

# Interim Report 2012

## **Fourth Quarter and Full Year**



Photo: Hans Fredrik Asbjørnsen



## Highlights

- ➔ Net profit of more than NOK 1 billion on operating revenues of NOK 2.8 billion – all time DNO high
- ➔ Company Working Interest production steady at 38,354 boepd, while gross operated production capacity climbed to 140,000 boepd
- ➔ Doubled exploration & development spending to record level of NOK 1.2 billion
- ➔ Expenditures fully funded from operating cash flow
- ➔ Maintained robust cash balance of NOK 1.5 billion at end 2012
- ➔ DNO is larger, stronger and more diversified following the merger with RAK Petroleum

## Key figures

NOK million	Restated <sup>1)</sup>		Full year	
	Q4 2012	Q4 2011	2012	2011
<b>Key financials</b>				
Sales <sup>2)</sup>	1,434.3	904.6	2,841.8	2,070.2
Gross profit	1,060.8	365.6	1,629.2	904.5
Profit/(loss) from operating activities	1,006.8	296.6	1,416.9	657.7
Net profit/(loss)	810.1	288.9	1,039.6	653.2
EBITDA	1,262.6	662.8	2,059.9	1,418.6
Netback	1,250.9	649.3	1,900.3	1,321.6
Acquisition and development costs	376.4	162.3	1,147.3	421.6
Exploration costs expensed	19.5	7.6	78.0	103.1
<b>Key performance indicators<sup>3)</sup></b>				
Lifting costs (USD/boe)	6.13	9.55	7.48	4.29
Netback (USD/boe)	53.07	35.89	23.84	16.35

<sup>1)</sup> Expensed DD&A for the Tawke field in the Kurdistan region of Iraq in all quarters of 2011 has been restated.

<sup>2)</sup> Sales include USD 116 million in Q4 2012 and USD 164 million in 2011 related to export production from the Tawke field.

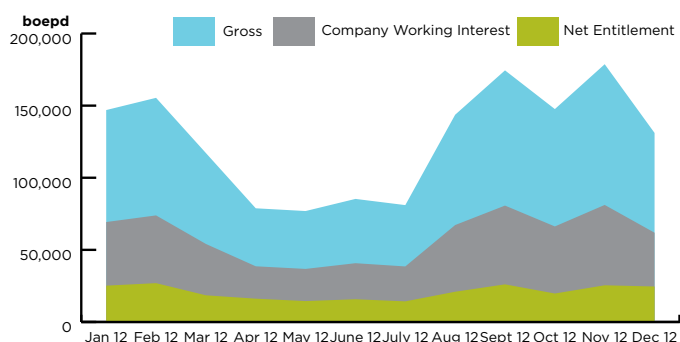
<sup>3)</sup> Key performance indicators include exports from the Tawke field.

# Operational review

## PRODUCTION

Oil and gas production from the West Bukha field in Block 8 offshore Oman increased in the fourth quarter after two new development wells were brought on production. This contributed to a further increase in production volumes in the quarter.

### Monthly production (boepd) in 2012



Gross production from the Company's producing assets averaged 82,547 boepd in the fourth quarter, which is an increase of 39% from a year earlier. For the full year, the gross production was 67,238 boepd compared to 64,185 boepd the previous year.

DNO's production increased in the fourth quarter to 46,398 boepd on a Company Working Interest (CWI) basis, which is up from 34,656 boepd a year earlier. Fourth quarter net entitlement production was 23,207 boepd compared to 21,357 boepd the previous year.

In mid-November, DNO delivered a peak gross production of around 100,000 boepd with a corresponding CWI production of 60,000 boepd.

The full year CWI and net entitlement production was around the same level as in 2011, whereas lower 2012 production from Kurdistan was offset by new production from Block 8 in Oman.

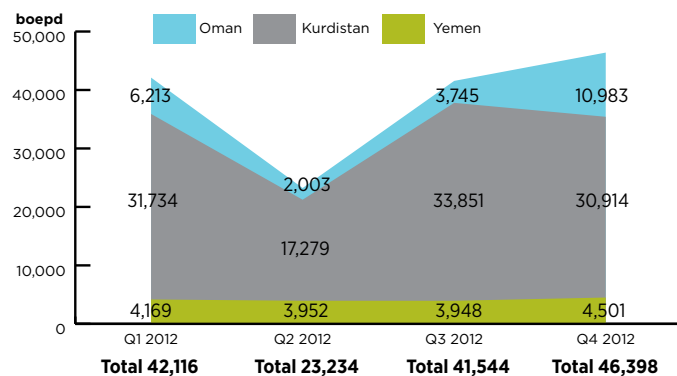
Gross production		Full year		
boepd	Q4 2012	Q4 2011	2012	2011
Yemen	10,881	10,682	10,271	12,521
Kurdistan	49,701	48,770	45,477	51,664
Oman	21,965	-	11,490	-
<b>Total DNO</b>	<b>82,547</b>	<b>59,452</b>	<b>67,238</b>	<b>64,185</b>

Company Working Interest (CWI) production		Full year		
boepd	Q4 2012	Q4 2011	2012	2011
Yemen	4,501	4,311	4,143	4,999
Kurdistan	30,914	30,345	28,466	34,966
Oman	10,983	-	5,745	-
<b>Total DNO</b>	<b>46,398</b>	<b>34,656</b>	<b>38,354</b>	<b>39,966</b>

Net entitlement production *		Full year		
boepd	Q4 2012	Q4 2011	2012	2011
Yemen	2,545	2,424	2,442	2,968
Kurdistan	12,163	18,933	14,563	19,142
Oman	8,499	-	3,628	-
<b>Total DNO</b>	<b>23,207</b>	<b>21,357</b>	<b>20,633</b>	<b>22,110</b>

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

### Quarterly production per country in 2012 (boepd)



## APPRAISAL AND FIELD DEVELOPMENT

The Company continued its broad exploration, appraisal and development program across the portfolio in 2012. A total of 12 wells were drilled and completed during the year. At year-end, five wells were in progress, three in Kurdistan, one in Yemen and one offshore Oman.

### Kurdistan

In the Tawke license, five development wells were drilled and completed in 2012 as part of the production enhancement program, adding approximately 24,000 bopd to the field's gross Cretaceous wellhead deliverability. Combined with the facility processing upgrade, the Tawke field reached a total gross wellhead production capacity in excess of 100,000 bopd at year-end.

In the fourth quarter, the Tawke-19 and Tawke-14A were completed and both wells have now been brought on test production. The Tawke-20 well designed as the first horizontal producer at the Tawke field commenced drilling on 12 December and is currently drilling ahead.

The Tawke-17 ("Tawke Deep") well was spudded late August and is currently drilling ahead in the middle of the Triassic interval. The objective of the well is both to test the deeper prospective resource potential of the Jurassic and Triassic intervals and to add further production capacity from the Cretaceous interval. Testing of the well is expected to commence during the first quarter of 2013. The Tawke 2012 well intervention program consisted of workover operations on four wells resulting in production increases totaling approximately 8,600 bopd.

In the Erbil license, the Benenan-3 well reached its total depth in the fourth quarter. The well encountered an additional 210 meter oil column in the Najmeh reservoir and produced 800-1,000 bopd from an open hole test in the Lower Najmeh interval, having earlier confirmed movable oil from an open hole test in the Bekhme formation. The well will be completed as a deviated well capable of producing from several Najmeh intervals as well as from the Bekhme formation. The well doubled the Benenan field's gross 2P oil-in-place volumes from 300 million barrels to an estimated 600-700 million barrels. Benenan-3 was followed by the spud on 14 December of Bastora-2, which is the second development well as part of the Benenan and Bastora field development.

### Oman

In November, production from Block 8 offshore Oman climbed to a record daily rate of around 20,000 barrels of oil and condensate and 60 million cubic feet of gas following completion of two new development wells in the West Bukha field. Production from Block 8 is currently running at around 17,000 barrels of oil and condensate per day and 50 million cubic feet of gas per day.

The third and last well in the current development drilling campaign in Block 8, Bukha-4, commenced in early December and the well is expected to be completed towards the end of the first quarter of 2013.

**Yemen**

In Yemen, the second horizontal infill well in the Nabrajah field in Block 43, Nabrajah-20, was completed and brought on stream in November. This followed the Nabrajah-21 horizontal infill well which was brought on production in September. At year end, the two new wells were contributing 1,200 bopd (gross).

In Block 47, development of the Yaalen field continued and drilling of the Yaalen-4 appraisal well commenced on 14 December. The next well to be drilled is Yaalen-5 and first oil from the Yaalen field is expected in the second half of 2013.

In Block 53, operated by Dove Energy Ltd., development well Bayoot-12 was completed and brought on production in November with an initial rate of 650 bopd (gross).

**EXPLORATION**

In the Kurdistan region of Iraq, the Peshkabir-1 well confirmed movable oil in the Jurassic and a Discovery Notice and Discovery Report was submitted. A 200 sq km 3D seismic acquisition program followed the encouraging well result and will form the basis for the further appraisal of the Peshkabir discovery.

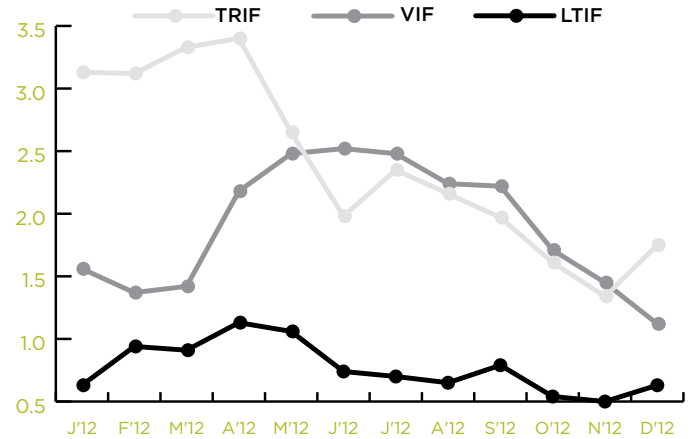
Following the Summail oil and gas discovery previously made in the Dohuk license, a 3D seismic campaign covering the entire Summail structure was completed earlier in the year. A Declaration of Commerciality and an Appraisal Report were submitted on 15 October. A field development study for a gas development is in progress and a heavy oil technical scoping study has been initiated.

In the Fkirine license in Tunisia, processing of the 2D seismic data and reprocessing of 300 km of vintage lines is underway and will be completed in the first quarter of 2013. In the Hammamet offshore license, the second term of the license period has been entered into, and evaluation of the 3D seismic over Tazerka North and Kasserine areas is ongoing.

**HEALTH, SAFETY, SECURITY AND ENVIRONMENT**

As part of a robust corporate governance regime DNO has established a HSSE Committee to prepare, instruct and evaluate the management of HSSE internal controls and reporting within the Company.

**HSSE Performance Trends:**



The overall HSSE performance continued at satisfactory levels during the fourth quarter. Our Lost Time Incident Frequency (LTIF) and Total Recordable Incident Frequency (TRIF) remain within targets. The Vehicle Incident Frequency (VIF) trend illustrates our efforts to reduce vehicle incidents. The Company has over the past quarter continued to strengthen the HSSE team through recruitment of experienced and qualified HSSE professionals.

During the quarter the HSSE performance was as follows:

Lost Time Incident Frequency (LTIF):	0.64
Total Recordable Incident Frequency (TRIF):	1.75
Vehicle Incident Frequency (VIF):	1.12

## Financial review

### REVENUES, PROFITS AND CASHFLOW

Revenues increased to a record level of NOK 1,434 million in the fourth quarter (NOK 905 million in 2011), and NOK 2,842 million for the full year (NOK 2,070 million in 2011).

The third partial payment for past export deliveries from the Tawke field was received in December. DNO's share of this payment was NOK 651 million (USD 116 million) which was recorded as revenues in the fourth quarter. Last year a total of NOK 917 million was recorded as revenues from partial payment of past export deliveries from the Tawke field.

Revenues from oil and gas production from the West Bukha field in Block 8 Oman contributed NOK 438 million in revenues in the fourth quarter and NOK 724 million for the full year (refer to Note 2 to the Financial Accounts for further detail).

Profit from operations increased to an all-time high of NOK 1,007 million for the quarter (NOK 297 million in 2011) and NOK 1,417 million for the full year (NOK 658 million in 2011). Similarly net profit climbed to NOK 810 million in the fourth quarter (NOK 289 million in 2011) and NOK 1,040 million for the full year (NOK 653 million in 2011).

Significant investments were initiated in 2012 to increase production capacity and progress field development projects. Total investments increased to NOK 1,225 million in 2012, compared with NOK 525 million the previous year. The cash position was NOK 1,508 million at year-end, compared to NOK 1,645 million a year earlier.

### COST OF GOODS SOLD

In the fourth quarter, cost of goods sold was NOK 374 million compared with NOK 539 million in the same period last year. The fourth quarter of 2011 was affected by restatement of the depreciation charges for the Tawke field. Full year cost of goods sold increased compared with the previous year, primarily due to addition of Block 8 offshore Oman to the portfolio.

### Lifting costs

Lifting costs were NOK 144 million in the fourth quarter, compared with NOK 173 million a year earlier. The nominal- and unit lifting costs per country are presented in the table below.

Lifting costs	Full year			
	NOK million	Q4 2012	Q4 2011	2012
Yemen	66.5	61.1	224.0	241.5
Kurdistan	54.7	111.6	175.3	163.4
Oman	23.2	-	197.1	-
<b>Total lifting costs</b>	<b>144.4</b>	<b>172.7</b>	<b>596.4</b>	<b>404.9</b>

Including export volumes

Lifting costs	Full year			
	USD/boe	Q4 2012	Q4 2011	2012
Yemen	30.31	28.52	27.21	24.95
Kurdistan	3.41	7.00	2.92	1.48
Oman	4.34	-	17.32	-
<b>Average lifting costs</b>	<b>6.13</b>	<b>9.55</b>	<b>7.48</b>	<b>4.29</b>

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

DD&A costs increased to NOK 228 million in the quarter, mainly due to the increased production from Block 8 in Oman.

Depreciation, Depletion and Amortisation	Full year			
	NOK million	Q4 2012	Q4 2011*	2012
Yemen	26.9	20.5	95.2	103.9
Kurdistan	66.7	344.4	315.0	654.0
Oman	134.2	-	201.0	-
<b>Total DD&amp;A</b>	<b>227.8</b>	<b>365.0</b>	<b>611.3</b>	<b>757.9</b>

Depreciation, Depletion and Amortisation	Full year			
	USD/boe	Q4 2012	Q4 2011	2012
Yemen	21.66	16.95	19.57	18.02
Kurdistan	10.63	34.82	10.28	16.81
Oman	30.23	-	26.02	-
<b>Average DD&amp;A</b>	<b>19.05</b>	<b>32.87</b>	<b>14.90</b>	<b>16.97</b>

\* 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 costs expensed

Expensed exploration costs in the fourth quarter were NOK 20 million, up from NOK 8 million in the same period in 2011. There were no dry well costs in the quarter and the main costs relate to geological and geophysical work in all business units.

Exploration costs expensed	Full year			
	NOK million	Q4 2012	Q4 2011	2012
Yemen	2.7	0.3	6.5	32.1
Kurdistan	4.6	4.3	24.3	27.2
Oman	3.5	-	7.2	-
UAE	1.4	-	2.1	-
Tunisia	7.3	-	37.8	-
Other	0.0	3.0	0.2	43.8
<b>Total exploration costs</b>	<b>19.5</b>	<b>7.6</b>	<b>78.0</b>	<b>103.1</b>

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

Capital expenditures in the fourth quarter were NOK 376 million compared with NOK 162 million a year earlier. For the full year, the capital expenditures almost tripled compared to the previous year primarily due to increased drilling activities across the portfolio.

Acquisition and development costs	Full year			
	NOK million	Q4 2012	Q4 2011	2012
Yemen	25.9	15.4	99.8	78.0
Kurdistan	212.4	142.9	600.8	337.9
Oman	136.1	-	435.8	-
UAE	-0.2	-	6.9	-
Tunisia	-	-	-	-
Other	2.2	4.0	4.0	3.4
<b>Total A&amp;D costs</b>	<b>376.4</b>	<b>162.3</b>	<b>1,147.3</b>	<b>421.6</b>

## Outlook

During 2012, DNO emerged as larger, stronger and more diversified following the merger with RAK Petroleum PCL's MENA subsidiaries early in the year.

The Company expects continued high drilling and field development activities across the portfolio in 2013.

In Kurdistan, the Tawke production enhancement program delivered 100,000 bopd of gross production capacity by year-end and plans are in place to take the production capacity from the field to 200,000 bopd by the end of 2014.

The Benenan and Bastora development will continue into 2013 with several new wells planned during the year. A development plan for the Summail gas discovery is underway and field development may be initiated in 2013 subject to approval by the KRG.

The re-development of the Saleh field is scheduled to commence in the second quarter and the Company is considering further drilling or well stimulation opportunities at the West Bukha field.

The Yaalen development in Yemen is on track with first oil expected in the second half of 2013 and the Company is in the final stage of concluding a new Production Sharing Agreement for Block 48.

DNO will continue to seek further organic growth through the drill bit and the extensive field development program underway in four countries is expected to add significant production capacity and new reserves.

The Company will seek further diversification through bolt-on MENA acquisitions and plans to pursue new opportunities in the region in the years ahead.

# Consolidated statements of comprehensive income

Restated; See more information in Note 12

NOK million	Note					Restated	Full year	
		Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Sales	2, 3	1,434.3	540.6	155.4	711.5	904.6	2,841.8	2,070.2
Cost of goods sold	4	-373.5	-346.5	-232.3	-260.3	-539.0	-1,212.7	-1,039.5
Expensing of capitalized 2009 production costs		-	-	-	-	-	-	-126.2
<b>Gross profit</b>		<b>1,060.8</b>	<b>194.1</b>	<b>-76.9</b>	<b>451.2</b>	<b>365.6</b>	<b>1,629.2</b>	<b>904.5</b>
Other operating income		3.4	-14.7	11.6	10.2	-1.4	10.4	7.2
Tariffs and transportation		-4.3	-3.5	-4.0	-3.8	-2.6	-15.6	-8.8
Administrative expense/Other operating expenses		-6.9	-24.6	-52.1	-18.8	-71.8	-102.4	-132.1
Impairment/Reversal impairment oil and gas assets	7	-	-	-	-	14.4	-	-10.1
Exploration cost expensed	5	-19.5	-25.0	-19.0	-14.5	-7.6	-78.0	-103.1
Net gain/-loss from sale of PP&E	7	-26.7	-	-	-	-	-26.7	-
<b>Profit/-loss from operating activities</b>		<b>1,006.8</b>	<b>126.3</b>	<b>-140.4</b>	<b>424.2</b>	<b>296.6</b>	<b>1,416.9</b>	<b>657.7</b>
Financial income		11.1	2.6	11.7	3.4	11.2	28.7	361.0
Financial expenses		-21.8	-30.1	-34.5	-36.9	-30.6	-123.2	-290.6
<b>Profit/-loss before income tax</b>		<b>996.0</b>	<b>98.9</b>	<b>-163.2</b>	<b>390.8</b>	<b>277.3</b>	<b>1,322.5</b>	<b>728.2</b>
Income tax expense	6	-185.9	-0.4	-13.0	-83.5	11.6	-282.8	-74.9
<b>Net profit/-loss</b>		<b>810.1</b>	<b>98.4</b>	<b>-176.2</b>	<b>307.3</b>	<b>288.9</b>	<b>1,039.6</b>	<b>653.2</b>
<b>Other comprehensive income</b>								
Currency translation differences	8	-100.3	-194.9	199.0	-183.7	31.0	-279.9	39.7
Fair value changes available-for-sale financial assets		-1.0	1.5	-0.5	-	-	-	-86.4
<b>Total other comprehensive income, net of tax</b>	6	<b>-101.3</b>	<b>-193.4</b>	<b>198.5</b>	<b>-183.7</b>	<b>31.0</b>	<b>-279.9</b>	<b>-46.7</b>
<b>Total comprehensive income, net of tax</b>		<b>708.8</b>	<b>-94.9</b>	<b>22.3</b>	<b>123.6</b>	<b>319.9</b>	<b>759.8</b>	<b>606.5</b>
Net profit/-loss attributable to:								
Equity holders of the parent		810.1	98.4	-176.2	307.3	288.9	1,039.6	653.2
Total comprehensive income attributable to:								
Equity holders of the parent		708.8	-94.9	22.3	123.6	319.9	759.8	606.5
Earnings per share, basic		0.80	0.10	-0.17	0.30	0.31	1.02	0.70
Earnings per share, diluted		0.80	0.10	-0.17	0.30	0.31	1.02	0.70

# Condensed consolidated statements of financial position

Restated; See more information in Note 12

## Assets

Full year

NOK million	Note	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
<b>Non-current assets</b>								
Goodwill	11	258.2	264.4	277.5	264.1	-	258.2	
Deferred income tax assets	6	42.9	47.6	50.0	47.6	50.1	42.9	50.1
Other intangible assets	7	728.8	838.5	849.0	739.0	691.5	728.8	691.5
Property, plant and equipment	7	3,885.9	3,769.1	3,830.3	3,561.4	2,259.2	3,885.9	2,259.2
Available for sale investments		2.5	4.8	3.3	-	-	2.5	-
<b>Total non-current assets</b>		<b>4,918.3</b>	<b>4,924.4</b>	<b>5,010.2</b>	<b>4,612.0</b>	<b>3,000.7</b>	<b>4,918.3</b>	<b>3,000.7</b>
<b>Current assets</b>								
Inventories	4	227.7	229.6	237.1	231.9	93.5	227.7	93.5
Trade and other receivables		688.8	420.2	446.6	493.5	297.6	688.8	297.6
Cash and cash equivalents		1,508.1	1,099.9	1,638.3	1,602.4	1,644.8	1,508.1	1,644.8
<b>Total current assets</b>		<b>2,424.6</b>	<b>1,749.7</b>	<b>2,322.0</b>	<b>2,327.7</b>	<b>2,035.8</b>	<b>2,424.6</b>	<b>2,035.8</b>
<b>TOTAL ASSETS</b>		<b>7,343.0</b>	<b>6,674.1</b>	<b>7,332.1</b>	<b>6,939.8</b>	<b>5,036.5</b>	<b>7,343.0</b>	<b>5,036.5</b>

## Equity and liabilities

Full year

NOK million	Note	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
<b>Equity</b>								
Share capital	8	252.6	252.6	255.8	255.8	217.5	252.6	217.5
Other reserves	8	1,055.9	1,157.2	1,454.5	1,255.9	275.1	1,055.9	275.1
Retained earnings	8	2,704.8	1,894.7	1,796.3	1,972.4	1,665.2	2,704.8	1,665.2
<b>Total equity</b>		<b>4,013.3</b>	<b>3,304.5</b>	<b>3,506.6</b>	<b>3,484.1</b>	<b>2,157.7</b>	<b>4,013.3</b>	<b>2,157.7</b>
<b>Non-current liabilities</b>								
Interest-bearing liabilities	9	1,324.6	1,341.9	1,379.9	1,337.5	1,377.4	1,324.6	1,377.4
Deferred income tax liabilities	6, 11	781.7	654.4	706.2	665.9	84.0	781.7	84.0
Retirement benefit obligations		2.7	9.0	9.3	8.4	-	2.7	-
Provisions for other liabilities and charges	10	184.5	261.0	292.8	233.5	173.6	184.5	173.6
<b>Total non-current liabilities</b>		<b>2,293.4</b>	<b>2,266.3</b>	<b>2,388.3</b>	<b>2,245.3</b>	<b>1,634.9</b>	<b>2,293.4</b>	<b>1,634.9</b>
<b>Current liabilities</b>								
Trade and other payables		222.6	204.8	164.3	130.7	85.8	222.6	85.8
Income taxes payable	6	41.4	15.4	19.8	83.8	23.6	41.4	23.6
Current interest-bearing liabilities	9	-	160.9	161.3	259.4	265.0	-	265.0
Provisions for other liabilities and charges	10	772.2	722.1	1,092.0	736.5	869.5	772.2	869.5
<b>Total current liabilities</b>		<b>1,036.2</b>	<b>1,103.3</b>	<b>1,437.3</b>	<b>1,210.4</b>	<b>1,243.9</b>	<b>1,036.2</b>	<b>1,243.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,343.0</b>	<b>6,674.1</b>	<b>7,332.1</b>	<b>6,939.8</b>	<b>5,036.5</b>	<b>7,343.0</b>	<b>5,036.5</b>



# Condensed consolidated cash flow statements

Restated; See more information in Note 12

NOK million	Note	Restated				Full year		
		Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
<b>Operating activities</b>								
Profit/-loss before income tax		996.0	98.9	-163.2	390.8	277.3	1,322.5	728.2
<b>Adjustments to add (deduct) non-cash items:</b>								
+/- Net interest expense (-income)		18.9	28.2	27.3	20.0	21.5	94.4	99.1
Previously capitalised exploration and evaluation expenses	5	-	0.1	0.7	-0.2	-2.8	0.6	49.0
Depreciation of PP&E	4	229.6	139.9	106.5	140.4	366.2	616.4	760.9
Impairment loss/Reversal of impairment on PP&E	7	-	-	-	-	-14.4	-	10.1
-Gain/loss on PPE	7	26.7	-	-	-	-	26.7	-
-Gain/loss on shares		-0.3	-	-	-	-	-0.3	-259.5
Impairment/Reversal of impairment of financial assets		-	-	-	-	-	-	0.3
Other *		-47.8	3.9	53.0	260.2	67.9	269.3	68.7
<i>Changes in working capital:</i>								
- Inventories		1.8	7.1	-5.2	-138.4	54.0	-134.7	-8.0
- Trade and other receivables		-268.6	26.4	46.9	-195.9	-83.0	-391.2	-7.3
- Trade and other payables		17.8	40.5	33.6	45.0	-373.0	136.9	-466.5
- Provisions for other liabilities and charges		50.0	-369.8	355.5	-133.0	22.4	-97.3	120.3
Cash generated from operations		1,024.1	-24.8	455.1	388.9	336.1	1,843.3	1,095.3
Income taxes paid		-11.7	-25.1	-71.2	-51.6	-13.6	-159.6	-97.0
Interest paid		-19.8	-26.4	-31.3	-23.4	-26.4	-100.9	-119.1
<b>Net cash from operating activities</b>		<b>992.6</b>	<b>-76.3</b>	<b>352.6</b>	<b>313.9</b>	<b>296.1</b>	<b>1,582.8</b>	<b>879.2</b>
<b>Investing activities</b>								
Acquisition of subsidiary, net of cash	11	-	-	-	-115.5	-	-115.5	-
Purchases of intangible assets	7	-83.6	-38.9	-76.6	-50.6	-70.0	-249.7	-191.8
Purchases of tangible assets	7	-292.8	-257.6	-187.4	-159.8	-92.3	-897.6	-229.5
Proceeds from sale of tangible assets	7	2.3	-	-	-	-	2.3	-
Purchases of available-for-sale financial assets		-	-	-3.9	-	-	-3.9	-13.8
Proceeds from sale of available-for-sale financial assets		1.7	-	-	-	-	1.7	549.6
Interest received		1.0	-1.8	3.9	3.4	4.8	6.5	19.8
<b>Net cash from/-used in investing activities</b>		<b>-371.5</b>	<b>-298.3</b>	<b>-264.0</b>	<b>-322.5</b>	<b>-157.5</b>	<b>-1,256.3</b>	<b>134.2</b>
<b>Financing activities</b>								
Proceeds from borrowings		-	-	-	-	-	-	1,309.1
Repayment of borrowings	9	-172.8	-	-106.5	-	-	-279.3	-1,527.4
Purchase of treasury shares, including options	8	-	-107.1	-	-	-466.0	-107.1	-558.0
Proceeds from sale of treasury shares	8	-	-	-	-	-	-	-
Proceeds from issuance of shares	8	-	-	-	-	-	-	-
<b>Net cash from/-used financing activities</b>		<b>-172.8</b>	<b>-107.1</b>	<b>-106.5</b>	<b>-</b>	<b>-466.0</b>	<b>-386.4</b>	<b>-776.3</b>
<b>Net increase/-decrease in cash and cash equivalents</b>		<b>448.2</b>	<b>-481.7</b>	<b>-17.9</b>	<b>-8.6</b>	<b>-327.4</b>	<b>-60.0</b>	<b>237.1</b>
Cash and cash equivalents at beginning of the period		1,099.9	1,638.3	1,602.4	1,644.8	1,969.4	1,644.8	1,384.7
Exchange gain/-losses on cash and cash equivalents		-40.0	-56.7	53.8	-33.7	2.8	-76.6	23.0
<b>Cash and cash equivalents at end of the period</b>		<b>1,508.1</b>	<b>1,099.9</b>	<b>1,638.3</b>	<b>1,602.4</b>	<b>1,644.8</b>	<b>1,508.1</b>	<b>1,644.8</b>

\* 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 million	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>
Reclassification within equity		-	-10.4	10.4	-
<i>Fair value gains, net of tax:</i>					
- available-for-sale financial assets		-	-86.4	-	-86.4
Currency translation differences		-	39.7	-	39.7
Other comprehensive income/-loss		-	-46.7	-	-46.7
Profit for the period		-	-	653.2	653.2
Total comprehensive income		-	-46.7	653.2	606.5
Issue of share capital		-	-	-	-
Purchase of treasury shares		-20.0	-537.9	-	-557.9
Sale of treasury shares		-	-	-	-
		-20.0	-537.9	-	-557.9
<b>Balance at 31 December 2011</b>	<b>8</b>	<b>217.5</b>	<b>275.1</b>	<b>1,665.2</b>	<b>2,157.7</b>

NOK million	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
<b>Balance at 1 January 2012</b>		<b>217.5</b>	<b>275.1</b>	<b>1,665.2</b>	<b>2,157.7</b>
<i>Fair value gains, net of tax:</i>					
- available-for-sale financial assets		-	-	-	-
Currency translation differences		-	-279.9	-	-279.9
Other comprehensive income/-loss		-	-279.9	-	-279.9
Profit for the period		-	-	1,039.6	1,039.6
Total comprehensive income		-	-279.9	1,039.6	759.8
Issue of share capital		18.4	557.3	-	575.6
Purchase of treasury shares		-3.3	-103.9	-	-107.1
Sale of treasury shares		20.0	607.2	-	627.2
		35.1	1,060.6	-	1,095.7
<b>Balance at 31 December 2012</b>	<b>8</b>	<b>252.6</b>	<b>1,055.9</b>	<b>2,704.8</b>	<b>4,013.3</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 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 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.

A detailed description of the accounting policies applied is included in the DNO 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 will be included in the accounting policies note to the DNO annual financial statements for 2012. 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 subsidiaries from 1 January 2012, DNO is reporting five 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 31 December 2012 NOK million	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
<b>Income statement information</b>										
External sales	3	-	143.4	853.5	437.5	-	-	1,434.3	-	<b>1,434.3</b>
Inter-segment sales		1.2	1.9	5.0	6.5	0.6	-	15.2	-15.2	-
Cost of goods sold	4	-	-93.4	-121.7	-157.4	-	-0.2	-372.7	-0.8	<b>-373.5</b>
<b>Gross profit</b>		<b>1.2</b>	<b>51.8</b>	<b>736.7</b>	<b>286.5</b>	<b>0.6</b>	<b>-0.2</b>	<b>1,076.8</b>	<b>-16.0</b>	<b>1,060.8</b>
<b>Segment operating result</b>		<b>-6.0</b>	<b>34.9</b>	<b>728.0</b>	<b>277.4</b>	<b>-5.8</b>	<b>-29.1</b>	<b>999.5</b>	<b>12.1</b>	<b>1,011.5</b>
Interest - net										<b>-15.9</b>
Gain/-loss on sale of shares										<b>0.3</b>
Income tax expense		-	-27.1	-	-158.8	-	-	-185.9	-	<b>-185.9</b>
<b>Net profit/-loss</b>										<b>810.1</b>
<b>Segment assets</b>		<b>21.0</b>	<b>684.8</b>	<b>2,813.6</b>	<b>1,913.3</b>	<b>491.7</b>	<b>19.3</b>	<b>5,943.8</b>	<b>1,399.2</b>	<b>7,343.0</b>

## Note 2 || Segment information continues

Three months ended 31 December 2011 NOK million	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
<b>Income statement information</b>										
External sales	3	-	134.8	769.7	-	-	-	904.6	-	<b>904.6</b>
Inter-segment sales		-	-0.4	4.4	-	-	-0.1	3.9	-3.9	-
Cost of goods sold	4	-	-81.7	-456.4	-	-	-0.7	-538.7	-0.3	<b>-539.0</b>
<b>Gross profit</b>		-	<b>52.7</b>	<b>317.8</b>	-	-	<b>-0.8</b>	<b>369.7</b>	<b>-4.2</b>	<b>365.6</b>
<b>Segment operating result</b>		-	<b>75.3</b>	<b>291.9</b>	-	-	<b>-11.3</b>	<b>355.9</b>	<b>-56.3</b>	<b>299.6</b>
Interest - net										<b>-22.3</b>
Gain/-loss on sale of shares										-
Income tax expense		-	11.6	-	-	-	-	11.6	-	<b>11.6</b>
<b>Net profit/-loss</b>										<b>288.9</b>
<b>Segment assets</b>		-	<b>683.3</b>	<b>2,715.1</b>	-	-	<b>54.4</b>	<b>3,452.8</b>	<b>1,583.7</b>	<b>5,036.5</b>
<b>Twelve months ended 31 December 2012 NOK million</b>										
<b>Income statement information</b>										
External sales	3	-	555.1	1,562.5	724.3	-	-	2,841.8	-	<b>2,841.8</b>
Inter-segment sales		3.8	9.6	21.5	18.9	2.1	-	55.9	-55.9	-
Cost of goods sold	4	-	-319.2	-491.8	-398.5	-	-0.7	-1,210.1	-2.5	<b>-1,212.7</b>
<b>Gross profit</b>		<b>3.8</b>	<b>245.5</b>	<b>1,092.2</b>	<b>344.6</b>	<b>2.1</b>	<b>-0.7</b>	<b>1,687.6</b>	<b>-58.5</b>	<b>1,629.2</b>
<b>Segment operating result</b>		<b>-34.7</b>	<b>201.9</b>	<b>1,061.6</b>	<b>324.9</b>	<b>-5.0</b>	<b>-40.0</b>	<b>1,508.6</b>	<b>-95.6</b>	<b>1,412.9</b>
Interest - net										<b>-90.8</b>
Gain/(loss) on sale of shares										<b>0.3</b>
Income tax expense		-	-94.9	-	-188.0	-	-	-282.8	-	<b>-282.8</b>
<b>Net profit/-loss</b>										<b>1,039.6</b>
<b>Segment assets</b>		<b>21.0</b>	<b>684.8</b>	<b>2,813.6</b>	<b>1,913.3</b>	<b>491.7</b>	<b>19.3</b>	<b>5,943.8</b>	<b>1,399.2</b>	<b>7,343.0</b>
<b>Twelve months ended 31 December 2011 NOK million</b>										
<b>Income statement information</b>										
External sales	3	-	637.7	1,432.5	-	-	-	2,070.2	-	<b>2,070.2</b>
Inter-segment sales		-	9.7	17.6	-	-	1.8	29.0	-29.0	-
Cost of goods sold	4	-	-345.4	-692.3	-	-	-0.8	-1,038.5	-1.0	<b>-1,039.5</b>
Expensing of capitalized 2009 production costs		-	-	-126.2	-	-	-	-126.2	-	<b>-126.2</b>
<b>Gross profit</b>		-	<b>301.9</b>	<b>631.6</b>	-	-	<b>1.0</b>	<b>934.5</b>	<b>-30.10</b>	<b>904.5</b>
<b>Segment operating result</b>		-	<b>277.6</b>	<b>570.1</b>	-	-	<b>-95.0</b>	<b>752.7</b>	<b>-80.2</b>	<b>672.5</b>
Interest - net										<b>-203.7</b>
Gain/-loss on sale of shares										<b>259.4</b>
Income tax expense		-	-74.9	-	-	-	-	-74.9	-	<b>-74.9</b>
<b>Net profit/-loss</b>										<b>653.2</b>
<b>Segment assets</b>		-	<b>683.3</b>	<b>2,715.1</b>	-	-	<b>54.4</b>	<b>3,452.8</b>	<b>1,583.7</b>	<b>5,036.5</b>

## Note 3 || Sales

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

Full year

NOK million	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Sale of petroleum products	1,434.3	540.6	155.4	711.5	904.6	2,841.8	2,070.2
<b>Total sales</b>	<b>1,434.3</b>	<b>540.6</b>	<b>155.4</b>	<b>711.5</b>	<b>904.6</b>	<b>2,841.8</b>	<b>2,070.2</b>

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 is produced in Block 8 is 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 Kurdistan region of Iraq was performed. Under International Financial Reporting Standards (IFRS) rules, the full impact of this reconciliation of accounts since 2007 was taken in the second quarter. See Q2 report for further details.

DNO received a partial payment of NOK 651 million (USD 116 million) in December related to the Tawke export production. According to DNO's accounting policies on revenue recognition, this amount has been recorded as revenue in Q4.

## Note 4 || Cost of goods sold/inventory

Restated

Full year

NOK million	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Lifting costs *	-144.4	-206.2	-125.9	-119.9	-172.7	-596.4	-404.9
Depreciation, depletion and amortization	-229.2	-140.3	-106.5	-140.4	-366.2	-616.3	-760.9
<b>Total cost of goods sold</b>	<b>-373.5</b>	<b>-346.5</b>	<b>-232.3</b>	<b>-260.3</b>	<b>-539.0</b>	<b>-1,212.7</b>	<b>-1,165.7</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.

The expensed DD&A for the Tawke field in the Kurdistan region of Iraq in all quarters of 2011 has been adjusted for comparison reasons. See Note 12 for more details.

Full year

NOK million	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Spare parts	116.5	97.2	90.9	82.5	93.5	116.5	93.5
Other inventory	111.2	132.4	146.2	149.4	-	111.2	-
<b>Total inventory</b>	<b>227.7</b>	<b>229.6</b>	<b>237.1</b>	<b>231.9</b>	<b>93.5</b>	<b>227.7</b>	<b>93.5</b>

Other inventory of NOK 111.2 million relates to drilling and completion materials for the offshore blocks in Oman and UAE.

## Note 5 || Exploration cost

Full year

NOK million	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Exploration expenses (G&G and field surveys)	-10.7	-11.5	-14.3	-13.8	-8.9	-50.4	-46.9
Seismic costs	-2.2	-12.2	-3.3	-0.5	-	-18.3	0.3
Exploration costs capitalised in previous years carried to cost	-	-	-	0.4	0.1	0.4	-2.0
Exploration costs capitalised this year carried to cost	-	-0.1	-0.7	-0.2	2.7	-1.0	-47.1
Other exploration cost expensed	-6.5	-1.2	-0.6	-0.4	-1.5	-8.7	-7.4
<b>Total exploration cost expensed *</b>	<b>-19.5</b>	<b>-25.0</b>	<b>-19.0</b>	<b>-14.5</b>	<b>-7.6</b>	<b>-78.0</b>	<b>-103.1</b>

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

## Note 6 || Income taxes

NOK million	Full year						
	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Deferred taxes	-148.2	20.3	-5.8	-20.9	36.9	-154.6	31.8
Income taxes payable related to Production Sharing Agreements (PSAs)	-37.7	-20.8	-7.2	-62.6	-25.3	-128.3	-106.7
<b>Total income tax expense</b>	<b>-185.9</b>	<b>-0.4</b>	<b>-13.0</b>	<b>-83.5</b>	<b>11.6</b>	<b>-282.8</b>	<b>-74.9</b>

Income taxes payable amounting to NOK 41.4 million relates entirely to the company tax element in our Production Sharing Agreements in Yemen and Oman. The taxes payable will be settled in kind.

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. No tax is applicable to the operations in Kurdistan as there is currently no established tax regime.

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 2012, the deferred tax would amount to approximately NOK 638 million (USD 114 million).

There is an ongoing process to apply to the Norwegian Ministry of Finance for tax credit treatment for the results of operations in Oman and the UAE. For 2013 and forward, the credit method will be eliminated due to changes in legislation as profits from oil activities in these countries are no longer taxable to Norway.

## Note 7 || Property, plant and equipment/intangible assets

NOK million	Full year						
	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
Acquisitions of PP&E *	292.8	257.6	187.4	159.8	92.3	897.6	229.5
Acquisitions of intangible assets **	84.4	38.1	76.6	50.6	70.0	249.7	191.8
Acquisitions through business combinations ***	-	-	-	1,508.6	-	1,508.6	-
<b>Net book amount PP&amp;E</b>	<b>3,885.9</b>	<b>3,769.1</b>	<b>3,830.3</b>	<b>3,561.4</b>	<b>2,259.2</b>	<b>3,885.9</b>	<b>2,259.2</b>
<b>Net book amount intangible assets</b>	<b>728.8</b>	<b>838.5</b>	<b>849.0</b>	<b>739.0</b>	<b>691.5</b>	<b>728.8</b>	<b>691.5</b>
<i>Sale of PP&amp;E</i>							
Proceeds	2.0	-	-	-	-	2.0	-
Carrying value	28.7	-	-	-	-	28.7	-
Net gain/-loss	-26.7	-	-	-	-	-26.7	-
Impairment/reversal of impairment of PP&E	-	-	-	-	-14.4	-	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 11 for more information on the merger.

Sale of PP&E is related to the sale of the 5% license interest in Block P in Equatorial Guinea. See Note 15 for more information.

## Note 8 || Equity

### Share capital

NOK million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
<b>At 1 January 2011</b>	<b>949,857</b>	<b>237.5</b>	<b>-</b>	<b>237.5</b>
Share option scheme:				
- value of services provided	-	-	-	-
- proceeds from shares issued	-	-	-	-
Treasury shares purchased/sold	-	-	-20.0	-20.0
Share issues	-	-	-	-
<b>At 31 December 2011</b>	<b>949,857</b>	<b>237.5</b>	<b>-20.0</b>	<b>217.5</b>
<b>At 1 January 2012</b>	<b>949,857</b>	<b>237.5</b>	<b>-20.0</b>	<b>217.5</b>
Share option scheme:				
- value of services provided	-	-	-	-
- proceeds from shares issued	-	-	-	-
Treasury shares purchased/sold	-	-	16.7	16.7
Share issues	73,422	18.4	-	18.4
<b>At 31 December 2012</b>	<b>1,023,279</b>	<b>255.8</b>	<b>-3.3</b>	<b>252.6</b>

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. All issued shares are fully paid.

For more information about the merger, see Note 11 Business combinations.

### Other reserves

NOK million	Share premium	Other paid-in capital	Available-for- sale investm.	Other reserves	Translation	Total
<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	-	-	-86.4	-	-	-86.4
<i>Treasury shares:</i>						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-537.9	-	-537.9
Other paid in capital	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
<i>Currency translation differences:</i>						
- Group	-	-	-	-	39.7	39.7
<b>Balance at 31 December 2011</b>	<b>369.8</b>	<b>347.4</b>	<b>-</b>	<b>-324.7</b>	<b>-117.3</b>	<b>275.1</b>
<b>Balance at 1 January 2012</b>	<b>369.8</b>	<b>347.4</b>	<b>-</b>	<b>-324.7</b>	<b>-117.3</b>	<b>275.1</b>
Revaluation, net of tax	-	-	-	-	-	-
<i>Treasury shares:</i>						
- Sale of treasury shares	-	-	-	607.2	-	607.2
- Purchase of treasury shares	-	-	-	-103.9	-	-103.9
Other paid in capital	-	-	-	-	-	-
Issue of share capital	557.2	-	-	-	-	557.2
<i>Currency translation differences:</i>						
- Group	-	-	-	-	-279.9	-279.9
<b>Balance at 31 December 2012</b>	<b>927.0</b>	<b>347.4</b>	<b>-</b>	<b>178.6</b>	<b>-397.2</b>	<b>1,055.9</b>

## Note 8 || Equity continued

### Retained earnings

NOK million

<b>Balance at 1 January 2011</b>	<b>1,001.6</b>
Profit for the period	653.2
Dividend	-
Reclassified from other reserves	10.4
<b>Balance at 31 December 2011</b>	<b>1,665.2</b>
<b>Balance at 1 January 2012</b>	<b>1,665.2</b>
Profit for the period	1,039.6
Dividend	-
Reclassified from other reserves	-
<b>Balance at 31 December 2012</b>	<b>2,704.8</b>

## Note 9 || Interest-bearing liabilities

Full year

NOK million	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
<b>Non-current</b>	-	-	-	-	-	-	-
Bonds	1,324.6	1,341.9	1,379.9	1,337.5	1,377.4	1,324.6	1,377.4
<b>Total non-current interest-bearing liabilities</b>	<b>1,324.6</b>	<b>1,341.9</b>	<b>1,379.9</b>	<b>1,337.5</b>	<b>1,377.4</b>	<b>1,324.6</b>	<b>1,377.4</b>
<b>Current</b>	-	160.9	161.3	259.4	265.0	-	265.0
Current portion of bonds	-	-	-	-	-	-	-
<b>Total current interest-bearing liabilities</b>	<b>-</b>	<b>160.9</b>	<b>161.3</b>	<b>259.4</b>	<b>265.0</b>	<b>-</b>	<b>265.0</b>
<b>Total interest-bearing liabilities</b>	<b>1,324.6</b>	<b>1,502.8</b>	<b>1,541.2</b>	<b>1,596.9</b>	<b>1,642.4</b>	<b>1,324.6</b>	<b>1,642.4</b>

Balance

NOK million	Currency	Amount	Interest	Maturity	Q4 2012	Q3 2012
<b>Non-current</b>						
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	779.3	797.9
<b>Current</b>						
Bond loan (ISIN NO0010283732)	USD	48.0	Fixed 7,215%	12/10/2012	-	48.0
Bond loan (ISIN NO0010283724)	NOK	105.5	Nibor + 3,5%	12/10/2012	-	105.5
Bond loan (ISIN NO0010478019)	NOK	1.3	Fixed 6,445%	12/10/2012	-	7.4
Borrowing issue costs					-14.7	-16.0
<b>Total interest-bearing liabilities</b>					<b>1,324.6</b>	<b>1,502.8</b>

Bond loans of NOK 48 million, NOK 105.5 million and USD 1.3 million were settled in October.



## Note 10 || Provisions for other liabilities and charges

Full year

NOK million	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	2012	2011
<b>Non-current</b>							
Asset retirement obligations	17.8	17.7	18.1	16.7	17.1	17.8	17.1
Other long-term obligations	166.7	243.3	274.7	216.8	156.5	166.7	156.5
<b>Total non-current provisions for other liabilities and charges</b>	<b>184.5</b>	<b>261.0</b>	<b>292.8</b>	<b>233.5</b>	<b>173.6</b>	<b>184.5</b>	<b>173.6</b>
<b>Current</b>							
Other provisions and charges	772.2	722.1	1,092.0	736.5	869.5	772.2	869.5
<b>Total current provisions for other liabilities and charges</b>	<b>772.2</b>	<b>722.1</b>	<b>1,092.0</b>	<b>736.5</b>	<b>869.5</b>	<b>772.2</b>	<b>869.5</b>
<b>Total provisions for other liabilities and charges</b>	<b>956.6</b>	<b>983.1</b>	<b>1,384.7</b>	<b>970.0</b>	<b>1,043.1</b>	<b>956.6</b>	<b>1,043.1</b>

NOK million	Asset retirem. oblig.	Other non-current	Other current	Total
<b>Balance at 31 December 2011</b>	<b>17.1</b>	<b>156.5</b>	<b>869.5</b>	<b>1,043.1</b>
<i>Charged to consolidated statement of comprehensive income:</i>				
- Additional provisions	1.4	118.2	50.0	169.7
- Unused amounts reversed or reclassified	-0.7	-108.1	-147.4	-256.2
<b>Balance at 31 December 2012</b>	<b>17.8</b>	<b>166.7</b>	<b>772.2</b>	<b>956.6</b>

Included in provision 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 a payment mechanism is in place and proceeds from export sale are received on a regular basis. 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 as interest costs. Most of the WPP liability has been classified as short-term at 31 December 2012 and included in other provisions and charges (current).

## Note 11 || 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. A range for value in assets and the DNO share was agreed, where the value of the RAK assets was set to USD 250 million and the share price of DNO to NOK 9.50.

The merger between DNO and RAK Petroleum MENA operating subsidiaries was approved by DNO's shareholders at the extraordinary general meeting on 1 November 2011. 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 updated the 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). The 12 months period following the acquisition has now ended and DNO has not identified any circumstances that indicate that the preliminary purchase price allocation should be amended. The PPA below is therefore considered to be final. The identified excess value in the transaction is mainly related to the producing assets in Oman. No goodwill has been identified in the transaction other than technical goodwill as a result of a deferred tax liability on excess values. There are no changes to the preliminary purchase price allocation made.

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

## Note 12 || Restatement of quarterly interim figures

As reported in last years financial statements, the expensed DD&A for the Tawke field in Kurdistan region of Iraq in all quarters of 2011 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 done at year-end 2011.

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

NOK million	Q4 2011		
	Q4 2011	Restated	Difference
Cost of goods sold	-624.8	-539.0	85.8
<b>Gross profit</b>	<b>279.8</b>	<b>365.6</b>	<b>85.8</b>
<b>Profit/-loss from operating activities</b>	<b>210.8</b>	<b>296.6</b>	<b>85.8</b>
<b>Profit/-loss before income tax</b>	<b>191.5</b>	<b>277.3</b>	<b>85.8</b>
<b>Net profit/-loss</b>	<b>203.1</b>	<b>288.9</b>	<b>85.8</b>

## Note 13 || 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 11 Business combinations.

## Note 14 || Impairment assessments

DNO has performed impairment assessments for its assets at year-end 2012, according to IAS 36 Impairment of Assets. IAS 36.9 requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If such indication exists, the recoverable amount shall be estimated.

Oil and gas assets have been assessed for impairment as of 31 December 2012. Booked values of the assets have been compared to use values calculated as the net present value (before tax) of the assets. DNO has defined field level as the lowest level where separate cash flows can be identified. Field level is thereby the aggregation level for depreciation purposes, and also when assessing impairment. Net present value per field is calculated by discounting the future cash flows and comparing them to booked value. The following assumptions have been used in calculating net present value; the oil price is based on the forward curve as of 31 December 2012 adjusted for any discounts in oil quality applicable to each field. The discount rate used for impairment purposes is based on DNO's WACC (Weighted Average Cost of Capital) for each segment. No impairment is considered necessary for the exploration, development or producing blocks in Yemen, Kurdistan, Oman or UAE.

## Note 15 || Contingencies and events after the balance sheet date

### **Executive changes**

On 28 December, Helge Eide announced that he would step down as Managing Director in DNO, effective from 31 December 2012. DNO has instituted a search for a replacement and in the interim has named Bjørn Dale, its General Counsel, to the additional position of Acting Managing Director.

Under Eide's termination agreement, he will continue to advise the Company on strategy and business development. His agreement with respect to three years salary at termination of work is carried on in his new consultancy agreement and has consequently no effect on the 2012 accounts.

### **Sale of license interest in Equatorial Guinea**

DNO finalized the sale of its five percent license interest in Block P in Equatorial Guinea to Crown Energy in the fourth quarter of 2012. A total of NOK 26.7 million has been charged to expense following the sale of the asset. There are several contingent payments in the sales agreement, however they are considered not be virtually certain at the time of reporting and have therefore not been recognized.

### **Ongoing drilling operations**

#### **Kurdistan**

The Tawke-17 ("Tawke Deep") well was spudded late August and is currently drilling ahead in the top of the Triassic interval. The objectives of the well is both to test the deeper prospective resource potential of Jurassic and Triassic intervals and to add further production capacity from the Cretaceous interval. The testing of the well is expected to commence during the first quarter of 2013.







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