Production in Yemen is expected to continue to decline until new production is added from the Yaalen development, where first oil is expected in mid 2012.

The discoveries at Benenan and Bastora in the Erbil PSC in Kurdistan region of Iraq will be evaluated based on the results of the long term testing of the horizontal sidetrack Bastora-1A, and a development plan will be submitted to the KRG before year-end.

Drilling of the Summail-1 well in the Dohuk PSC is expected to be completed during the third quarter. Based on the encouraging results observed to date several flow tests are planned to be undertaken in this well.

The Peshkhabir-1 exploration well in the Tawke PSC is planned to be drilled with DQE rig 9 after completion of the T-13 well. The well site is currently being prepared and drilling is expected to commence in the third quarter.

Drilling will be continued in Yemen with a current plan of three infill and appraisal wells, in addition to field development of Yaalen first phase.

The planned due diligence process and merger with RAK Petroleum's Middle East and North Africa assets will be an important activity in the second half year. Through this proposed merger, DNO delivers on its strategy for growth, and will continue to build on the competence and solid track-record in the region. The enlarged DNO will be a more robust company with higher production and stable cash flow from a more diversified portfolio. Two effective, skilled and experienced organizations will merge, and will mean opportunities for further expansion and value creation. DNO's board of directors has confirmed the intention to list the enlarged company on the London Stock Exchange in addition to the Oslo listing. A listing in London is expected to contribute to extended coverage of the Company's shares, attract interest from a broader range of MENA focused investors and provide a solid platform for follow on merger and acquisition activity.

## EXPLORATION AND CAPITAL EXPENDITURE

### Exploration cost expensed

Expensed exploration costs in the second quarter were NOK 40 million compared with NOK 11 million in the same period 2010. Costs related to the dry well Alsaq in Block 47 in Yemen contributed with NOK 23 million. Remaining costs are general exploration activities in all business segments.

Exploration cost expensed						Year to date	
NOK mill	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
UK	3.1	1.8	1.8	2.0	0.8	4.9	1.0
Yemen	24.1	7.4	2.3	-8.6	13.0	31.5	14.0
Kurdistan	10.4	7.3	6.9	5.4	4.6	17.7	10.9
Africa	2.4	32.7	14.3	4.4	3.2	35.1	12.0
Other	-0.2	-	-	-	-10.4	-0.2	-10.1
<b>Total</b>	<b>39.8</b>	<b>49.2</b>	<b>25.3</b>	<b>3.1</b>	<b>11.1</b>	<b>89.0</b>	<b>27.7</b>

### Acquisition and Development costs (incl. intangible assets)

Total capital expenditure for the second quarter was NOK 95 million compared to NOK 37 million in the same period last year. The development costs in Yemen of NOK 28 million in the quarter consist mainly of facilities and infill well Bayoot-10 in Block 53 (NOK 11 million), and gas engine project in Block 43 (NOK 20 million). In the Kurdistan region of Iraq, accrued investments in the quarter were related to drilling of exploration well Bastora-1 in Erbil PSC (NOK 22 million), drilling of Summail-1 in Dohuk PSC (NOK 22 million) and completion of flowlines at Tawke (NOK 19 million).

Acquisition and Development cost						Year to date	
NOK mill	Q2 '11	Q1 '11	Q4 '10	Q3 '10	Q2 '10	Q2 '11	Q2 '10
UK	1.3	0.8	-	-	-	2.2	-
Yemen	28.1	28.1	22.2	33.0	31.1	56.1	75.4
Kurdistan	65.3	43.0	30.9	-43.1	4.8	108.3	30.0
Africa	0.1	-1.5	1.2	1.4	0.7	-1.4	0.6
<b>Total</b>	<b>94.8</b>	<b>70.4</b>	<b>54.3</b>	<b>-8.8</b>	<b>36.5</b>	<b>165.2</b>	<b>106.1</b>

## Responsibility statement

We confirm to the best of our knowledge that the condensed set of financial statements for the period 1 January to 30 June 2011 has been prepared in accordance with IAS 34 "Interim Financial Reporting" and gives a true and fair view of DNO's and the Group's assets, liabilities, financial position and result for the period viewed in their entirety, and that the interim

management report includes a fair review of any significant events that arose during the six-month period and their effect on the half-yearly report, any significant related parties' transactions, and a description of the significant risks and uncertainties for the remaining six months of the year.

Oslo, 17 August 2011

Bijan Mossavar-Rahmani  
Executive Chairman

Gunnar Hirsti  
Deputy Chairman

Marit Instanes  
Board Member

Shelley Watson  
Board Member

Karen Sund  
Board Member

Helge Eide  
Managing Director

# Consolidated Statements of Comprehensive Income

		Year-to-date						Full year		
NOK mill	Note	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Sales	2, 3	732.0	281.2	302.0	406.6	284.7	1,013.3	543.2	1,251.8	869.0
Cost of goods sold	4	-174.5	-140.2	-144.7	-185.1	-155.6	-314.7	-288.9	-618.7	-659.3
Expensing of capitalized 2009 production costs	4	-126.2	-	-	-	-	-126.2	-	-	-
Gross profit		431.3	141.0	157.3	221.4	129.0	572.4	254.4	633.1	209.7
Other operating income		4.6	0.9	0.9	5.8	0.1	5.5	2.2	8.9	8.1
Tariffs and transportation		-2.1	-2.7	-1.7	-5.2	-8.1	-4.8	-15.9	-22.8	-36.9
Administrative expense/ Other operating expenses	5	-14.3	-15.8	-44.3	-342.4	-10.8	-30.0	-19.4	-406.3	-204.3
Impairment oil and gas assets	9	-24.5	-	-	-	-	-24.5	-	-	-
Exploration cost expensed	6	-39.8	-49.2	-25.3	-3.1	-11.1	-89.0	-27.7	-56.2	-155.8
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	0.1	0.1	-
Profit/-loss from operating activities		355.2	74.2	86.8	-123.5	99.0	429.5	193.5	156.8	-179.1
Share of profit/-loss associates	7	-	-	-	-	-	-	-	-	-62.9
Financial income	7	14.8	6.5	11.6	45.8	31.5	21.3	37.5	44.7	522.3
Financial expenses	7	-129.5	-103.2	-138.4	-40.5	-228.9	-232.7	-279.0	-407.7	-252.4
Profit/-loss before income tax		240.6	-22.5	-40.0	-118.2	-98.4	218.1	-47.9	-206.2	28.0
Income tax expense	8	-24.4	-42.9	9.1	-27.4	-22.7	-67.3	-58.3	-76.6	-297.6
Net profit/-loss		216.1	-65.4	-30.9	-145.7	-121.1	150.8	-106.3	-282.9	-269.6
Other comprehensive income										
Currency translation differences	13	-20.9	-58.8	10.0	-118.5	79.9	-79.7	109.3	0.8	-289.8
Fair value changes available-for-sale financial assets	10	28.9	24.9	57.2	29.3	51.8	53.7	10.2	96.8	-10.3
Total other comprehensive income, net of tax	8	8.0	-33.9	67.3	-89.2	131.7	-26.0	119.5	97.6	-300.2
Total comprehensive income, net of tax		224.1	-99.2	36.4	-234.9	10.6	124.8	13.3	-185.2	-569.8
Net profit/-loss attributable to:										
Equity holders of the parent		216.1	-65.4	-30.9	-145.7	-121.1	150.8	-106.3	-282.9	-269.6
Total comprehensive income attributable to:										
Equity holders of the parent		224.1	-99.2	36.4	-234.9	10.6	124.8	13.3	-185.2	-569.8
Earnings per share, basic		0.23	-0.07	-0.03	-0.16	-0.13	0.16	0.02	-0.31	-0.31
Earnings per share, diluted		0.23	-0.07	-0.03	-0.16	-0.13	0.16	0.02	-0.31	-0.31

# Condensed Consolidated Statements of Financial Position

## Assets

Full year

NOK mill	Note	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
<b>Non-current assets</b>								
Other intangible assets	9	782.2	885.1	930.7	892.9	983.2	930.7	851.0
Property, plant and equipment	9	1,944.3	1,991.0	2,212.8	2,257.3	2,645.1	2,212.8	2,402.4
Available for sale investments	10	409.4	397.8	360.0	308.8	285.9	360.0	478.4
Derivative financial instruments	7	-	-	-	-	0.1	-	0.8
<b>Total non-current assets</b>		<b>3,135.9</b>	<b>3,273.8</b>	<b>3,503.5</b>	<b>3,459.1</b>	<b>3,914.2</b>	<b>3,503.5</b>	<b>3,732.6</b>
<b>Current assets</b>								
Inventories	4	253.1	306.4	211.6	202.8	165.3	211.6	157.4
Trade and other receivables	11	195.9	243.7	290.3	311.7	244.0	290.3	197.2
Other financial assets at fair value through P&L	7	2.2	4.1	2.6	2.8	2.3	2.6	1.8
Cash and cash equivalents	12	1,244.8	983.7	1,384.7	936.2	821.6	1,384.7	303.4
<b>Total current assets</b>		<b>1,696.0</b>	<b>1,537.9</b>	<b>1,889.2</b>	<b>1,453.4</b>	<b>1,233.2</b>	<b>1,889.2</b>	<b>659.8</b>
<b>TOTAL ASSETS</b>		<b>4,832.0</b>	<b>4,811.6</b>	<b>5,392.7</b>	<b>4,912.5</b>	<b>5,147.5</b>	<b>5,392.7</b>	<b>4,392.4</b>

## Equity and liabilities

Full year

NOK mill	Note	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
<b>Equity</b>								
Share capital		237.5	237.5	237.5	226.2	226.2	237.5	213.7
Other reserves	13	844.3	836.4	870.1	435.2	435.2	870.1	80.6
Retained earnings		1,152.4	936.2	1,001.6	1,062.8	1,297.7	1,001.6	1,284.4
<b>Total equity</b>		<b>2,234.1</b>	<b>2,010.1</b>	<b>2,109.1</b>	<b>1,724.2</b>	<b>1,959.1</b>	<b>2,109.1</b>	<b>1,578.7</b>
<b>Non-current liabilities</b>								
Interest-bearing liabilities	14	1,544.1	1,493.0	1,555.5	1,547.4	1,949.9	1,555.5	1,785.3
Deferred income tax liabilities		68.2	78.4	65.5	99.5	110.0	65.5	94.2
Provisions for other liabilities and charges	15	93.1	314.6	403.2	740.1	820.2	403.2	685.8
<b>Total non-current liabilities</b>		<b>1,705.5</b>	<b>1,885.9</b>	<b>2,024.2</b>	<b>2,386.9</b>	<b>2,880.2</b>	<b>2,024.2</b>	<b>2,565.3</b>
<b>Current liabilities</b>								
Trade and other payables	16	71.0	377.1	552.2	471.4	231.7	552.2	191.0
Income taxes payable		25.8	10.0	13.9	7.3	7.7	13.9	-
Current interest-bearing liabilities	14	-	-	257.5	256.8	-	257.5	-
Provisions for other liabilities and charges	15	795.6	528.5	435.8	66.0	68.8	435.8	57.3
<b>Total current liabilities</b>		<b>892.4</b>	<b>915.6</b>	<b>1,259.4</b>	<b>801.5</b>	<b>308.2</b>	<b>1,259.4</b>	<b>248.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,832.0</b>	<b>4,811.6</b>	<b>5,392.7</b>	<b>4,912.5</b>	<b>5,147.5</b>	<b>5,392.7</b>	<b>4,392.4</b>



# Condensed Consolidated Cash Flow Statements

Year-to-date							Full year			
NOK mill	Note	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Operating activities										
Profit/loss before income tax		240.6	-22.5	-40.0	-118.2	-98.4	218.1	-47.9	-206.2	28.0
Adjustments to add (deduct) non-cash items:										
+/- Net interest expense (-income)		31.4	25.2	21.2	24.5	23.3	56.6	49.4	95.2	106.0
Previously capitalised exploration and evaluation expenses	6	24.1	28.6	9.2	-3.1	11.0	52.7	11.1	17.2	56.2
Depreciation of PP&E	4	209.7	72.1	72.5	111.2	72.2	281.8	133.3	317.0	300.9
Impairment loss on PP&E	9	24.5	-	-	-	-	24.5	-	-	-
(Gain)/loss on PP&E		-	-	-	-	-	-	-0.1	-0.1	-
(Gain)/loss on shares		-5.0	-1.1	-7.0	-0.5	-0.8	-6.1	-0.8	-8.3	-3.0
Impairment/Reversal of impairment of financial assets		0.3	-	1.3	4.5	198.8	0.3	198.8	204.6	-400.4
Other		35.8	-18.4	44.1	37.0	-18.7	17.4	9.5	90.6	270.4
Changes in working capital:										
- Inventories		-1.3	-9.2	-16.9	-29.4	-8.1	-10.5	-7.9	-54.2	20.9
- Trade and other receivables		47.7	46.7	21.4	-67.7	11.0	94.4	-46.9	-93.2	-23.1
- Other fin assets at fair value through P&L		1.9	-1.5	0.2	-0.5	0.1	0.4	-0.5	-0.8	-0.7
- Trade and other payables		-306.2	-175.1	80.9	239.7	40.4	-481.3	40.7	361.3	-197.9
- Provisions for other liabilities and charges		43.8	41.1	-4.5	-2.8	8.7	84.9	11.5	4.2	-5.2
Cash generated from operations		347.2	-14.0	182.4	194.7	239.5	333.2	350.1	727.2	152.1
Income taxes paid		-17.1	-29.3	-19.3	-27.3	-30.5	-46.4	-47.4	-94.0	-92.2
Interest paid		-36.8	-30.6	-25.8	-27.8	-26.4	-67.4	-54.6	-108.3	-113.1
Net cash (used in)/from operating activities		293.3	-74.0	137.3	139.6	182.6	219.3	248.1	524.9	-53.3
Investing activities										
Purchases of intangible assets	9	-40.0	-25.0	-41.4	-20.2	-15.7	-65.0	-33.5	-95.1	-
Proceeds from sale of intangible assets		-	-	-	-	-	-	-	-	-
Purchases of tangible assets	9	-54.8	-45.4	-13.0	-29.4	-20.9	-100.2	-72.6	-115.0	-215.7
Proceeds from sale of tangible assets		-	-	-	-	-	-	0.1	0.1	-
Purchases of available-for-sale financial assets	10	-	-13.8	-5.8	-1.5	-	-13.8	-	-7.3	-
Proceeds from sale of available-for-sale financial assets		23.4	2.0	17.3	3.8	4.8	25.4	4.8	25.9	600.8
Interest received		5.3	5.4	4.6	3.3	3.1	10.7	5.2	13.1	7.2
Net cash used in investing activities		-66.0	-76.9	-38.3	-44.0	-28.7	-142.9	-96.0	-178.3	392.1
Financing activities										
Proceeds from borrowings		1,309.1	-	-	-	-	1,309.1	-	-	-
Repayment of borrowings		-1,268.3	-257.5	-	-	-	-1,525.8	-1.4	-1.4	-55.9
Purchase of treasury shares, including options		-	-	-	-	-	-	-	-	-127.5
Proceeds from sale of treasury shares		-	-	-	-	-	-	367.1	367.1	-
Proceeds from issuance of shares		-	-	348.6	-	-	-	-	348.6	-
Net cash (used in)/from financing activities		40.8	-257.5	348.6	-	-	-216.7	365.8	714.3	-183.5
Net increase/(decrease) in cash and cash equivalents										
		268.1	-408.3	447.6	95.6	154.0	-140.2	518.0	1,061.1	155.5
Cash and cash equivalents at beginning of the period		983.7	1,384.7	936.2	821.6	671.1	1,384.7	303.4	303.4	176.1
Exchange gain/-losses on cash and cash equivalents		-7.0	7.4	0.9	19.0	-3.4	0.3	0.3	20.2	-28.2
Cash and cash equivalents at end of the period										
		1,244.8	983.7	1,384.7	936.2	821.6	1,244.8	821.6	1,384.7	303.4

## Condensed Consolidated Statements of Changes in Equity

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
<b>Balance at 1 January 2010</b>		<b>213.7</b>	<b>80.6</b>	<b>1,284.4</b>	<b>1,578.7</b>
<i>Fair value gains, net of tax:</i>					
- available-for-sale financial assets		-	-	10.2	10.2
Currency translation differences		-	-	109.3	109.3
Other comprehensive income/-loss		-	-	119.5	119.5
Loss for the period		-	-	-106.3	-106.3
Total comprehensive income		-	-	13.3	13.3
<i>Share option scheme:</i>					
- value of services provided		-	-	-	-
- proceeds from shares issued		-	-	-	-
Issue of share capital		-	-	-	-
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		12.5	354.6	-	367.1
		12.5	354.6	-	367.1
<b>Balance at 30 June 2010</b>	13	<b>226.2</b>	<b>435.2</b>	<b>1,297.7</b>	<b>1,959.1</b>

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
<b>Balance at 1 January 2011</b>		<b>237.5</b>	<b>870.1</b>	<b>1,001.6</b>	<b>2,109.1</b>
<i>Fair value gains, net of tax:</i>					
- available-for-sale financial assets		-	53.7	-	53.7
Currency translation differences		-	-79.7	-	-79.7
Other comprehensive income/-loss		-	-26.0	-	-26.0
Profit for the period		-	-	150.8	150.8
Total comprehensive income		-	-26.0	150.8	124.8
<i>Share option scheme:</i>					
- value of services provided		-	-	-	-
- proceeds from shares issued		-	-	-	-
Issue of share capital		-	0.2	-	0.2
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		-	-	-	-
		-	0.2	-	0.2
<b>Balance at 30 June 2011</b>	13	<b>237.5</b>	<b>844.3</b>	<b>1,152.4</b>	<b>2,234.1</b>

# 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 exemption:

\* 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 30 June 2011 NOK million	Note	NE	YEM	KUR	AFR	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
<b>Income statement information</b>									
External sales	3	-	155.8	576.2	-	-	732.0	-	<b>732.0</b>
Inter-segment sales		-	4.2	4.4	0.6	-	9.2	-9.2	-
Cost of goods sold	4	-	-82.7	-91.6	-	-	-174.3	-0.2	<b>-174.5</b>
Expensing of capitalized 2009 production costs	4	-	-	-126.2	-	-	-126.2	-	<b>-126.2</b>
<b>Gross profit</b>		-	<b>77.3</b>	<b>362.8</b>	<b>0.6</b>	-	<b>440.8</b>	<b>-9.5</b>	<b>431.3</b>
<b>Segment result</b>		<b>-5.5</b>	<b>40.0</b>	<b>356.8</b>	<b>-26.5</b>	<b>-5.2</b>	<b>359.7</b>	<b>-37.7</b>	<b>321.9</b>
Interest - net									<b>-86.3</b>
Gain/-loss on sale of shares									<b>5.0</b>
Income tax expense		-	-24.4	-	-	-	-24.4	-	<b>-24.4</b>
<b>Net profit/-loss</b>									<b>216.1</b>
<b>Segment assets</b>		<b>21.4</b>	<b>604.4</b>	<b>2,538.1</b>	<b>140.4</b>	<b>1.1</b>	<b>3,305.5</b>	<b>1,526.4</b>	<b>4,832.0</b>

## Note 2 || Segment Information continues

Three months ended 30 June 2010 NOK million	Note	NE	YEM	KUR	AFR	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
<b>Income statement information</b>									
External sales	3	-	165.8	118.9	-	-	284.7	-	<b>284.7</b>
Inter-segment sales		-	3.4	0.8	0.1	-	4.3	-4.3	-
Cost of goods sold	4	-0.6	-95.8	-59.1	-	-	-155.5	-0.2	<b>-155.6</b>
<b>Gross profit</b>		<b>-0.6</b>	<b>73.4</b>	<b>60.6</b>	<b>-</b>	<b>-</b>	<b>133.5</b>	<b>-4.5</b>	<b>129.0</b>
<b>Segment result</b>		<b>-1.4</b>	<b>93.2</b>	<b>54.4</b>	<b>-3.1</b>	<b>-</b>	<b>143.1</b>	<b>-217.9</b>	<b>-74.8</b>
Interest - net									<b>-24.4</b>
Gain/-loss on sale of shares									<b>0.8</b>
Income tax expense		-	-22.7	-	-	-	-22.7	-	<b>-22.7</b>
<b>Net profit/-loss</b>									<b>-121.1</b>
<b>Segment assets</b>		<b>15.7</b>	<b>739.4</b>	<b>3,231.2</b>	<b>64.0</b>	<b>-</b>	<b>4,050.4</b>	<b>1,097.1</b>	<b>5,147.5</b>

Six months ended 30 June 2011 NOK million	Note	NE	YEM	KUR	AFR	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
<b>Income statement information</b>									
External sales	3	-	361.6	651.7	-	-	1,013.3	-	<b>1,013.3</b>
Inter-segment sales		-	9.3	8.9	1.9	-	20.0	-20.0	-
Cost of goods sold	4	-	-174.1	-140.1	-	-	-314.2	-0.5	<b>-314.7</b>
Expensing of capitalized 2009 production costs	4	-	-	-126.2	-	-	-126.2	-	<b>-126.2</b>
<b>Gross profit</b>		<b>-</b>	<b>196.7</b>	<b>394.3</b>	<b>1.8</b>	<b>-</b>	<b>592.8</b>	<b>-20.5</b>	<b>572.4</b>
<b>Segment result</b>		<b>-9.4</b>	<b>122.7</b>	<b>369.1</b>	<b>-60.2</b>	<b>-8.1</b>	<b>414.2</b>	<b>-41.7</b>	<b>372.4</b>
Interest - net									<b>-160.4</b>
Gain/-loss on sale of shares									<b>6.0</b>
Income tax expense		-	-67.3	-	-	-	-67.3	-	<b>-67.3</b>
<b>Net profit/-loss</b>									<b>150.8</b>
<b>Segment assets</b>		<b>21.4</b>	<b>604.4</b>	<b>2,538.1</b>	<b>140.4</b>	<b>1.1</b>	<b>3,305.5</b>	<b>1,526.4</b>	<b>4,832.0</b>

Six months ended 30 June 2010 NOK million	Note	NE	YEM	KUR	AFR	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
<b>Income statement information</b>									
External sales	3	-	365.4	177.9	-	-	543.2	-	<b>543.2</b>
Inter-segment sales		-	6.5	2.7	0.4	-	9.6	-9.6	-
Cost of goods sold	4	-0.6	-187.8	-100.2	-	-	-288.6	-0.3	<b>-288.9</b>
<b>Gross profit</b>		<b>-0.6</b>	<b>184.2</b>	<b>80.4</b>	<b>0.3</b>	<b>-</b>	<b>264.3</b>	<b>-9.9</b>	<b>254.4</b>
<b>Segment result</b>		<b>-2.0</b>	<b>206.4</b>	<b>69.0</b>	<b>-11.7</b>	<b>-</b>	<b>261.7</b>	<b>-224.5</b>	<b>37.2</b>
Interest - net									<b>-85.9</b>
Gain/-loss on sale of shares									<b>0.8</b>
Income tax expense		-	-58.3	-	-	-	-58.3	-	<b>-58.3</b>
<b>Net profit/-loss</b>									<b>-106.3</b>
<b>Segment assets</b>		<b>15.7</b>	<b>739.4</b>	<b>3,231.2</b>	<b>64.0</b>	<b>-</b>	<b>4,050.4</b>	<b>1,097.1</b>	<b>5,147.5</b>

## Note 3 || Sales

DNO is presenting its operations governed by Production Sharing Agreements (PSA) according to the net entitlement method. A reconciliation between working interest (gross) and net entitlement presentation is shown in a separate table below.

NOK mill	Year-to-date					Full year			
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Sale of petroleum products *	732.0	281.2	302.0	406.6	284.7	1,013.3	543.2	1,251.8	869.0
Other income	-	-	-	-	-	-	-	-	-
<b>Total sales</b>	<b>732.0</b>	<b>281.2</b>	<b>302.0</b>	<b>406.6</b>	<b>284.7</b>	<b>1,013.3</b>	<b>543.2</b>	<b>1,251.8</b>	<b>869.0</b>

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 has been recognized as revenue in the second quarter as the criterias for revenue recognition are considered to be fulfilled in accordance with IAS 18 for this specific payment.

### Reconciliation sales - working interest/net entitlement

NOK mill	Year-to-date					Full year			
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Sale of petroleum products working interest	875.8	417.8	464.9	634.6	464.7	1,293.6	854.4	1,953.8	1,293.1
Government share of production before income tax payable	-143.8	-136.6	-162.9	-228.0	-180.0	-280.3	-311.1	-702.0	-424.1
<b>Sale of petroleum products net entitlement</b>	<b>732.0</b>	<b>281.2</b>	<b>302.0</b>	<b>406.6</b>	<b>284.7</b>	<b>1,013.3</b>	<b>543.2</b>	<b>1,251.8</b>	<b>869.0</b>

## Note 4 || Cost of Goods Sold

NOK mill	Year-to-date					Full year			
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Lifting costs *	-91.0	-68.1	-72.2	-74.0	-83.4	-159.1	-155.5	-301.7	-358.3
Depreciation, depletion and amortisation	-209.7	-72.1	-72.5	-111.2	-72.2	-281.8	-133.4	-317.0	-300.9
<b>Total cost of goods sold</b>	<b>-300.7</b>	<b>-140.2</b>	<b>-144.7</b>	<b>-185.1</b>	<b>-155.6</b>	<b>-440.9</b>	<b>-288.9</b>	<b>-618.7</b>	<b>-659.3</b>

\* 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 of NOK 30.6 million and depreciation, depletion and amortisation of NOK 123.7 million related to the exported volumes in Kurdistan in Q2 2011 have 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 have been moved from inventory to profit or loss. This amounts to NOK 68.6 million in depreciation and NOK 13.2 million in lifting costs.

The capitalized production costs from 2009 related to the export production from Tawke have been expensed in Q2 2011 (DD&A of NOK 112.7 million and lifting cost of NOK 13.5 million). The expense is due to the uncertainty related to export payment; DNO has not received any payment for the 2009 export sale, while a part-payment for the Q1 2011 export sale has been received.

## Note 5 || Administrative/Other Expenses

NOK mill	Year-to-date					Full year			
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Salaries and social expenses *	-0.9	8.1	-23.0	-2.9	-1.9	7.2	-3.7	-29.6	-12.7
General and administration expenses **	-13.4	-23.9	-21.3	-339.5	-9.1	-37.3	-15.9	-376.7	-187.2
Other operating expenses	-	-	-	-	0.1	-	0.2	-	-4.3
<b>Total administrative/other expenses</b>	<b>-14.3</b>	<b>-15.8</b>	<b>-44.3</b>	<b>-342.4</b>	<b>-10.8</b>	<b>-30.1</b>	<b>-19.4</b>	<b>-406.3</b>	<b>-204.3</b>

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

\*\* The increase in general and administration expenses in Q3 2010 was mainly related to a provision for claims and legal costs in connection with the arbitration process. For further details, reference is made to Note 16 and Q1 2011 report.



## Note 6 || Exploration Cost Expensed

	Year-to-date						Full year		
NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Exploration expenses (G&G and field surveys)	-13.9	-17.9	-9.0	-6.8	-13.9	-31.8	-22.0	-37.7	-52.9
Seismic costs	0.1	0.3	-3.5	-3.0	3.9	0.4	-2.9	-9.4	-32.6
Exploration costs capitalised in previous years carried to cost	-	-2.0	-	-	-	-2.0	-	-	-
Exploration costs capitalised this year carried to cost	-24.1	-26.6	-9.2	3.1	-11.0	-50.7	-11.0	-17.2	-56.2
Other exploration cost expensed	-1.8	-3.0	-3.6	3.6	9.9	-4.8	8.2	8.1	-14.1
<b>Total exploration cost expensed *</b>	<b>-39.8</b>	<b>-49.2</b>	<b>-25.3</b>	<b>-3.1</b>	<b>-11.1</b>	<b>-89.0</b>	<b>-27.7</b>	<b>-56.2</b>	<b>-155.8</b>

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

Total dry well costs in Q2 2011 of NOK 24 million are mainly related to the exploration well Alsaq-1 in Yemen (Block 47).

## Note 7 || Net Finance

	Year-to-date						Full year		
NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Share of profit/-loss associates	-	-	-	-	-	-	-	-	-62.9
Interest received	5.3	5.4	4.6	3.3	3.1	10.7	5.2	13.1	7.1
Other financial income	5.3	1.1	7.0	0.5	0.8	6.4	1.4	9.1	59.5
Capitalised interest	2.3	-	-	-	-	2.3	-	-	-
Reversal impairment of financial assets	1.8	-	-	-	-	1.8	-	-	409.2
Financial income	14.8	6.5	11.6	3.8	3.9	21.3	6.6	22.1	475.7
Interest expense	-39.1	-30.1	-25.8	-27.8	-26.4	-69.2	-54.7	-108.3	-113.1
Exchange rate gain/-loss, realised items	-2.9	2.0	-0.4	-3.9	0.7	-0.9	-5.6	-9.9	-2.3
Exchange rate gain/-loss, unrealised items	-14.7	-24.6	-71.5	41.5	26.9	-39.3	52.6	22.6	39.1
Fair value gain/-loss on financial instruments <sup>1)</sup>	-0.6	1.5	-0.2	0.5	-0.1	0.9	-0.2	-	-12.4
Impairment of financial assets	-0.3	-	-1.3	-4.5	-198.8	-0.3	-198.8	-204.6	-8.7
Other financial expenses *	-72.0	-52.0	-39.3	-4.2	-3.6	-124.0	-41.4	-84.9	-108.4
Financial expenses	-129.5	-103.2	-138.4	1.4	-201.3	-232.7	-248.1	-385.1	-205.8
Net finance	-114.7	-96.7	-126.8	5.3	-197.4	-211.4	-241.4	-363.0	207.1

\* Included in Other financial expenses is calculated interest related to the Water Purification Project liability in Kurdistan with NOK 54.9 million in Q2 2011.

### <sup>1)</sup> Fair value gain/-loss on financial instruments

b) Fair value gain/-loss on financial instruments						Year-to-date		Full year	
NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Interest rate derivatives	-	-	-	-	-	-	-	-	6.3
Oilprice derivatives	-	-	-	-0.1	-	-	-0.7	-0.8	-19.4
Other financial assets at fair value through profit or loss	-0.6	1.5	-0.2	0.5	-0.1	0.9	0.5	0.8	0.7
Fair value gain/-loss on financial instruments, net	-0.6	1.5	-0.2	0.5	-0.1	0.9	-0.2	-	-12.4

The oil price derivatives matured at 31 December 2010 and the carrying value was zero. Interest rate derivatives were settled in the second quarter of 2009. Other financial assets at fair value through profit or loss are shares in Nordic Mining ASA, valued at NOK 2.2 million at 30 June 2011.

## Note 8 || Taxes

	Year-to-date						Full year		
NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Taxes payable	-	-	-	-	-	-	-	-	-
Deferred taxes	8.5	-17.4	35.1	-0.6	7.2	-8.9	-3.2	31.3	-212.7
Income taxes payable related to production sharing agreements (PSAs)	-32.9	-25.4	-25.9	-26.9	-29.9	-58.4	-55.2	-108.0	-84.9
<b>Total income tax expense</b>	<b>-24.4</b>	<b>-42.9</b>	<b>9.1</b>	<b>-27.4</b>	<b>-22.7</b>	<b>-67.3</b>	<b>-58.3</b>	<b>-76.6</b>	<b>-297.6</b>

The interim period income tax expense is calculated by applying the tax rate applicable 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 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 deduction (kreditfradrag) for the 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 higher with a corresponding income tax expense (corporate tax) and a deferred tax liability.

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

	Year-to-date						Full year		
NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Acquisitions of PP&E *	54.8	45.4	13.0	-29.0	20.9	100.2	72.6	56.5	215.7
Acquisitions of Intangible assets **	40.0	25.0	41.4	20.2	15.7	65.0	33.5	95.0	457.2
Net book amount PP&E	1,944.3	1,991.0	2,212.8	2,257.3	2,645.1	1,944.3	2,645.1	2,212.8	2,402.4
Net book amount Intangible assets	782.2	885.1	930.7	892.9	983.2	782.2	983.2	930.7	851.0
Sale of PP&E									
Proceeds	-	-	-	-	-	-	-	-	-
Carrying value	-	-	-	-	-	-	-	-	-
Net gain/-loss									
Impairment/reversal of impairment of PP&E	24.5	-	-	-	-	24.5	-	-	

\* 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 second quarter was NOK 94.8 million compared to NOK 36.6 million in the same period last year. The acquisitions of PP&E of NOK 54.8 million consist mainly of development costs in Yemen of NOK 28 million related to facilities and infill well Bayoot-10 in Block 53 and gas engine project in Block 43 and completion of flowlines at Tawke (NOK 19 million) in the Kurdistan region of Iraq. Acquisition of intangible assets in the quarter of NOK 40 million were related to the drilling of exploration well Bastora-1 in the Erbil PSC and the Summail-1 well in the Dohuk PSC.

Impairment of NOK 24.5 million is related to DNO's license interest in Block P 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.

	Year-to-date						Full year		
NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q2 2011	Q2 2010	2010	2009
Beginning of the period	397.8	360.0	308.8	285.9	436.8	360.0	478.4	478.4	36.8
Additions *	-	13.8	5.8	1.5	-	13.8	-	7.3	460.6
Sales **	-17.0	-0.9	-10.5	-3.3	-4.0	-17.9	-4.0	-17.9	-
Revaluation surplus/deficit transfer to equity	28.9	24.9	57.3	29.3	51.8	53.8	10.2	96.8	-10.3
Impairment ***	-0.3	-	-1.3	-4.5	-198.8	-0.3	-198.8	-204.6	-8.7
End of the period <sup>1)</sup>	409.4	397.8	360.0	308.8	285.9	409.4	285.9	360.0	478.4
Non-current portion	409.4	397.8	360.0	308.8	285.9	409.4	285.9	360.0	478.4
Current portion	-	-	-	-	-	-	-	-	-

\* Additions in Q1 2011 and Q4 and Q3 2010 related to the investment in Rocksource ASA. Additions in 2009 related to the investment in Det norske oljeselskap (DET NOR), which previously was classified as investment in associated company. After DET NOR merged with Aker Exploration in December 2009, DNO's shareholding in DET NOR was 11.66% and thereby classified as Available-for-sale investment.

\*\* Sales in Q2 2011 relate to sale of shares in Petrolia ASA and 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 DET NOR (NOK 195.1 million). Impairment of NOK 0.3 million in Q2 2011 is related to the shares in Petrolia ASA.

<sup>1)</sup> Available-for-sale financial assets include the following:

NOK mill	Full year						
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
- Det norske oljeselskap ASA	408.1	373.1	349.8	294.1	265.6	349.8	437.9
- Petrolia ASA	1.3	3.3	2.4	3.7	5.0	2.4	8.9
- Rocksource ASA	-	21.3	7.8	11.0	15.3	7.8	31.6
<b><sup>1)</sup> Total available-for-sale financial assets</b>	<b>409.4</b>	<b>397.8</b>	<b>360.0</b>	<b>308.8</b>	<b>285.9</b>	<b>360.0</b>	<b>478.4</b>

## Note 11 || Trade and Other Receivables

NOK mill	Full year						
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
Trade receivables	64.2	71.5	84.3	96.0	78.6	84.3	68.1
Less: provisions for impairment of receivables	-	-	-	-	-	-	-
Trade receivables - net	64.2	71.5	84.3	96.0	78.6	84.3	68.1
Prepayments	16.4	55.0	7.4	9.0	10.2	7.4	9.4
Underlift, entitlement method	32.6	24.7	83.0	27.8	29.3	83.0	8.1
VAT receivable	4.0	5.2	3.6	3.3	3.2	3.6	3.0
Other short-term receivables *	78.4	87.3	112.1	175.5	122.6	112.1	108.6
<b>Total trade and other receivables</b>	<b>195.9</b>	<b>243.7</b>	<b>290.3</b>	<b>311.7</b>	<b>244.0</b>	<b>290.3</b>	<b>197.2</b>

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

## Note 12 || Cash and Cash Equivalents

NOK mill	Full year						
	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
Cash and cash equivalents , non-restricted	1,238.2	978.9	1,377.5	931.7	816.3	1,377.5	297.2
Cash and cash equivalents , restricted	6.6	4.9	7.2	4.5	5.3	7.2	6.2
<b>Total cash and cash equivalents</b>	<b>1,244.8</b>	<b>983.7</b>	<b>1,384.7</b>	<b>936.2</b>	<b>821.6</b>	<b>1,384.7</b>	<b>303.4</b>

## Note 13 || Equity

### Other reserves

NOK mill	Share premium	Other paid-in capital	Available-for-sale investm.	Other reserves	Translation	Total
<b>Balance at 1 January 2010</b>	<b>32.5</b>	<b>339.2</b>	<b>-</b>	<b>-133.2</b>	<b>-157.8</b>	<b>80.6</b>
Treasury shares:						
- Sale of treasury shares	-	8.2	-	346.4	-	354.6
- Purchase of treasury shares	-	-	-	-	-	-
Other paid in capital	-	-	-	-	-	-
Derivative contracts treasury shares	-	-	-	-	-	-
Share premium fund transfer	-	-	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>32.5</b>	<b>347.4</b>	<b>51.9</b>	<b>213.2</b>	<b>-157.8</b>	<b>435.2</b>
<b>Balance at 1 January 2011</b>	<b>369.8</b>	<b>347.4</b>	<b>96.8</b>	<b>213.2</b>	<b>-157.0</b>	<b>870.1</b>
Revaluation, net of tax	-	-	53.7	-	-	53.7
Treasury shares:						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-
Other paid in capital	-	-	-	-	-	-
Issue of share capital	0.2	-	-	-	-	0.2
Derivative contracts treasury shares	-	-	-	-	-	-
Transferred from retained earnings	-	-	-	-	-	-
Currency translation differences:						
- Group	-	-	-	-	-79.7	-79.7
- Associates	-	-	-	-	-	-
<b>Balance at 30 June 2011</b>	<b>370.0</b>	<b>347.4</b>	<b>150.5</b>	<b>213.2</b>	<b>-236.7</b>	<b>844.3</b>

## Note 14 || Interest-Bearing Liabilities

Full year

NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
<b>Non-current</b>							
Bonds	1,544.1	1,493.0	1,555.5	1,547.4	1,949.9	1,555.5	1,785.3
<b>Total non-current interest-bearing liabilities</b>	<b>1,544.1</b>	<b>1,493.0</b>	<b>1,555.5</b>	<b>1,547.4</b>	<b>1,949.9</b>	<b>1,555.5</b>	<b>1,785.3</b>
<b>Current</b>							
Current portion of bonds	-	-	257.5	256.8	-	257.5	-
Liabilities to financial institutions	-	-	-	-	-	-	-
<b>Total current interest-bearing liabilities</b>	<b>-</b>	<b>-</b>	<b>257.5</b>	<b>256.8</b>	<b>-</b>	<b>257.5</b>	<b>-</b>
<b>Total interest-bearing liabilities</b>	<b>1,544.1</b>	<b>1,493.0</b>	<b>1,813.0</b>	<b>1,804.2</b>	<b>1,949.9</b>	<b>1,813.0</b>	<b>1,785.3</b>

Balance

NOK mill	Currency	Amount	Interest	Maturity	Q2 2011	Q1 2011
Bond loan (ISIN NO0010606197)	NOK	560.0	Nibor + 7,5%	11/04/2016	560.0	-
Bond loan (ISIN NO0010606189)	USD	140.0	Libor + 7,5%	11/04/2016	754.3	-
Bond loan (ISIN NO0010270523)	USD	17.3	Libor + 3,5%	06/06/2012	93.2	468.6
Bond loan (ISIN NO0010283732)	NOK	48.0	Fixed 7,215%	12/10/2012	48.0	177.0
Bond loan (ISIN NO0010283724)	NOK	105.5	Nibor + 3,5%	12/10/2012	105.5	284.0
Bond loan (ISIN NO0010478027)	USD	0.3	Libor + 4%	12/10/2012	1.6	230.5
Bond loan (ISIN NO0010478019)	USD	1.3	Fixed 6,445%	12/10/2012	7.0	344.0
Borrowing issue costs					-25.5	-11.2
<b>Total non-current interest-bearing liabilities</b>					<b>1,544.1</b>	<b>1,493.0</b>

DNO completed a new bond issue of approximately USD 240 million in April 2011 split between an USD tranche of USD 140 million and a NOK tranche of NOK 560 million. The new bond issue has a five year tenor and carries a floating interest rate of LIBOR/NIBOR + 7.50%. The purpose of the loan was refinancing and general corporate purposes. DNO agreed in connection with the bond issue to purchase the aggregate of USD 170.3 million and NOK 307.5 million of its various outstanding bond issues. The new bond issue has been listed on the Oslo Stock Exchange.

## Note 15 || Provisions for Other Liabilities and Charges

Full year

NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
<b>Non-current</b>							
Asset retirement obligations	14.5	14.4	14.9	14.4	17.5	14.9	14.9
Other long-term obligations	78.6	300.1	388.3	725.6	802.7	388.3	670.9
<b>Total non-current provisions for other liabilities and charges</b>	<b>93.1</b>	<b>314.6</b>	<b>403.2</b>	<b>740.1</b>	<b>820.2</b>	<b>403.2</b>	<b>685.8</b>
<b>Current</b>							
Other provisions and charges	795.6	528.5	435.8	66.0	68.8	435.8	57.3
<b>Total current provisions for other liabilities and charges</b>	<b>795.6</b>	<b>528.5</b>	<b>435.8</b>	<b>66.0</b>	<b>68.8</b>	<b>435.8</b>	<b>57.3</b>
<b>Total provisions for other liabilities and charges</b>	<b>888.8</b>	<b>843.0</b>	<b>839.0</b>	<b>806.0</b>	<b>889.0</b>	<b>839.0</b>	<b>743.2</b>

NOK mill	Asset retirem. oblig.	Other non-current	Other current	Total
<b>Balance at 31 December 2010</b>	<b>14.9</b>	<b>388.3</b>	<b>435.8</b>	<b>839.0</b>
<i>Charged to consolidated income statement:</i>				
- Additional provisions	-	-	-	-
- Unused amounts reversed or reclassified	-0.4	-309.7	359.8	49.8
<i>Charged to equity:</i>				
- Additional provisions	-	-	-	-
- Unused amounts reversed	-	-	-	-
- Contracts exercised	-	-	-	-
Exchange differences	-	-	-	-
Incurred and charged against the provision during the period	-	-	-	-
<b>Balance at 30 June 2011</b>	<b>14.5</b>	<b>78.6</b>	<b>795.6</b>	<b>888.8</b>

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. Part of the WPP liability have been classified as short-term at 30 June 2011 and included in Other provisions and charges (current).

## Note 16 || Trade and Other Payables

Full year

NOK mill	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	2010	2009
Trade creditors	14.7	6.7	6.6	12.6	14.4	6.6	8.2
Public duties payable	5.3	3.0	6.9	2.2	3.8	6.9	6.0
Prepayment from customers	2.4	0.5	42.7	0.7	0.8	42.7	0.9
Other accrued expenses	48.6	358.2	496.0	454.8	210.9	496.0	176.0
<b>Total trade and other payables</b>	<b>71.0</b>	<b>377.1</b>	<b>552.2</b>	<b>471.4</b>	<b>231.7</b>	<b>552.2</b>	<b>191.0</b>

Prepayment from customers in Q4 2010 was related to local sales contracts for Tawke field in Kurdistan.

Other accrued expenses in Q1 2011 and in 2010 include provisions for claims and legal costs related to the 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 || Contingencies and Events after the balance sheet date

### Proposed merger of RAK Petroleum's MENA subsidiaries into DNO

On 4 July, DNO announced that DNO International ASA and UAE-based RAK Petroleum Public Company Limited (RAK Petroleum) have signed a heads of agreement to merge RAK Petroleum's Middle East and North Africa (MENA) operating subsidiaries into a subsidiary of DNO in exchange for DNO shares to be issued to RAK Petroleum. Final consideration will be negotiated and agreed between the parties and their advisors based on an evaluation of one or more competent person reports to be prepared by one or more independent, appropriate and reputable experts. Definitive agreements, once reached, will be presented to the shareholders of DNO and RAK Petroleum at separate extraordinary general meetings for final approval.

### Share buy-back

On 10 August DNO International ASA's Board of Directors announced a share buyback program following release of preliminary second quarter 2011 results. The timing and volume of the share purchases will depend on market conditions.

### Updated estimates on reserves and resources in the Kurdistan portfolio

Following an intermediate review and assessment by a firm of independent reservoir engineers, the Tawke field's ultimate P50 recoverable reserves are estimated at 636 million barrels versus a year-end 2010 figure of 306 million. Tawke's original oil-in-place is now estimated at 1,748 million barrels and the estimated recovery factor of 36.4 per cent is based on the 2011 production profile and updated geological and reservoir models.

### Ongoing drilling - The Kurdistan region of Iraq

#### **Dohuk PSC: Summail-1 exploration well**

Drilling of the Summail-1 well commenced on 19 April. An open hole test (DST) was undertaken at the top of the Cretaceous interval, and the well flowed 4 million standard cubic feet of gas per day (scf/d) through a restricted choke size (24/64 inches).

Due to certain operational requirements resulting from the gas encountered at this interval, extraordinary drilling equipment was installed before recommencement of drilling. The well has now drilled through the remainder of the Cretaceous interval and into the Jurassic interval. Good oil shows have been observed while drilling through several intervals both in the Cretaceous and Jurassic sections.

The forward plan is to deepen the well into the Triassic interval, and thereafter flow test the various intervals where hydrocarbons have been observed while drilling.

#### **Tawke PSC: Tawke-13 infill/production well and Peskhabir-1 exploration well**

The Tawke-13 production infill well was spudded on 25 June 2011. Drilling is progressing as planned.

The Peskhabir-1 exploration well is planned to be drilled with DQE Rig-9 after completion of the Tawke-13. The well site is currently being prepared.

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