Interim Report 2012
Second Quarter

Photo: Hans Fredrik Asbjørnsen

Highlights

- DNO's company working interest (CWI) production was 23,234 boepd in the second quarter (48,582 boepd in the second quarter 2011). Year-to-date CWI production was 32,675 boepd (44,287 boepd)

- In the second quarter the Company reported a net loss of NOK 176 million (net profit of NOK 163 million) on operating revenues of NOK 155 million (NOK 732 million) after recording full impact of the reconciliation of past accounts and the application of the Tawke Production Sharing Contract (PSC) as of 1 June 2012 in Kurdistan

- The Company's first half results were positive with a net profit of NOK 131 million (NOK 48 million) on operating revenues of NOK 867 million (NOK 1,013 million)

- During the first six months the Company delivered an operating profit of NOK 284 million (NOK 326 million) and an EBITDA of NOK 531 million (NOK 711 million)

- The netback in the first six months was NOK 408 million (NOK 665 million) and the cash balance was NOK 1,638 million (NOK 1,245 million) at the end of the reporting period

Key figures

			Restated 1)	Restated	Restated	Year-to-date	
NOK million	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**
Key financials							
Sales 2) 3)	155.4	711.5	904.6	152.4	732.0	866.9	1,013.3
Gross profit	-76.9	451.2	365.6	69.6	378.1	374.3	469.3
Profit/(loss) from operating activities	-140.4	424.2	296.6	34.7	302.0	283.8	326.4
Net profit/(loss)	-176.2	307.3	288.9	316.6	162.9	131.1	47.7
EBITDA	-33.9	564.5	662.8	44.5	564.9	530.6	711.2
Netback	-105.1	513.0	649.3	7.8	547.6	407.9	664.5
Acquisition and development cost	264.0	210.4	162.3	94.1	94.8	474.4	165.2
Exploration cost expensed	19.0	14.5	7.6	6.4	39.8	33.5	89.0
Production, barrels of oil equivalents per day 4)							
Gross production	41,621	73,905	59,452	62,966	81,446	57,763	67,209
Company working interest production	23,234	42,116	34,656	36,773	48,582	32,675	44,287
Net entitlement production	15,458	23,458	21,357	12,631	27,968	19,458	27,312
Key performance indicators 5)							
Lifting cost (USD/boe)	10.39	5.54	9.55	3.97	3.82	7.26	3.59
Netback (USD/boe)	-8.67	23.68	35.89	0.42	22.97	12.04	15.00

1) The expensed DD&A for Tawke field in Kurdistan region of Iraq in all quarters of 2011 has been restated.

2) Sales include USD 60 million recorded as revenues in Q4 2011 and USD 104 million in Q2 2011 related to export production from the Tawke field in Kurdistan.

3) In Q2 2012, a reconciliation of local sales revenues from the Tawke field has been done. The local sales will going forward be allocated according to the PSC, replacing intermediate agreements.

4) Production figures do not reflect PSC reconciliation conducted in Q2 2012.

5) Key performance indicators including export production from the Tawke field in Kurdistan.

Operational review

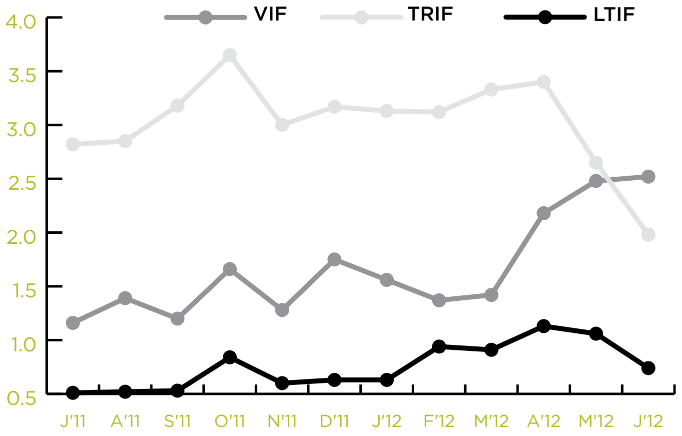
HSE

The overall HSE performance continued at satisfactory levels. Total recordable incident trend decreased over the past quarter but vehicle related incidents increased; preventive and corrective initiatives have been initiated to reduce further vehicle incidents.

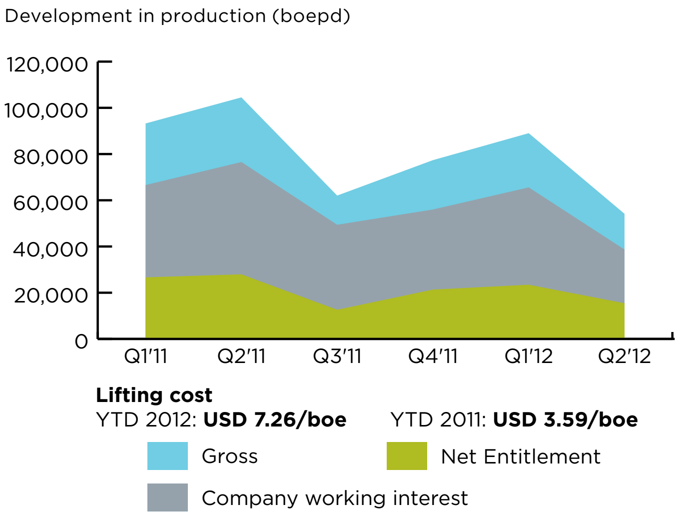
A recruitment campaign was initiated to attract and employ qualified and experienced HSE professionals to further support operations with regards to health, safety and environment.

During the quarter the HSE performance was as follows:

Lost Time Incident Frequency (LTIF):	0,74
Total Recordable Incident Frequency (TRIF):	1,98
Vehicle Incident Frequency (VIF):	2,52



PRODUCTION



Lifting cost
YTD 2012: **USD 7.26/boe** YTD 2011: **USD 3.59/boe**

Gross production averaged 41,621 boepd in the second quarter, with a company working interest (CWI) production of 23,234 boepd. This was significantly lower than the same period in 2011 as a result of a year-on-year decline in Yemen production and the halt in deliveries of that portion of Tawke production delivered to the Iraqi national pipeline system for export through Turkey. Exports were halted in April 2012 but have resumed in August. Tawke production earmarked for the local market remained unaffected during the quarter.

At the time of reporting, the Company was nearing completion of its reimbursement commitment to the Kurdistan Regional Government (KRG) under a previously disclosed arrangement to reconcile past accounts and initiate effective 1 June 2012, the application of fiscal terms and conditions of the existing PSC covering the Tawke license. To meet this obligation, DNO allocated its PSC entitlement share of Tawke production to the KRG for local consumption during June, July and much of August. The reconciliation calculation did not include current exports or volumes exported in 2009, 2011 and 2012 for which payments remain outstanding. Those payments will be recorded when received. (For financial implications of the reconciliation, refer to the Financial Review section.)

As reported earlier, a blockage occurred in March 2012 in the pipeline connecting the West Bukha and Bukha platforms in Block 8, Oman resulting in a shut in of the West Bukha wells in the second quarter. The Company has now replaced a 4.3 kilometer section of the line. West Bukha oil and gas production is expected to resume by the end of this month with the two previously producing wells joined by a third newly completed development well, accelerating the recovery of deferred production.

Production from the Bukha field has continued without interruption during this period with daily gross deliveries of around 20 million cubic feet of gas and 1,000 barrels of liquids.

In Yemen, production continued in accordance with the plan during the second quarter.

Gross production

						Year-to-date	
boepd	**Q2 '12**	**Q1 '12**	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q2 '12**	**Q2 '11**
Yemen	9,835	10,532	10,682	10,913	13,588	10,184	14,273
Kurdistan	27,779	50,948	48,770	52,053	67,858	39,364	52,936
Oman	4,007	12,425	-	-	-	8,216	-
Total	**41,621**	**73,905**	**59,452**	**62,966**	**81,446**	**57,763**	**67,209**

The table reflects Gross production from the fields. Kurdistan includes both local sales and exported volumes.

Company working interest production

						Year-to-date	
boepd	**Q2 '12**	**Q1 '12**	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q2 '12**	**Q2 '11**
Yemen	3,952	4,169	4,311	4,439	5,390	4,061	5,634
Kurdistan	17,279	31,734	30,345	32,334	43,192	24,507	38,653
Oman	2,003	6,213	-	-	-	4,108	-
Total	**23,234**	**42,116**	**34,656**	**36,773**	**48,582**	**32,675**	**44,287**

The table reflects DNO's total working interest production including diesel. Kurdistan includes both local sales and exported volumes.

Net entitlement production *

						Year-to-date	
boepd	**Q2 '12**	**Q1 '12**	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q2 '12**	**Q2 '11**
Yemen	2,286	2,637	2,424	2,661	2,869	2,461	3,401
Kurdistan	12,472	17,671	18,933	9,970	25,099	15,072	23,911
Oman	700	3,150	-	-	-	1,925	-
Total	**15,458**	**23,458**	**21,357**	**12,631**	**27,968**	**19,458**	**27,312**

* The net entitlement for Kurdistan is an estimate based on the terms of the PSC, but the Company has not received payment for the full entitlement production.

APPRAISAL AND FIELD DEVELOPMENT

In the Kurdistan region of Iraq, the Tawke-14 well was completed in the Cretaceous formation during the quarter and five zones were acidized and tested. All zones produced a mixture of spent acid with indications of formation water. Based on the evaluation of the results from the well, it was concluded that the well did not encounter the main target zone and a side-track is planned later this year. The rig was released to drill Tawke-18 which was spudded on 28 May. The Tawke-18 well is designed to increase Cretaceous production as part of the planned increase in production capacity of the Tawke field and the Central Processing Facility (CPF) to 100,000 bopd by year-end 2012. The well will also test a target below the main field-bounding fault at the field.

In the Erbil license, the development of the Bastora and Benenan discoveries has been initiated with the spudding of the Benenan-3 well in July designed to further appraise the Benenan discovery and contribute additional production. The first stage of the development plan contemplates the re-entry of one well, extended test of a second well and the drilling of two additional wells.

In Yemen, the Tasour-27 well was spudded early in July. The well is the first in a new drilling campaign undertaken by the Company, using the ZEPB rig 905, recently serviced and now under long-term contract to DNO. The well was put on production with an ESP in late July. In Block 53, operated by Dove Energy, the Bayoot-11 well is drilling ahead according to plan.

Development of Block 47 in Yemen is moving ahead with the establishment of a joint operating company, South Hood, whose charter was executed by the parties in Sana'a in June. First oil from the Yaalen discovery on the block is expected in the third quarter 2013 with the installation of early production facilities capable of delivering 5,000 bopd, followed by a permanent facility with a capacity of 10,000 bopd a year later.

In Block 8 in Oman, the West Bukha-5 development well was completed in July and the results from the intial test confirm the presence of oil in the Thamama reservoir, with an estimated flow capacity of 1,500-2,000 bopd. Cleanup operations will be conducted and the well put on production once normal offshore pipeline operations resume. Drilling of the West Bukha-4 development well commenced in July and has reached 3,400 meters.

EXPLORATION

Testing of the Peskhabir-1 exploration well was completed in the second quarter. Drilled to a total depth of 4,092 meters, the deepest yet for the Company in Iraq, the well targeted a large undrilled feature west of the currently producing Tawke field. Oil shows were encountered in the Cretaceous, Jurassic and Triassic intervals and six zones were tested. The Jurassic Sargelu formation tested 27-29 API oil and water at varying rates of oil and water cut. The Triassic Kura Chine A and B intervals and the Cretaceous Mushora, Quamchuqa and Shiranish intervals produced formation water. The rig has been subsequently mobilized to the Erbil license to initiate that field's development program. The Peshkabir-1 well will be re-entered to perform additional tests if warranted and to conduct an extended well test in the Sargelu formation.

A Discovery Notice and a Discovery Report for the Peshkabir-1 discovery was submitted pursuant to the terms of Tawke PSC. A 200 square kilometer 3D seismic campaign has been initiated encompassing the discovery area with anticipated completion by year-end 2012. Additionally, the Company is currently mobilizing a third rig for its Kurdistan operations to drill the first deep test of the Jurassic and Triassic potential of the Tawke field. The well is expected to commence drilling in September.

A 3D seismic campaign encompassing the entire Summail structure in the Dohuk PSC has been completed and preparations are in progress to submit the Declaration of Commerciality and Appraisal Report by 15 October.

In the Hammamet license in Tunisia, evaluation of the newly acquired 3D seismic data over Tazerka North and Kasserine areas is ongoing. Notification of intention to enter into a second term of the license for a perod of three years was submitted to the authorities in the second quarter.

OTHER

The Annual General Meeting was held on 11 June and Lars A. Takla was elected a new member of the Board of Directors. A nomination committee was established and Kåre Tjønneland, Gunnar Hirsti and Bijan Mossavar-Rahmani were elected members for a two-year period.

A share buy back program was authorized by shareholders and commenced on 16 July. The Company holds 9,000,000 million own shares as of 21 August.

Financial review

REVENUES, PROFITS AND CASHFLOW

As discussed above, a reconciliation of past accounts and application of contract fiscal terms and conditions from inception until 1 June 2012 for the revenues from the Tawke field in the Kurdistan region of Iraq has been performed in the second quarter. Under International Financial Reporting Standards (IFRS) rules, the full impact of this reconciliation of accounts since 2007 has been taken in the second quarter, contributing to a reduction in operating revenues to NOK 155 million (NOK 712 million). Second quarter revenues and results are also impacted by the temporary shutdown of oil and gas production from the West Bukha field in Block 8 Oman.

As a result of reduced revenues, operating profit was negative at NOK 140 million in the quarter (NOK 302 million).

Year-to-date, sales revenues were NOK 867 million (NOK 1,013 million). First half 2011 revenues included NOK 565 million received for Tawke exports.

The year-to-date operating profit was NOK 284 million (NOK 326 million) and the year-to-date net profit was NOK 131 million (NOK 48 million).

Net finance costs year-to-date were NOK 56 million (NOK 211 million) and the cash position at the end of the second quarter was NOK 1,638 million, up from NOK 1,245 million a year earlier.

Netback Variance Analysis (NOK million)	Variation
Netback second quarter 2011	**547.6**
Oil production	267.9
Oil price	-323.7
Export payment received	-564.6
Exchange rates	40.3
Operating expenses	-46.7
Impairment charges	24.5
Taxes paid	-53.8
Other	4.4
Netback second quarter 2012	**-105.1**

Netback year-to-date 2011	**664.5**
Oil production	493.9
Oil price	-139.9
Export payment received	-564.6
Exchange rates	48.3
Operating expenses	-58.7
Impairment charges	24.5
Taxes paid	-76.1
Other	17.6
Netback year-to-date 2012	**407.9**

Netback is calculated as EBITDA adjusted for paid taxes.

COST OF GOODS SOLD

In the second quarter, the cost of goods sold were NOK 232 million compared with NOK 354 million in the same period a year earlier.

Lifting costs

Lifting costs were NOK 126 million in the second quarter, compared with NOK 91 million in the same period a year earlier. The lifting cost per barrel in the quarter was USD 4.6 for the Kurdistan operations, while Oman lifting costs increased due to repair of the pipeline at West Bukha (around NOK 22 million in the quarter). In Yemen, the lifting costs reflect cost levels in the currently producing mature fields. The Company's overall lifting cost in the second quarter was USD 10.4 per barrel, and USD 7.26 per barrel during the first six months.

Lifting cost

						Year-to-date	
NOK mill	**Q2 ‘12**	**Q1 ‘12**	**Q4 ‘11**	**Q3 ‘11**	**Q2 ‘11**	**Q2 ‘12**	**Q2 ‘11**
Yemen	45.2	55.0	61.1	66.9	57.5	100.2	113.5
Kurdistan	42.2	40.6	111.6	6.2	33.5	82.8	45.6
Oman	38.5	24.3	-	-	-	62.8	-
Total	**125.9**	**119.9**	**172.7**	**73.0**	**91.0**	**245.8**	**159.1**

USD/boe	**Q2 ‘12**	**Q1 ‘12**	**Q4 ‘11**	**Q3 ‘11**	**Q2 ‘11**	**Q2 ‘12**	**Q2 ‘11**
Yemen	22.82	26.71	28.52	31.59	22.66	24.80	20.97
Kurdistan	4.61	2.45	7.00	0.38	0.94	3.21	1.17
Oman	39.09	7.97	-	-	-	15.48	-
Total	**10.39**	**5.54**	**9.55**	**3.97**	**3.82**	**7.26**	**3.59**

Depreciation, Depletion and Amortisation (DD&A)

DD&A costs were NOK 105 million in the quarter – down from NOK 262 million in the same period in 2011, primarily due to lower production volumes from the Tawke field.

Depreciation, Depletion and Amortisation (DD&A)

						Year-to-date	
NOK mill	**Q2 ‘12**	**Q1 ‘12***	**Q4 ‘11***	**Q3 ‘11***	**Q2 ‘11***	**Q2 ‘12**	**Q2 ‘11***
Yemen	23.3	24.9	20.5	22.8	25.2	48.2	60.6
Kurdistan	70.3	87.4	344.4	-13.7	237.2	157.7	323.2
Oman	11.8	27.1	-	-	-	38.8	-
Total	**105.4**	**139.4**	**365.0**	**9.2**	**262.4**	**244.7**	**383.8**

USD/boe	**Q2 ‘12**	**Q1 ‘12**	**Q4 ‘11**	**Q3 ‘11**	**Q2 ‘11**	**Q2 ‘12**	**Q2 ‘11***
Yemen	20.19	19.12	16.95	17.96	18.52	19.61	18.47
Kurdistan	10.66	12.05	46.67	-65.65	285.23	11.38	93.96
Oman	31.34	16.31	-	-	-	18.98	-
Total	**12.97**	**13.64**	**42.48**	**6.20**	**168.67**	**13.33**	**57.11**

** Restated*

The expensed DD&A for Tawke field in Kurdistan region of Iraq in all quarters of 2011 has been restated for comparison reasons.

EXPLORATION AND CAPITAL EXPENDITURE

Exploration cost expensed

Expensed exploration costs in the second quarter were NOK 19 million compared with NOK 40 million in the same period in 2011. There were no dry well costs during the quarter, but expensed geological and geophysical work totaled NOK 6 million in Tunisia and NOK 9 million in Kurdistan.

Exploration cost expensed

						Year-to-date	
NOK mill	**Q2 ‘12**	**Q1 ‘12**	**Q4 ‘11**	**Q3 ‘11**	**Q2 ‘11**	**Q2 ‘12**	**Q2 ‘11**
UK	-0.2	0.4	0.9	1.0	3.1	0.2	4.9
Yemen	2.4	1.7	0.3	0.2	24.1	4.1	31.5
Kurdistan	8.9	5.3	4.3	5.2	10.4	14.2	17.7
Oman	1.9	0.6	-	-	-	2.5	-
UAE	0.3	0.1	-	-	-	0.5	-
Tunisia	5.9	6.5	-	-	-	12.3	-
Other	-0.3	-	2.1	-	2.2	-0.3	34.9
Total	**19.0**	**14.5**	**7.6**	**6.4**	**39.8**	**33.5**	**89.0**

Acquisition and development costs (incl. intangible assets)

Capital expenditures in the second quarter were NOK 264 million compared with NOK 95 million a year earlier. The main costs were related to the development of the Benenan and Bastora discoveries in the Erbil license (NOK 15 million), infill drilling and projects at the Tawke field (NOK 47 million), the Peshkabir-1 exploration well (NOK 49 million) and the 3D seismic campaign in the Dohuk license (NOK 28 million). Drilling at the West Bukha field in Block 8 Oman accounted for NOK 105 million. In Yemen, drilling operations resumed in May with the Bayoot-11 well in Block 53 (NOK 14 million) and the Yaalen development in Block 47 (NOK 7 million).

Acquisition and Development cost

						Year-to-date	
NOK mill	**Q2 '12**	**Q1 '12**	**Q4 '11**	**Q3 '11**	**Q2 '11**	**Q2 '12**	**Q2 '11**
Yemen	22.7	-0.2	15.4	6.4	28.1	22.6	56.1
Kurdistan	138.9	114.8	142.9	86.8	65.3	253.7	108.3
Oman	105.6	91.3	-	-	-	196.9	-
UAE	-3.6	3.5	-	-	-	-0.2	-
Tunisia	-	-	-	-	-	-	-
Other	0.4	1.0	4.0	0.8	0.1	1.4	-1.4
Total	**264.0**	**210.4**	**162.3**	**94.1**	**94.8**	**474.4**	**165.2**

Outlook

The Company is on track to reach 100,000 bopd of gross production capacity from the Tawke field by end 2012. Restoring production from the West Bukha field combined with production capacity from new wells being drilled offshore Oman is expected to add production and cash flow in the coming months.

Development and appraisal of the Benenan and Bastora oil discoveries in Kurdistan and development of the Yaalen field in Yemen have been initiated. Preparations are underway to re-develop the Saleh field in Ras Al Khaimah. These ongoing and planned developments will contribute additional production capacity when completed.

Further appraisal of the Summail and Peshkabir discoveries in Kurdistan will be undertaken.

DNO has earmarked NOK 765 million over the next six months for exploration, development and production activities aimed at unlocking significant value across the Company's portfolio.

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 2012 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, 22 August 2012

Bijan Mossavar-Rahmani
Executive Chairman

Gunnar Hirsti
Deputy Chairman

Marit Instanes
Board Member

Shelley Watson
Board Member

Karen Sund
Board Member

Lars A. Takla
Board Member

Helge Eide
Managing Director

Consolidated statements of comprehensive income

Restated; See more information in Note 18

				Restated	Restated	Restated	Year-to-date		Full year	
NOK mill	**Note**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Sales	2, 3	155.4	711.5	904.6	152.4	732.0	866.9	1,013.3	2,070.2	1,251.8
Cost of goods sold	4	-232.3	-260.3	-539.0	-82.8	-227.7	-492.6	-417.8	-1,039.5	-618.7
Expensing of capitalized 2009 production costs		-	-	-	-	-126.2	-	-126.2	-126.2	-
Gross profit		**-76.9**	**451.2**	**365.6**	**69.6**	**378.1**	**374.3**	**469.3**	**904.5**	**633.1**
Other operating income		11.6	10.2	-1.4	3.1	4.6	21.7	5.5	7.2	8.9
Tariffs and transportation		-4.0	-3.8	-2.6	-1.4	-2.1	-7.8	-4.8	-8.8	-22.8
Administrative expense/Other operating expenses	5	-52.1	-18.8	-71.8	-30.2	-14.2	-70.9	-30.1	-132.1	-406.3
Impairment/Reversal impairment oil and gas assets	9	-	-	14.4	-	-24.5	-	-24.5	-10.1	-
Exploration cost expensed	6	-19.0	-14.5	-7.6	-6.4	-39.8	-33.5	-89.0	-103.1	-56.2
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	-	-	0.1
Profit/-loss from operating activities		**-140.4**	**424.2**	**296.6**	**34.7**	**302.0**	**283.8**	**326.4**	**657.7**	**156.8**
Financial income	7	11.7	3.4	11.2	330.9	12.5	15.1	19.0	361.0	44.7
Financial expenses	7	-34.5	-36.9	-30.6	-29.7	-127.2	-71.5	-230.4	-290.6	-407.7
Profit/-loss before income tax		**-163.2**	**390.8**	**277.3**	**335.9**	**187.4**	**227.6**	**115.0**	**728.2**	**-206.2**
Income tax expense	8	-13.0	-83.5	11.6	-19.3	-24.4	-96.5	-67.3	-74.9	-76.6
Net profit/-loss		**-176.2**	**307.3**	**288.9**	**316.6**	**162.9**	**131.1**	**47.7**	**653.2**	**-282.9**
Other comprehensive income										
Currency translation differences	13	199.0	-183.7	31.0	88.4	-20.9	15.3	-79.7	39.7	0.8
Fair value changes available-for-sale financial assets	10	-0.5	-	-	-140.2	28.9	-0.5	53.8	-86.4	96.8
Total other comprehensive income, net of tax	8	**198.5**	**-183.7**	**31.0**	**-51.8**	**8.0**	**14.8**	**-25.9**	**-46.7**	**97.6**
Total comprehensive income, net of tax		**22.3**	**123.6**	**319.9**	**264.8**	**170.9**	**145.9**	**21.8**	**606.5**	**-185.2**
Net profit/-loss attributable to:										
Equity holders of the parent		-176.2	307.3	288.9	316.6	162.9	131.1	47.7	653.2	-282.9
Total comprehensive income attributable to:										
Equity holders of the parent		22.3	123.6	319.9	264.8	170.9	145.9	21.8	606.5	-185.2
Earnings per share, basic		-0.17	0.30	0.31	0.34	0.17	0.13	0.05	0.70	-0.31
Earnings per share, diluted		-0.17	0.30	0.31	0.34	0.17	0.13	0.05	0.70	-0.31

Condensed consolidated statements of financial position

Restated; See more information in Note 18

Assets

				Restated	Restated	Restated	Full year	
NOK mill	**Note**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**2011**	**2010**
Non-current assets								
Goodwill	17	277.5	264.1	-	-	-	-	-
Deferred income tax assets	8	50.0	47.6	50.1	-	-	50.1	-
Other intangible assets	9	849.0	739.0	691.5	611.8	782.2	691.5	930.7
Property, plant and equipment	9	3,830.3	3,561.4	2,259.2	2,253.2	1,841.2	2,259.2	2,212.8
Available for sale investments	10	3.3	-	-	-	409.4	-	360.0
Total non-current assets		**5,010.2**	**4,612.0**	**3,000.7**	**2,865.0**	**3,032.8**	**3,000.7**	**3,503.5**
Current assets								
Inventories	4	237.1	231.9	93.5	374.4	253.1	93.5	211.6
Trade and other receivables	11	446.6	493.5	297.6	214.6	195.9	297.6	290.3
Other financial assets at fair value through P&L	7	-	-	-	-	2.2	-	2.6
Cash and cash equivalents	12	1,638.3	1,602.4	1,644.8	1,969.4	1,244.8	1,644.8	1,384.7
Total current assets		**2,322.0**	**2,327.7**	**2,035.8**	**2,558.3**	**1,696.0**	**2,035.8**	**1,889.2**
TOTAL ASSETS		**7,332.1**	**6,939.8**	**5,036.5**	**5,423.3**	**4,728.9**	**5,036.5**	**5,392.7**

Equity and liabilities

				Restated	Restated	Restated	Full year	
NOK mill	**Note**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**2011**	**2010**
Equity								
Share capital	13	255.8	255.8	217.5	233.2	237.5	217.5	237.5
Other reserves	13	1,454.5	1,255.9	275.1	704.7	844.3	275.1	870.1
Retained earnings	13	1,796.3	1,972.4	1,665.2	1,365.9	1,049.3	1,665.2	1,001.6
Total equity		**3,506.6**	**3,484.1**	**2,157.7**	**2,303.9**	**2,131.0**	**2,157.7**	**2,109.1**
Non-current liabilities								
Interest-bearing liabilities	14	1,379.9	1,337.5	1,377.4	1,616.4	1,544.1	1,377.4	1,555.5
Deferred income tax liabilities	8, 17	706.2	665.9	84.0	69.8	68.2	84.0	65.5
Retirement benefit obligations		9.3	8.4	-	-	-	-	-
Provisions for other liabilities and charges	15	292.8	233.5	173.6	115.4	93.1	173.6	403.2
Total non-current liabilities		**2,388.3**	**2,245.3**	**1,634.9**	**1,801.7**	**1,705.5**	**1,634.9**	**2,024.2**
Current liabilities								
Trade and other payables	16	164.3	130.7	85.8	458.8	71.0	85.8	552.2
Income taxes payable		19.8	83.8	23.6	11.9	25.8	23.6	13.9
Current interest-bearing liabilities	14	161.3	259.4	265.0	-	-	265.0	257.5
Provisions for other liabilities and charges	15	1,092.0	736.5	869.5	847.1	795.6	869.5	435.8
Total current liabilities		**1,437.3**	**1,210.4**	**1,243.9**	**1,317.8**	**892.4**	**1,243.9**	**1,259.4**
TOTAL EQUITY AND LIABILITIES		**7,332.1**	**6,939.8**	**5,036.5**	**5,423.3**	**4,728.9**	**5,036.5**	**5,392.7**

Condensed consolidated cash flow statements

Restated; See more information in Note 18

				Restated	Restated	Restated	Year-to-date		Full year	
NOK mill	**Note**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Operating activities										
Profit/-loss before income tax		-163.2	390.8	277.3	335.9	187.4	227.6	115.0	728.2	-206.2
Adjustments to add (deduct) non-cash items:										
+/- Net interest expense (-income)	6	27.3	20.0	21.5	21.0	31.4	47.3	56.6	99.1	95.2
Previously capitalised exploration and evaluation expenses	4	0.7	-0.2	-2.8	-0.9	24.1	0.5	52.8	49.0	17.3
Depreciation of PP&E	9	106.5	140.4	366.2	9.8	262.9	246.9	384.9	760.9	317.0
Impairment loss/Reversal of impairment on PP&E		-	-	-14.4	-	24.5	-	24.5	10.1	-
-Gain/loss on PPE		-	-	-	-	-	-	-	-	-0.1
-Gain/loss on shares		-	-	-	-253.4	-5.0	-	-6.1	-259.5	-8.3
Impairment/Reversal of impairment of financial assets		-	-	-	-	0.3	-	0.3	0.3	204.6
Other *		53.0	260.2	67.9	-17.0	37.7	313.2	17.8	68.7	89.8
Changes in working capital:										
- Inventories		-5.2	-138.4	54.0	-51.5	-1.3	-143.6	-10.5	-8.0	-54.2
- Trade and other receivables		46.9	-195.9	-83.0	-18.7	47.7	-149.0	94.4	-7.3	-93.2
- Trade and other payables		33.6	45.0	-373.0	387.8	-306.2	78.6	-481.3	-466.5	361.3
- Provisions for other liabilities and charges		355.5	-133.0	22.4	13.0	43.8	222.5	84.9	120.3	4.2
Cash generated from operations		455.1	388.9	336.1	426.0	347.2	844.0	333.2	1,095.3	727.2
Income taxes paid		-71.2	-51.6	-13.6	-37.0	-17.1	-122.8	-46.4	-97.0	-94.0
Interest paid		-31.3	-23.4	-26.4	-25.3	-36.8	-54.7	-67.4	-119.1	-108.3
Net cash from operating activities		**352.6**	**313.9**	**296.1**	**363.7**	**293.3**	**666.5**	**219.3**	**879.2**	**524.9**
Investing activities										
Acquisition of subsidiary, net of cash	17	-	-115.5	-	-	-	-115.5	-	-	-
Purchases of intangible assets	9	-76.6	-50.6	-70.0	-56.8	-40.0	-127.2	-65.0	-191.8	-95.1
Purchases of tangible assets	9	-187.4	-159.8	-92.3	-37.0	-54.8	-347.2	-100.2	-229.5	-115.0
Proceeds from sale of tangible assets		-	-	-	-	-	-	-	-	0.1
Purchases of available-for-sale financial assets	10	-3.9	-	-	-	-	-3.9	-13.8	-13.8	-7.3
Proceeds from sale of available-for-sale financial assets	10	-	-	-	524.2	23.4	-	25.4	549.6	25.9
Interest received		3.9	3.4	4.8	4.3	5.3	7.3	10.7	19.8	13.1
Net cash from/-used in investing activities		**-264.0**	**-322.5**	**-157.5**	**434.7**	**-66.0**	**-586.5**	**-143.0**	**134.2**	**-178.3**
Financing activities										
Proceeds from borrowings	14	-	-	-	-	1,309.1	-	1,309.1	1,309.1	-
Repayment of borrowings	13	-106.5	-	-	-1.6	-1,268.3	-106.5	-1,525.8	-1,527.4	-1.4
Purchase of treasury shares, including options	13	-	-	-466.0	-92.0	-	-	-	-558.0	-
Proceeds from sale of treasury shares	13	-	-	-	-	-	-	-	-	367.1
Proceeds from issuance of shares	13	-	-	-	-	-	-	-	-	348.6
Net cash from/-used financing activities		**-106.5**	**-**	**-466.0**	**-93.6**	**40.8**	**-106.5**	**-216.7**	**-776.3**	**714.3**
Net increase/-decrease in cash and cash equivalents		**-17.9**	**-8.6**	**-327.4**	**704.8**	**268.2**	**-26.5**	**-140.1**	**237.1**	**1,061.1**
Cash and cash equivalents at beginning of the period		1,602.4	1,644.8	1,969.4	1,244.8	983.7	1,644.8	1,384.7	1,384.7	303.4
Exchange gain/-losses on cash and cash equivalents		53.8	-33.7	2.8	19.8	-7.0	20.1	0.4	23.0	20.2
Cash and cash equivalents at end of the period		**1,638.3**	**1,602.4**	**1,644.8**	**1,969.4**	**1,244.8**	**1,638.3**	**1,245.0**	**1,644.8**	**1,384.7**

* Included in the line Other under Operating activities are foreign currency related to interest-bearing loans and equity, acquisition/disposals of PP&E with non-cash effect, change in accruals of long-term liabilities with non-cash effect and other non-cash items from investing and financing activities.

Condensed consolidated statements of changes in equity

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**
Fair value gains, net of tax:					
- 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		-	-	47.7	47.7
Total comprehensive income		-	-26.0	47.7	21.7
Issue of share capital		-	0.2	-	0.2
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		-	-	-	-
		-	0.2	-	0.2
Balance at 30 June 2011	13	**237.5**	**844.3**	**1,049.3**	**2,131.0**

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2012		**217.5**	**275.1**	**1,665.2**	**2,157.7**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-0.5	-	-0.5
Currency translation differences		-	15.3	-	15.3
Other comprehensive income/-loss		-	14.8	-	14.8
Profit for the period		-	-	131.1	131.1
Total comprehensive income		-	14.8	131.1	145.9
Issue of share capital		18.4	557.3	-	575.6
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		20.0	607.2	-	627.2
		38.4	1,164.5	-	1,202.8
Balance at 30 June 2012	13	**255.8**	**1,454.5**	**1,796.3**	**3,506.6**

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 2011. The interim financial information for 2012 and 2011 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.

A detailed description of the accounting policies applied is included in the DNO annual financial statements for 2011. There have been no significant accounting policy changes in the second quarter of 2012 compared to the annual financial statements for 2011.

A number of new accounting standards and amendments to standards are currently in issue from the IASB, but have not yet been adopted by DNO. Information about the content, implementation dates and related requirements for the issued but not yet adopted standards and amendments is included in the accounting policies note to the DNO annual financial statements for 2011. DNO has not yet finalised evaluating the impact for the financial statements upon adoption of these new standards and amendments.

Note 2 || Segment information

Following the merger with RAK Petroleum's MENA assets from 1 January 2012, DNO is reporting 5 operating segments; Yemen (YEM), Kurdistan (KUR), Oman (OMAN), Ras Al Khaimah (UAE) and Tunisia (TUN). The operating segments equal the reportable segments.

Three months ended 30 June 2012 NOK million	**Note**	**TUN**	**YEM**	**KUR**	**OMAN**	**UAE**	**OTHER**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information										
External sales	3	-	121.5	-6.3	40.2	-	-	155.4	-	**155.4**
Inter-segment sales		0.5	0.7	7.8	1.0	0.1	-	10.2	-10.2	**-**
Cost of goods sold	4	-	-68.5	-112.9	-50.2	-	-0.2	-231.8	-0.5	**-232.3**
Gross profit		**0.5**	**53.7**	**-111.4**	**-9.0**	**0.1**	**-0.2**	**-66.2**	**-10.7**	**-76.9**
Segment result		**-5.9**	**43.6**	**-122.5**	**-11.0**	**-0.2**	**-3.0**	**-99.1**	**-40.6**	**-139.7**
Interest - net										**-23.5**
Gain/-loss on sale of shares										**-**
Income tax expense		-	-18.2	-	5.3	-	-	-13.0	-	**-13.0**
Net profit/-loss										**-176.2**
Segment assets		**18.9**	**601.9**	**2,857.7**	**1,694.6**	**527.9**	**50.9**	**5,752.0**	**1,530.2**	**7,282.1**

Note 2 || Segment information continues

Three months ended 30 June 2011 **NOK million**	**Note**	**TUN**	**YEM**	**KUR**	**OMAN**	**UAE**	**OTHER**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information										
External sales	3	-	155.8	576.2	-	-	-	732.0	-	**732.0**
Inter-segment sales		-	4.2	4.4	-	-	0.6	9.2	-9.2	**-**
Cost of goods sold	4	-	-82.7	-144.8	-	-	-	-227.5	-0.2	**-227.7**
Expensing of capitalized 2009 production costs		-	-	-126.2	-	-	-	-126.2	-	**-126.2**
Gross profit		**-**	**77.3**	**309.6**	**-**	**-**	**0.6**	**387.6**	**-9.5**	**378.1**
Segment result		**-**	**40.0**	**303.6**	**-**	**-**	**-37.1**	**306.5**	**-37.7**	**268.7**
Interest - net										**-86.3**
Gain/-loss on sale of shares										**5.0**
Income tax expense		-	-24.4	-	-	-	-	-24.4	-	**-24.4**
Net profit/-loss										**162.9**
Segment assets		**-**	**604.4**	**2,435.0**	**-**	**-**	**163.0**	**3,202.4**	**1,526.4**	**4,728.9**

Six months ended 30 June 2012 **NOK million**	**Note**	**TUN**	**YEM**	**KUR**	**OMAN**	**UAE**	**OTHER**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information										
External sales	3	-	282.5	395.0	189.5	-	-	866.9	-	**866.9**
Inter-segment sales		0.6	5.1	11.5	4.9	0.5	-	22.6	-22.6	**-**
Cost of goods sold	4	-	-148.4	-241.2	-101.6	-	-0.3	-491.5	-1.1	**-492.6**
Gross profit		**0.6**	**139.1**	**165.3**	**92.7**	**0.5**	**-0.3**	**398.0**	**-23.7**	**374.3**
Segment result		**-12.6**	**119.6**	**147.3**	**89.6**	**-**	**-7.7**	**336.3**	**-62.0**	**274.3**
Interest - net										**-46.7**
Gain/(loss) on sale of shares										**-**
Income tax expense		-	-46.7	-	-49.8	-	-	-96.5	-	**-96.5**
Net profit/-loss										**131.1**
Segment assets		**18.9**	**601.9**	**2,857.7**	**1,694.6**	**527.9**	**50.9**	**5,752.0**	**1,530.2**	**7,282.1**

Six months ended 30 June 2011 **NOK million**	**Note**	**TUN**	**YEM**	**KUR**	**OMAN**	**UAE**	**OTHER**	**Total report. segm.**	**Unalloc./ elimin.**	**GROUP**
Income statement information										
External sales	3	-	361.6	651.7	-	-	-	1,013.3	-	**1,013.3**
Inter-segment sales		-	9.3	8.9	-	-	1.9	20.0	-20.0	**-**
Cost of goods sold	4	-	-174.1	-243.2	-	-	-	-417.3	-0.5	**-417.8**
Expensing of capitalized 2009 production costs		-	-	-126.2	-	-	-	-126.2	-	**-126.2**
Gross profit		**-**	**196.7**	**291.2**	**-**	**-**	**1.8**	**489.7**	**-20.5**	**469.3**
Segment result		**-**	**123.6**	**266.0**	**-**	**-**	**-78.5**	**311.1**	**-41.7**	**269.3**
Interest - net										**-160.4**
Gain/-loss on sale of shares										**6.0**
Income tax expense		-	-67.3	-	-	-	-	-67.3	-	**-67.3**
Net profit/-loss										**47.7**
Segment assets		**-**	**604.4**	**2,435.0**	**-**	**-**	**163.0**	**3,202.4**	**1,526.4**	**4,728.9**

Note 3 || Sales

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

						Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Sale of petroleum products	155.4	711.5	904.6	152.4	732.0	866.9	1,013.3	2,070.2	1,251.8
Total sales	**155.4**	**711.5**	**904.6**	**152.4**	**732.0**	**866.9**	**1,013.3**	**2,070.2**	**1,251.8**

DNO merged with RAK Petroleum's MENA subsidiaries in January 2012. Following the merger, gas and LPG from Oman's Block 8, along with an oil and condensate blend, were added to the sales portfolio. The oil and condensate blend, gas and LPG that are produced in Block 8 are transported to, processed in and sold through the UAE. The processing facility in Ras Al Khaimah is owned and operated by RAK Gas.
See Note 2 for segment information on sales.

Following an agreement with KRG in July 2012, a reconciliation of past accounts and application of contract fiscal terms from inception until 1 June 2012 for the revenues from the Tawke field in the Kurdistan region of Iraq has been performed. Under International Financial Reporting Standards (IFRS) rules, the full impact of this reconciliation of accounts since 2007 has been taken in the second quarter, contributing to a reduction in operating revenues to NOK 155 million. See Note 20 for further details.

Note 4 || Cost of goods sold

			Restated	Restated	Restated	Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Lifting costs *	-125.9	-119.9	-172.7	-73.0	-91.0	-245.8	-159.1	-404.9	-301.7
Depreciation, depletion and amortisation	-106.5	-140.4	-366.2	-9.8	-262.9	-246.8	-384.9	-760.9	-317.0
Total cost of goods sold	**-232.3**	**-260.3**	**-539.0**	**-82.8**	**-353.9**	**-492.6**	**-544.0**	**-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.

The expensed DD&A in all quarters of 2011 for the Tawke field in the Kurdistan region of Iraq has been adjusted for comparison reasons. See Note 18 for more details.

						Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**2011**	**2010**
Spare parts	90.9	82.5	93.5	78.6	80.8	93.5	75.8
Other inventory	146.2	149.4	-	295.8	172.3	-	135.8
Total inventory	**237.1**	**231.9**	**93.5**	**374.4**	**253.1**	**93.5**	**211.6**

Other inventory of NOK 146.2 million relates to drilling and completion materials for the offshore blocks in Oman and UAE.

Note 5 || Administrative/other expenses

						Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Salaries and social expenses *	-4.8	-7.3	-1.8	-8.2	-0.9	-12.0	7.2	-2.7	-29.6
General and administration expenses	-46.9	-11.5	-50.5	-21.9	-13.4	-58.5	-37.3	-109.6	-376.7
Other operating expenses **	-0.3	-	-19.6	-0.1	-	-0.4	-	-19.7	-
Total administrative/other expenses	**-52.1**	**-18.8**	**-71.8**	**-30.2**	**-14.2**	**-70.9**	**-30.1**	**-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 2011 are mainly related to acccrual for license acreage fees for license areas in Kurdistan.

Note 6 || Exploration cost

						Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Exploration expenses (G&G and field surveys)	-14.3	-13.8	-8.9	-6.2	-13.9	-28.1	-31.8	-46.9	-37.7
Seismic costs	-3.3	-0.5	-	-0.1	0.1	-3.8	0.4	0.3	-9.4
Exploration costs capitalised in previous years carried to cost	-	0.4	0.1	-	-	0.4	-2.0	-2.0	-
Exploration costs capitalised this year carried to cost	-0.7	-0.2	2.7	0.9	-24.1	-1.0	-50.7	-47.1	-17.2
Other exploration cost	-0.6	-0.4	-1.5	-1.1	-1.8	-1.0	-4.8	-7.4	8.1
Total exploration cost *	**-19.0**	**-14.5**	**-7.6**	**-6.4**	**-39.8**	**-33.5**	**-89.0**	**-103.1**	**-56.2**

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

Note 7 || Net finance

						Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Interest received	3.9	3.4	4.8	4.3	5.3	7.4	10.7	19.8	13.1
Exchange rate gain/-loss, unrealised items	7.7	-	1.3	70.7	-	7.7	-	72.0	22.6
Exchange rate gain/-loss, realised items	-	-	4.2	-	-		-	4.2	-
Other financial income *	-	-	0.8	255.9	5.3	-	6.4	263.1	9.0
Reversal impairment of financial assets	-		-	-	1.8	-	1.9	1.9	-
Financial income	11.7	3.4	11.2	330.9	12.5	15.1	19.0	361.0	44.7
Interest expense	-36.6	-35.6	-36.8	-35.5	-39.1	-72.2	-124.1	-141.4	-108.3
Capitalized interest	9.2	8.9	8.8	8.1	2.3	18.1	2.3	19.2	-
Exchange rate gain/-loss, realised items	-5.5	-0.1	-	0.8	-2.9	-5.6	-0.9	-	3.6
Exchange rate gain/-loss, unrealised items	-	-7.5	-		-14.7	-7.5	-39.3	-39.2	-13.4
Fair value gain/-loss on financial instruments 1)	-	-	-	-0.3	-0.6	-	0.9	0.6	-
Impairment of financial assets	-	-	-	-	-0.3	-	-0.3	-0.3	-204.6
Other financial expenses	-1.7	-2.6	-2.6	-2.8	-72.0	-4.2	-69.1	-129.4	-84.9
Financial expenses	-34.5	-36.9	-30.6	-29.7	-127.2	-71.5	-230.4	-290.6	-407.7
Net finance	**-22.9**	**-33.4**	**-19.3**	**301.2**	**-114.7**	**-56.2**	**-211.4**	**70.4**	**-363.0**

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

Note 8 || Income tax expenses

						Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Deferred taxes	-5.8	-20.9	36.9	3.8	8.5	-26.7	-8.9	31.8	31.3
Income taxes payable related to production sharing agreements (PSAs)	-7.2	-62.6	-25.3	-23.1	-32.9	-69.8	-58.4	-106.7	-108.0
Total income tax expense	**-13.0**	**-83.5**	**11.6**	**-19.3**	**-24.4**	**-96.5**	**-67.3**	**-74.9**	**-76.6**

The interim period income tax expense relates to the Yemen and Oman operations and 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 2011 is due to the recognition of deferred tax asset related to cost oil position in Block 47 in Yemen.

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

The DNO Group is able to apply its income taxes paid in kind in Yemen as a credit (Norwegian "kreditfradrag") against its income taxes due in Norway. On 7 May 2012, the DNO Group received approval from the Norwegian Ministry of Finance to apply the credit method for oil paid in kind relating to export sales from Iraq. The ruling established that DNO's past treatment of export sales from Kurdistan would have merited favourable tax treatment from a Norwegian tax perspective. For local sales in Kurdistan, conditions to apply the credit method are currently not considered to be fulfilled. Contingent on the fulfilment of the criterias in IAS 12 "Income Taxes" DNO's recorded revenues from Kurdistan will be grossed up with a corresponding income tax expense (corporate tax), and a deferred tax liability will be recorded. As at 31 December 2011, the deferred tax would amount to approximately NOK 527 million (USD 88 million).

The DNO Group also intends to apply to the Norwegian Ministry of Finance for tax credit treatment for its results of operations in Oman and the UAE.

Note 9 || Property, plant and equipment/intangible assets

						Year-to-date		Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Acquisitions of PP&E *	187.4	159.8	92.3	37.0	54.8	347.2	100.2	229.5	56.5
Acquisitions of Intangible assets **	76.6	50.6	70.0	56.8	40.0	127.2	65.0	191.8	95.0
Acquisitions through business combinations ***	-	1,463.6	-	-	-	1,463.6	-	-	-
Net book amount PP&E	**3,830.3**	**3,561.4**	**2,259.2**	**2,253.2**	**1,841.2**	**3,830.3**	**1,841.2**	**2,259.2**	**2,212.8**
Net book amount Intangible assets	**849.0**	**739.0**	**691.5**	**611.8**	**782.2**	**849.0**	**782.2**	**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	-	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
*** Acquisitions through business combinations are related to the merger with RAK Petroleum's MENA operating subsidiaries. See Note 17 for more information on the merger.

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 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q2 2012**	**Q2 2011**	**2011**	**2010**
Beginning of the period	-	-	-	409.4	397.8	-	360.0	360.0	478.4
Additions	3.9	-	-	-	-	3.9	13.8	13.8	7.3
Sales	-	-	-	-269.2	-17.0	-	-17.9	-287.1	-17.9
Revaluation surplus/deficit transfer to equity	-0.5	-	-	-140.2	28.9	-0.5	53.8	-86.4	96.8
Impairment	-	-	-	-	-0.3	-	-0.3	-0.3	-204.6
End of the period	**3.3**	**-**	**-**	**-**	**409.4**	**3.3**	**409.4**	**-**	**360.0**
Non-current portion	3.3	-	-	-	409.4	3.3	409.4	-	360.0
Current portion	-	-	-	-	-			-	-

Note 11 || Trade and other receivables

						Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**2011**	**2010**
Trade receivables	258.7	184.5	154.5	63.2	64.2	154.5	84.3
Less: provisions for impairment of receivables	-	-	-	-	-	-	-
Trade receivables - net	258.7	184.5	154.5	63.2	64.2	154.5	84.3
Prepayments	31.5	6.3	10.3	13.5	16.4	10.3	7.4
Underlift, entitlement method	65.9	121.9	40.4	24.0	32.6	40.4	83.0
VAT receivable	3.7	5.5	7.8	4.9	4.0	7.8	3.6
Other short-term receivables *	86.8	175.3	84.6	109.1	78.4	84.6	112.1
Total trade and other receivables	**446.6**	**493.5**	**297.6**	**214.6**	**195.9**	**297.6**	**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	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**2011**	**2010**
Cash and cash equivalents , non-restricted	1,632.0	1,594.2	1,637.1	1,965.1	1,238.2	1,637.1	1,377.5
Cash and cash equivalents , restricted	6.3	8.1	7.7	4.3	6.6	7.7	7.2
Total cash and cash equivalents	**1,638.3**	**1,602.4**	**1,644.8**	**1,969.4**	**1,244.8**	**1,644.8**	**1,384.7**

Note 13 || Equity

Share capital

NOK million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
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**
At 1 January 2012	**949,856**	**237.5**	**-20.0**	**217.5**
Share option scheme:				
- value of services provided	-	-	-	**-**
- proceeds from shares issued	-	-	-	**-**
Treasury shares purchased/sold	-	-	20.0	**20.0**
Share issues	73,422	18.4	-	**18.4**
At 30 June 2012	**1,023,279**	**255.8**	**-**	**255.8**

In connection with the merger with RAK Petroleum's MENA operating subsidiaries in January 2012, DNO increased the share capital by issuing 73,422,343 new shares as partial consideration for the merger. An additional 80 million treasury shares were transferred from DNO to RAK Petroleum as further consideration. The total number of ordinary shares is now 1,023,279,255 shares with a par value of NOK 0.25 per share. For more information about the merger, see Note 17 Business combinations.

All issued shares are fully paid.

Other reserves

NOK mill	Share premium	Other paid-in capital	Available-for-sale investm.	Other reserves	Translation	Total
Balance at 1 January 2011	**369.8**	**347.4**	**96.8**	**213.2**	**-157.0**	**870.1**
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
Currency translation differences:						
- Group	-	-	-	-	-79.7	-79.7
- Associates	-	-	-	-	-	-
Balance at 30 June 2011	**370.0**	**347.4**	**150.5**	**213.2**	**-236.7**	**844.3**
Balance at 1 January 2012	**370.0**	**347.4**	**-**	**-324.9**	**-117.3**	**275.1**
Revaluation, net of tax	-	-	-0.5	-	-	-0.5
Treasury shares:						
- Sale of treasury shares	-	-	-	607.2	-	607.2
- Purchase of treasury shares	-	-	-	-	-	-
Other paid in capital	-	-	-	-	-	-
Issue of share capital	557.3	-	-	-	-	557.3
Currency translation differences:						
- Group	-	-	-	-	15.3	15.3
- Associates	-	-	-	-	-	-
Balance at 30 June 2012	**927.3**	**347.4**	**-0.5**	**282.3**	**-102.0**	**1,454.5**

Note 13 || Equity continued

Retained earnings

NOK mill	
Balance at 1 January 2011	**1,001.6**
Profit for the period	47.7
Dividend	-
Reclassified from other reserves	-
Balance at 30 June 2011	**1,049.3**
Balance at 1 January 2012	**1,665.2**
Profit for the period	131.1
Dividend	-
Reclassified from other reserves	-
Balance at 30 June 2012	**1,796.3**

Note 14 || Interest-bearing liabilities

						Full year	
NOK mill	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**2011**	**2010**
Non-current							
Bonds	1,379.9	1,337.5	1,377.4	1,616.4	1,544.1	1,377.4	1,555.5
Total non-current interest-bearing liabilities	**1,379.9**	**1,337.5**	**1,377.4**	**1,616.4**	**1,544.1**	**1,377.4**	**1,555.5**
Current							
Current portion of bonds	161.3	259.4	265.0	-	-	265.0	257.5
Total current interest-bearing liabilities	**161.3**	**259.4**	**265.0**	**-**	**-**	**265.0**	**257.5**
Total interest-bearing liabilities	**1,541.2**	**1,596.9**	**1,642.4**	**1,616.4**	**1,544.1**	**1,642.4**	**1,813.0**

					Balance	
NOK mill	**Currency**	**Amount**	**Interest**	**Maturity**	**Q2 2012**	**Q1 2012**
Non-current						
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	837.7	797.1
Current						
Bond loan (ISIN NO0010270523)	USD	17.3	Libor + 3,5%	06/06/2012	-	98.5
Bond loan (ISIN NO0010283732)	NOK	48.0	Fixed 7,215%	12/10/2012	48.0	48.0
Bond loan (ISIN NO0010283724)	NOK	105.5	Nibor + 3,5%	12/10/2012	105.5	105.5
Bond loan (ISIN NO0010478019)	USD	1.3	Fixed 6,445%	12/10/2012	7.8	7.4
Borrowing issue costs					-17.7	-19.6
Total interest-bearing liabilities					**1,541.2**	**1,596.9**

Bond loan (ISIN NO0010270523) of USD 17.3 million was settled in June.

Note 15 || Provisions for other liabilities and charges

NOK mill	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Full year 2011	Full year 2010
Non-current							
Asset retirement obligations	18.1	16.7	17.1	16.2	14.5	17.1	14.9
Other long-term obligations	274.7	216.8	156.5	99.2	78.6	156.5	388.3
Total non-current provisions for other liabilities and charges	**292.8**	**233.5**	**173.6**	**115.4**	**93.1**	**173.6**	**403.2**
Current							
Other provisions and charges	1,092.0	736.5	869.5	847.1	795.6	869.5	435.8
Total current provisions for other liabilities and charges	**1,092.0**	**736.5**	**869.5**	**847.1**	**795.6**	**869.5**	**435.8**
Total provisions for other liabilities and charges	**1,384.7**	**970.0**	**1,043.1**	**962.5**	**888.8**	**1,043.1**	**839.0**

NOK mill	Asset retirem. oblig.	Other non-current	Other current	Total
Balance at 31 December 2011	**17.1**	**156.5**	**869.5**	**1,043.1**
Charged to consolidated income statement:				
- Additional provisions	1.4	118.2	365.2	484.8
- Unused amounts reversed or reclassified	-0.4	-	-142.7	-143.1
Charged to equity:				
- Additional provisions	-	-	-	-
- Unused amounts reversed	-	-	-	-
- Contracts exercised	-	-	-	-
Exchange differences	-	-	-	-
Incurred and charged against the provision during the period	-	-	-	-
Balance at 30 June 2012	**18.1**	**274.7**	**1,092.0**	**1,384.7**

Included in provison for other liabilities and charges, 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 30 June 2012 and included in other provisions and charges (current).

The increase in other current provision is related to the reconciliation of accounts in Kurdistan, see Note 20 for further details.

Note 16 || Trade and other payables

NOK mill	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Full year 2011	Full year 2010
Trade creditors	39.9	22.2	10.5	13.9	14.7	10.5	6.6
Public duties payable	6.0	8.5	8.8	2.8	5.3	8.8	6.9
Prepayment from customers	0.3	0.3	0.4	351.0	2.4	0.4	42.7
Other accrued expenses	118.1	99.8	66.1	48.9	48.6	66.1	496.0
Overlift, entitlement method	-	-	-	42.1	-	-	-
Total trade and other payables	**164.3**	**130.7**	**85.8**	**458.8**	**71.0**	**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.

Other accrued expenses in 2010 included 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 || Business combinations

In July 2011, DNO International ASA signed an agreement with RAK Petroleum PCL, DNO's largest shareholder, to merge RAK Petroleum's operating subsidiaries in the Middle East and North Africa (MENA) region, into a subsidiary of DNO. As consideration for the merger, RAK Petroleum would receive shares in DNO International ASA. The transaction value was based on a net asset value of both companies undertaken by an independent third party.

The merger between DNO and RAK Petroleum MENA operating subsidiaries was approved by DNO's shareholders at the extraordinary general meeting on 1 November. The transaction was completed and registered at the Norwegian Register of Business Enterprises (Foretaksregisteret, Brønnøysund) on 10 January 2012. The accounting completion date was also set to 10 January 2012, and the merged companies have been included in DNO's financial statements from this date.

RAK Petroleum's MENA subsidiaries consisted of six companies; Rak Petroleum Oman Ltd (with the subsidiaries Rak Petroleum Oman Block 8 and Rak Petroleum Oman Block 30), Rak Petroleum Tunisia Ltd, Rak Petroleum Al Khaleej Ltd and Rak Petroleum Technical Services Ltd. All the companies have been renamed after the merger, using DNO instead of Rak Petroleum in the company names. The companies hold licenses in Oman, UAE and Tunisia. 100% of the shares in the different companies has been acquired by a newly established subsidiary of DNO, DNO MENA AS.

In accordance with the resolution approved by the EGM, the share capital in DNO International ASA was increased 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. The total consideration shares were 153,422,343.

In January 2012, DNO also paid USD 31.2 million to RAK Petroleum PCL as a working capital adjustment according to the merger agreement. The transaction contributed with a total of NOK 72 million (USD 12 million) in cash from the acquired companies, resulting in the net cash payment to be NOK 115.5 million.

A preliminary purchase price allocation (PPA) was presented in the prospectus equivalent document that was issued after the merger was announced. DNO has updated this preliminary PPA based on the actual DNO share price on the acquisition date. This resulted in a fair value purchase consideration of NOK 1,202 million (USD 199 million). However, for accounting purposes, the PPA presented below is considered preliminary for 12 months following the merger. The preliminary identified excess value in the transaction is mainly related to the producing assets in Oman. No goodwill has at this point been identified in the transaction other than technical goodwill as a result of a deferred tax liability on excess values.

Fair value of the net assets and liabilities acquired (Preliminary purchase price allocation):

NOK 1,000	**RAK MENA operations on DNO's accounting principles**	**Fair value adjustments**	**Fair value of assets and liabilities**
ASSETS			
Goodwill	-	279,043	279,043
Other intangible assets	282,495	44,133	326,628
Property, plant & equipment	674,593	507,351	1,181,944
Total non current assets	**957,088**	**830,527**	**1,787,615**
Inventories	173,306	-	173,306
Other current assets	254,118	-	254,118
Total current assets	**427,424**	**-**	**427,424**
LIABILITIES			
Deferred tax	-318,855	-279,043	-597,898
Other non current liabilities	-8,855	-	-8,855
Total non current liabilities	**-327,710**	**-279,043**	**-606,753**
Total current liabilities	**-405,436**	**-**	**-405,436**

Note 18 || Restatement of quarterly interim figures

The expensed DD&A in all quarters of 2011 for Tawke field in the Kurdistan region of Iraq has been adjusted for comparison reasons. However, the total expensed DD&A on Tawke for full year 2011 is unchanged from the financial audited accounts.

The rate of depreciation is calculated as a ratio of net entitlement oil and gas production for the period to net entitlement proved and probable developed reserves. The adjustment for comparison purposes is due to a correction of the tax basis for computation of DD&A performed at year-end 2011.

The effect of the adjustments on those quarters is summarized below:

	Q4 2011			Q3 2011			Q2 2011			Q1 2011		
NOK mill	**Q4 2011**	**Restated**	**Difference**	**Q3 2011**	**Restated**	**Difference**	**Q2 2011**	**Restated**	**Difference**	**Q1 2011**	**Restated**	**Difference**
Cost of goods sold	-624.8	-539.0	85.8	-100.1	-82.8	17.3	-174.5	-227.7	-53.2	-140.2	-190.1	-49.9
Gross profit	**279.8**	**365.6**	**85.8**	**52.3**	**69.6**	**17.3**	**431.3**	**378.1**	**-53.2**	**141.0**	**91.1**	**-49.9**
Profit/-loss from operating activities	**210.8**	**296.6**	**85.8**	**17.4**	**34.7**	**17.3**	**355.2**	**302.0**	**-53.2**	**74.2**	**24.3**	**-49.9**
Profit/-loss before income tax	**191.5**	**277.3**	**85.8**	**318.6**	**335.9**	**17.3**	**240.6**	**187.4**	**-53.2**	**-22.5**	**-72.4**	**-49.9**
Net profit/-loss	**203.1**	**288.9**	**85.8**	**299.3**	**316.6**	**17.3**	**216.1**	**162.9**	**-53.2**	**-65.4**	**-115.3**	**-49.9**
Property, plant and equipment				2,339.0	2,253.2	-85.8	1,944.3	1,841.2	-103.1	1,991.0	1,941.1	-49.9
Non-current assets				**2,950.8**	**2,865.0**	**-85.8**	**3,135.9**	**3,032.8**	**-103.1**	**3,273.8**	**3,223.9**	**-49.9**
Total assets				**5,509.1**	**5,423.3**	**-85.8**	**4,832.0**	**4,728.9**	**-103.1**	**4,811.6**	**4,761.7**	**-49.9**
Retained earnings				1,451.7	1,365.9	-85.8	1,152.4	1,049.3	-103.1	936.2	886.3	-49.9
Total equity				**2,389.7**	**2,303.9**	**-85.8**	**2,234.1**	**2,131.0**	**-103.1**	**2,010.1**	**1,960.2**	**-49.9**
Total equity and liabilities				**5,509.1**	**5,423.3**	**-85.8**	**4,832.0**	**4,728.9**	**-103.1**	**4,811.6**	**4,761.7**	**-49.9**

Note 19 || Related party transactions

The merger with the largest shareholder, RAK Petroleum PCL's operating MENA subsidiaries, was approved by the Extraordinary General Meeting in November 2011 and completed in January 2012. Following the merger, RAK Petroleum PCL is considered a related party to DNO.

For further information related to the merger, see Note 17 Business combinations.

Note 20 || Events after the balance sheet date

Tawke PSC - fiscal entitlements
On 24 July, DNO announced that the company has reached an agreement with the Kurdistan Regional Government (KRG) to fully apply the fiscal terms and conditions of the existing Production Sharing Contract (PSC) covering the Tawke license moving forward, replacing temporary arrangements in place since start of operations. DNO is nearing completion of its obligation to the KRG under a previously disclosed protocol to reconcile past accounts and commence application of the fiscal terms and conditions of the existing. Production Sharing Contract covering the Tawke license as from 1 June 2012. To meet this obligation, DNO allocated its share of Tawke production to the KRG for local consumption during June, July and part of August. Under International Financial Reporting Standards (IFRS) rules, the full impact of the reconciliation of accounts since 2007 has been taken in the second quarter of 2012.

Initiation of share buy-back program
On 13 July, DNO intitiated a share buyback program. The buyback program is pursuant to a shareholder vote at the Annual General Meeting of 11 June 2012 authorising DNO to purchase up to 100 million own shares. At the date of reporting, DNO has acquired 9,000,000 own shares.

Ongoing drilling operations

Kurdistan

The Tawke-18 well, designed to increase Cretaceous production and test a target below the main field-bounding fault, is drilling ahead at 2,359 meters. On the Erbil license, a horizontal well drilling ahead will further appraise the Benenan discovery and contribute additional production.

Oman

In July, DNO completed drilling of the West Bukha-5 well in offshore Block 8. Results from the initial flow test of West Bukha-5 confirm the presence of oil in the Thamama reservoir, with an estimated flow capacity of 1,500-2,000 barrels per day. West Bukha-5 is the first of a three well development drilling campaign in Block 8. Drilled to a total depth of 5,200 meters, including a 700 meter horizontal section with good fracture indications, West Bukha-5 is the deepest yet for the Company in Oman. Three intervals in the horizontal section were acidized and stimulated. The shallower Wasia interval has not been perforated at this stage. A fourth West Bukha development well is progressing according to plan and is drilling ahead.

Yemen

In Yemen, DNO has launched its new drilling campaign by completing the Tasour-27 infill well, currently producing 250 barrels per day. Another infill well in the Nabrajah field in Block 43 was spud earlier this month.

NOTES

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