

DNO INTERNATIONAL ASA **SECOND QUARTER 2008**





# AGENDA

## SUMMARY AND KEY EVENTS

- Helge Eide, President and MD

## OPERATIONAL REVIEW

- Ivar Brandvold, COO

## FINANCIAL REVIEW

- Haakon Sandborg, CFO

## Q&A



## HIGHLIGHTS IN Q2 AND YEAR TO DATE

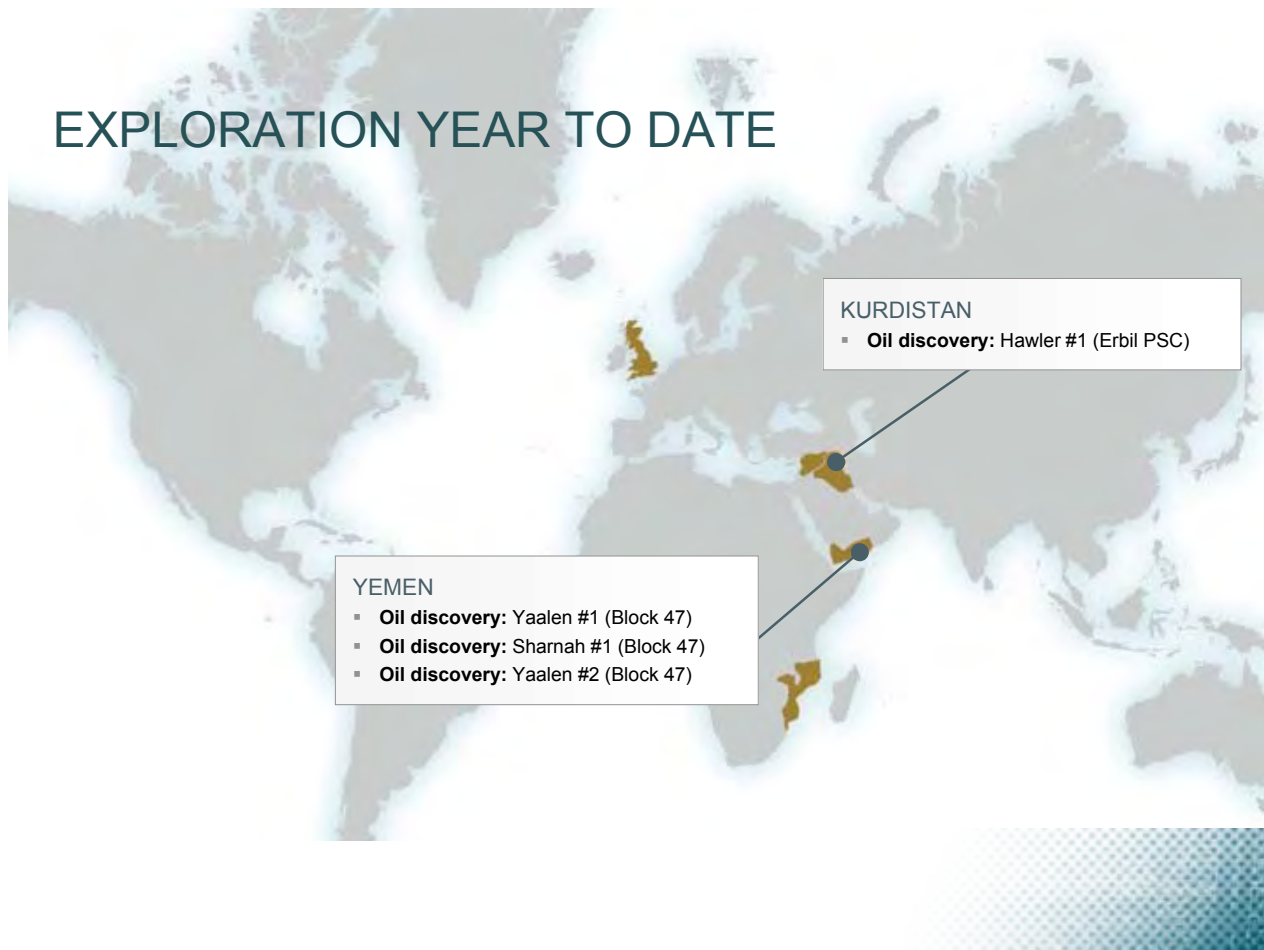
### **INCREASED PRODUCTION AND STRONG CASH FLOW**

- Q2 Working interest production increased 70 percent Y/Y
- Q2 Revenues of NOK 412.5 million, up 30 percent from Q2'07
- Year to date netback of NOK 416.9 million, up 18 percent Y/Y

### **HIGH EXPLORATION ACTIVITY**

- One new discovery in the Q2'08, four discoveries YTD
- Expensed exploration of NOK 85.9 million in Q2'08, and NOK 120.1 million YTD

## EXPLORATION YEAR TO DATE





## DEVELOPMENT YEAR TO DATE

### KURDISTAN

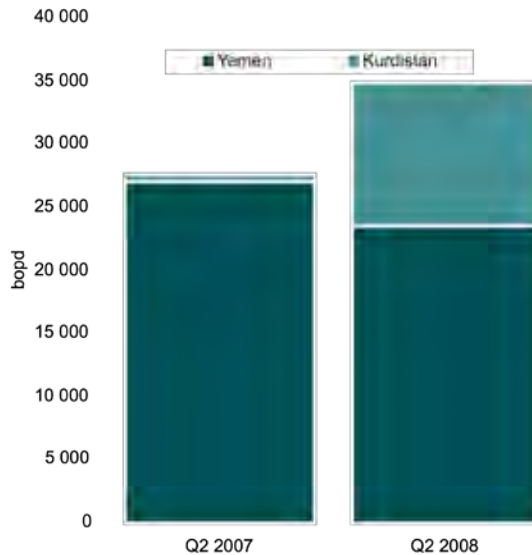
- **Infill, appraisal and development:** Tawke Field
- **Appraisal:** Hawler discovery (Erbil PSC)

### YEMEN

- **Appraisal:** Bayoot (Block 53)
- **Initiated development:** Bayoot (Block 53)
- **Infill drilling:** Sharyoof (Block 53), Godah (Block 32), Nabrajah (Block 43)

## Q2 2008: GROSS PRODUCTION

### GROSS PRODUCTION

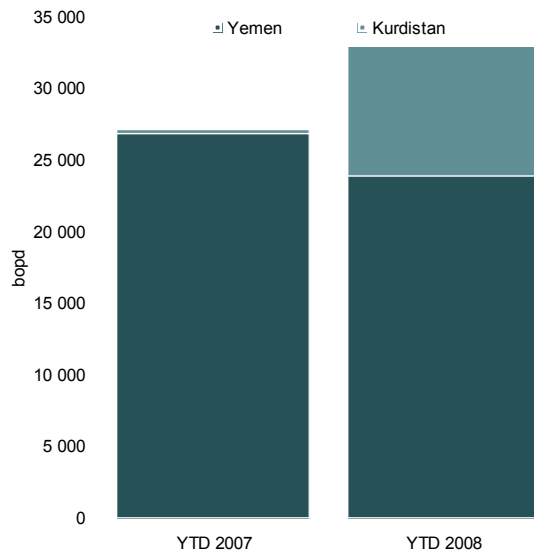


### PRODUCTION AHEAD OF PLAN

- Total gross production Q2 2008 from producing assets was 34 777 bopd
- 20 percent ahead of plan
- 27 percent up from Q2 2007

## YTD 2008: GROSS PRODUCTION

### GROSS PRODUCTION



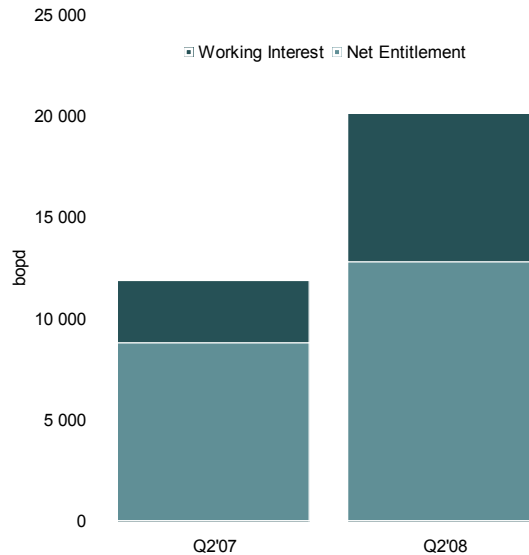
### PRODUCTION AHEAD OF PLAN

- Total gross production YTD 2008 from producing assets was 33 000 bopd
- 12 percent ahead of plan
- 22 percent up from YTD 2007



## Q2 2008: PRODUCTION TO DNO

### WI AND NE PRODUCTION



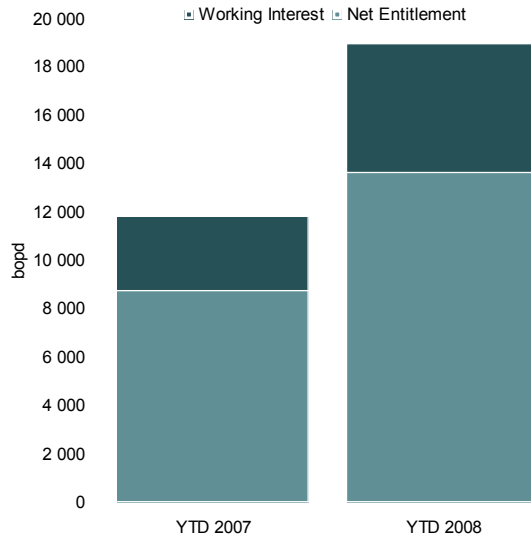
### STRONG GROWTH

- Q2'08 WI production up 70 percent Y/Y
- Q2'08 NE production up 45 percent Y/Y
- Average realized oil price (NE) Q2'08 was 71.46 USD/bbl (68.90 USD /bbl)



## YTD 2008: PRODUCTION TO DNO

### WI AND NE PRODUCTION



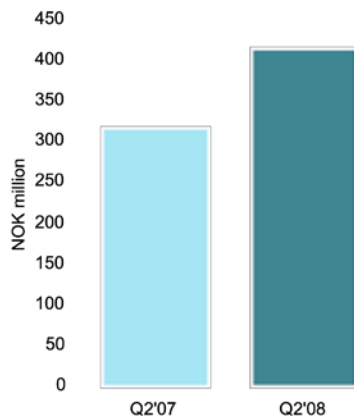
### WELL AHEAD OF GUIDANCE

- YTD'08 WI production up 60 percent
- YTD'08 NE production up 56 percent
- Average realized oil price (NE) YTD'08 was 66.40 USD/bbl (61.98 USD/bbl)

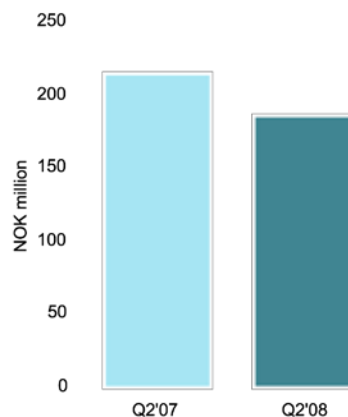


## Q2 2008: KEY FINANCIALS

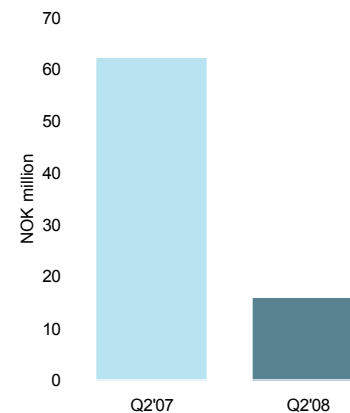
### SALES



### NETBACK



### NET PROFIT\*



### GROWTH IN SALES

- Sales increased by NOK 95.9 million to NOK 412.5 million
- Netback decreased by NOK 29.1 million to NOK 185.4 million

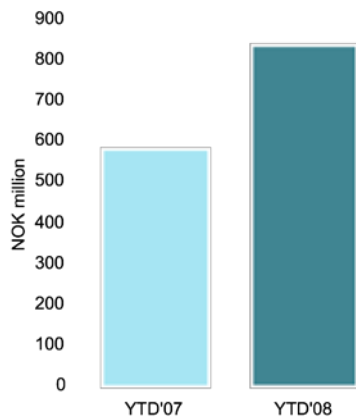
### HIGHER EXPLORATION

- Expensed exploration increased by NOK 75.5 million to NOK 85.9 million

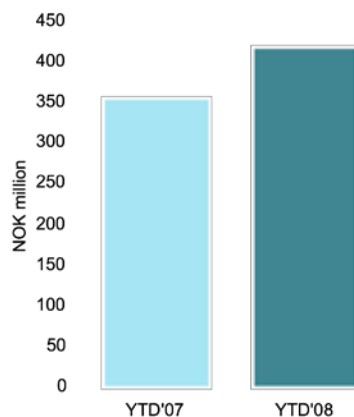
\*Net profit before discontinued operations

## YTD 2008: KEY FINANCIALS

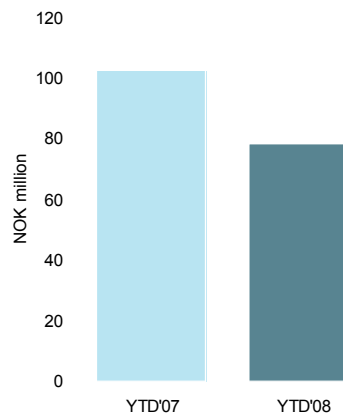
### SALES



### NETBACK



### NET PROFIT\*



### GROWTH IN SALES AND CASH FLOW

- Sales increased by NOK 254.5 million to NOK 834 million
- Netback increased by NOK 62.5 million to NOK 417 million

### HIGHER EXPLORATION

- Expensed exploration increased by NOK 46.6 million to NOK 120.1 million

\*Net profit before discontinued operations

# TAWKE STATUS

## DEVELOPMENT

- Phase I completed
- Facility capacity 50 000 bopd
- 12 oil producers with initial gross capacity in excess of 100 000 bopd

## EXPORT

- KRG is progressing work with respect to grant export approval for Tawke oil production in line with DNO's application and plans
- This implies evaluating the technical tie-in solutions proposed by DNO, metering of export volumes, specification of the crude for export and sales arrangements

## PRODUCTION

- The KRG has temporarily put on hold all the production, including DNO's test production, for delivery to the local market in the Kurdistan (ref. Stock Exchange Notice of 18 August 2008)
- The oil production is expected to resume by late August/early September
- The period during no test production provides a unique opportunity to acquire updated static pressure information across the field, and DNO has initiated a data acquisition program for such purpose



# OUTLOOK

## EXPLORATION

- New discoveries YTD will add new reserves
- Additional potential from remaining exploration program

## PRODUCTION

- 2008 production higher than guidance
- Step change in production with export of oil from Tawke

## FINANCIALS

- Substantial increase in cash flow with export from Tawke
- Strong foundation for increased financial capacity and flexibility





# Q2 2008: OPERATIONAL REVIEW

**IVAR BRANDVOLD**  
CHIEF OPERATING OFFICER

# HIGH OPERATIONAL ACTIVITY

## OPERATIONAL ACHIEVEMENTS

- Increased oil production from Tawke in Q2 2008
- Production in Yemen above expectations due to successful infill drilling

## HIGH EXPLORATION ACTIVITY

- One new discovery in Q2 2008 and four YTD
- Four seismic surveys in the quarter; two completed and two initiated

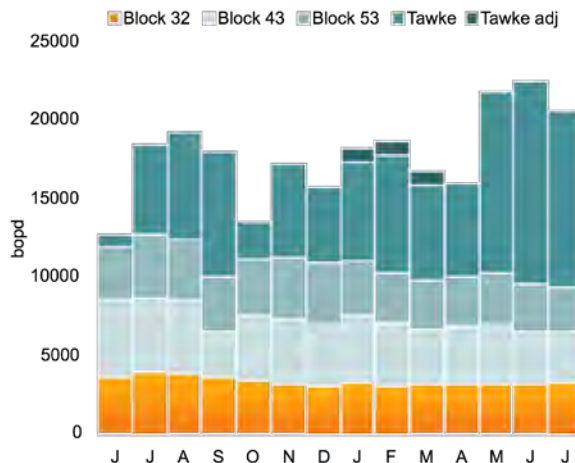
## CONTINUED HIGH DEVELOPMENT ACTIVITY

- Initiated development of permanent production facilities on Bayoot
- Phase I completed on Tawke, and Phase II in progress

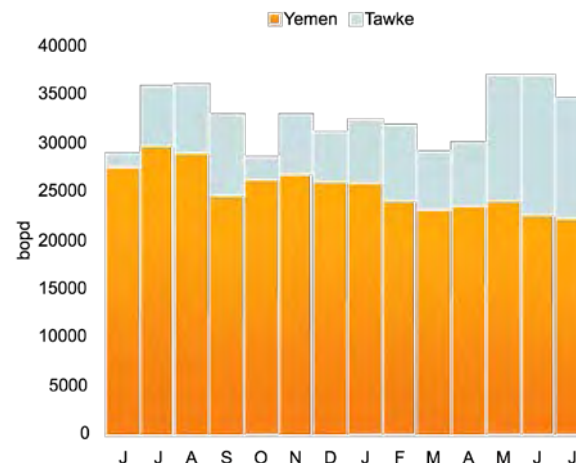


# PRODUCTION UPDATE

DAILY PRODUCTION (PER MONTH)\*



GROSS DAILY PRODUCTION (PER MONTH)



DNO Q2 2008 WI PRODUCTION

|                | Actual      | Guided      |
|----------------|-------------|-------------|
| • Yemen:       | 9,924 bopd  | 9,500 bopd  |
| • Kurdistan:** | 10,228 bopd | 6,000 bopd  |
| • Total:       | 20,151 bopd | 15,500 bopd |

\* Working interest production net to DNO

\*\* Volume Q1 corrected with 82 558 bbls additional entitlement production until 12 March 2008; 907 bopd

# YEMEN: UPDATE

## BL 53

### Projects

- **Bayoot area:** Field development project initiated – permanent production facilities

### Exploration/Drilling

- **Sharyoof #29** completed 12 May, to be re-completed as water injector
- **Sharyoof #30** completed 10 June, initial gross rate of 600-700 bopd
- **Bayoot #6** spudded 17 June

## BL 32

### Exploration/Drilling

- **Godah #9** completed 15 April, initial gross rate of 340 bopd
- **Tasour #17S** spudded 2 August

## BL 43

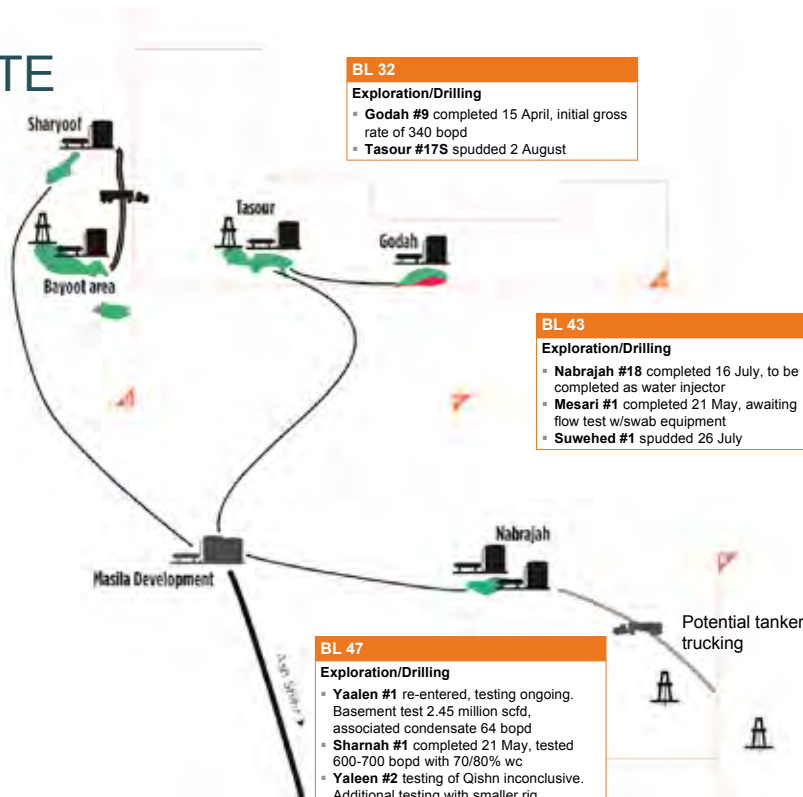
### Exploration/Drilling

- **Nabrajah #18** completed 16 July, to be re-completed as water injector
- **Mesari #1** completed 21 May, awaiting flow test w/swab equipment
- **Suwehed #1** spudded 26 July

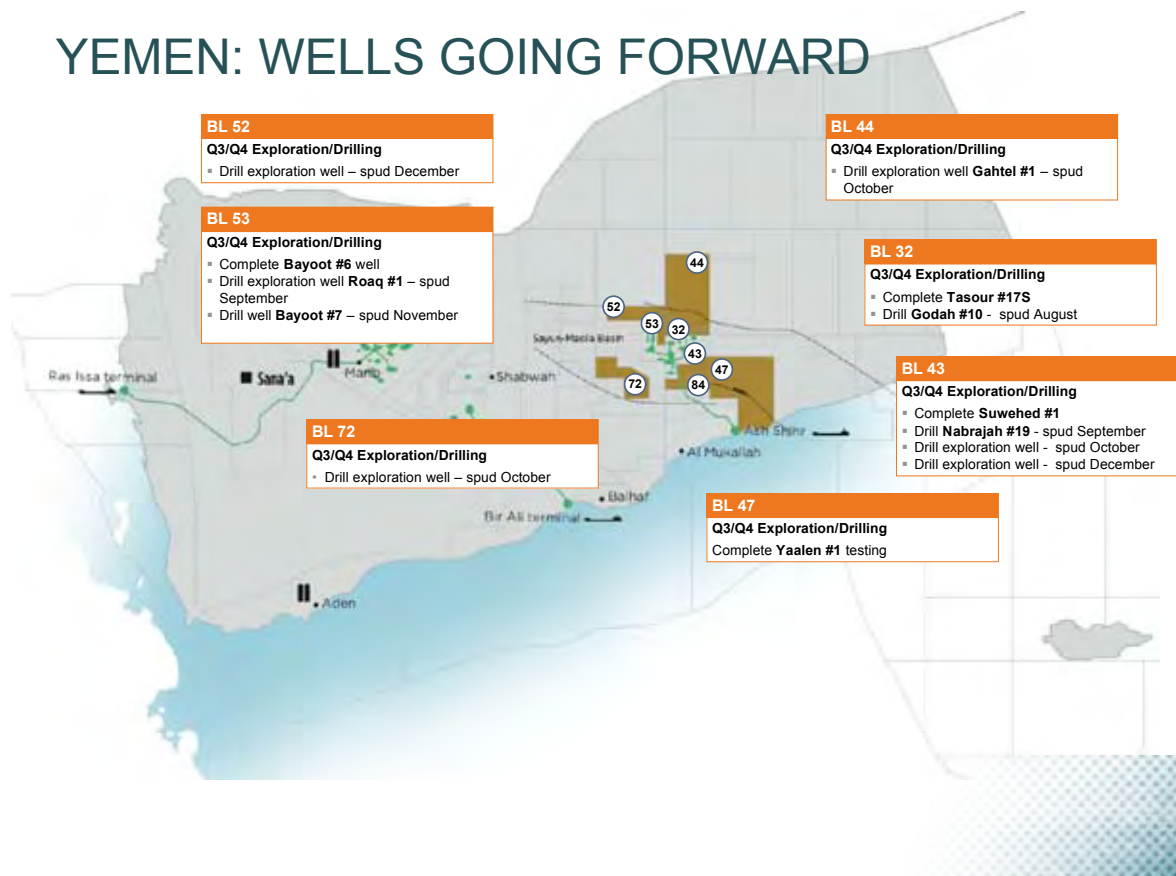
## BL 47

### Exploration/Drilling

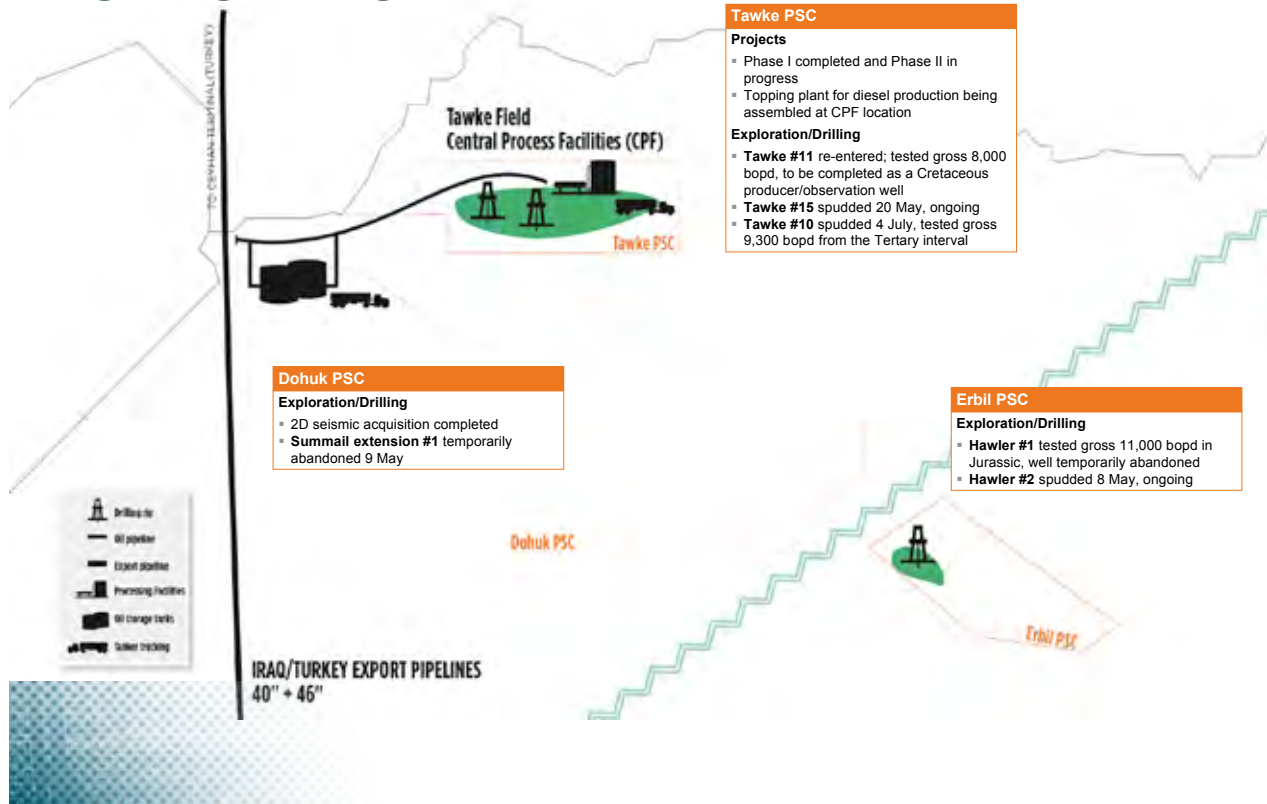
- **Yaalen #1** re-entered, testing ongoing. Basement test 2.45 million scfd, associated condensate 64 bopd
- **Sharnah #1** completed 21 May, tested 600-700 bopd with 70/80% wc
- **Yaleen #2** testing of Qishn inconclusive. Additional testing with smaller rig.
- Seismic acquisition ongoing



# YEMEN: WELLS GOING FORWARD



# KURDISTAN: UPDATE





# TAWKE: PROJECT DEVELOPMENT

## PHASE I COMPLETED

- Phase I completed to the extent possible for production and export (CPF, pipeline and metering station)
- Physical tie-in will be completed when approval for export from KRG has been granted

## PHASE II IN PROGRESS

- Additional construction work required on tanks and foundations
- Two months delay expected, with pre-commissioning completed by year-end

## DIESEL TOPPING PLANT

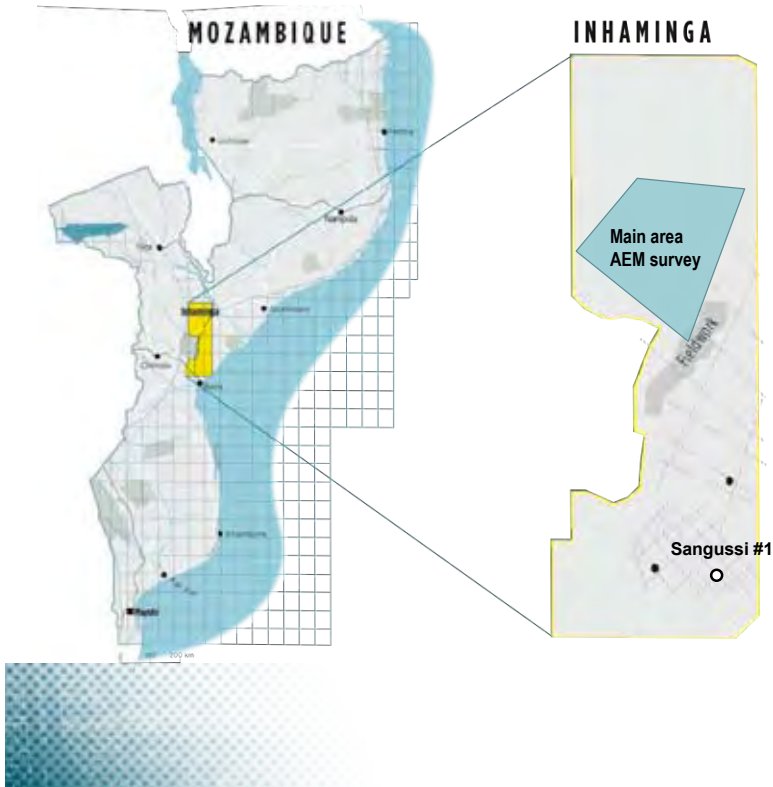
- Scheduled start-up delayed due to remedial work
- Construction work ongoing; start-up and final commissioning in Q4'08

## INCREASED CAPEX

- Increased flexibility enabling several crude delivery solutions
- Additional work due to change of contractor



## MOZAMBIQUE: UPDATE



### EXPLORATION STATUS

- Sangussi-1 well spudded in July - the well is currently being further deepened
- AEM Acquisition program in final acquisition phase
- Fieldwork is ongoing to evaluate further prospectivity within the large license

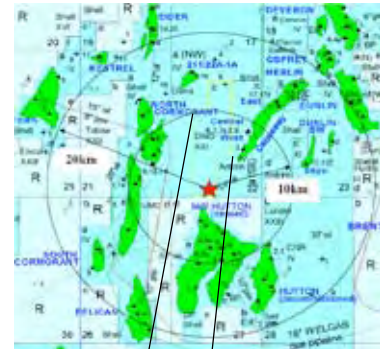
## UK: PROJECT STATUS

### PL 1067 ON UKCS

- DNO is Operator
- Completed re-evaluation of well 211/22-2 discovery
- P50 resources:
  - Gross: 17 million boe
  - Net to DNO: 8,5 million boe

### GOING FORWARD

- Mature the discovery including a possible appraisal well
- Potential future tie-in to neighboring infrastructure



# FINANCIAL REVIEW



**HAAKON SANDBORG**  
CHIEF FINANCIAL OFFICER

## FINANCIAL SUMMARY



Photo: Field work in Mozambique

### MAINTAINING STRONG CASH FLOW

- Strong production providing netback of NOK 185 million in Q2'08
- Expensed NOK 86 million exploration investments, aimed at expanding portfolio of discoveries, prospects and leads
- Adopted new PSC-terms in Tawke-license, shift in DNO net entitlement
- Lower costs of goods sold; lifting cost of USD 6.59 per barrel



## Q2 2008: FINANCIAL HIGHLIGHTS

|                      | Q2 2008 | Q2 2007 | Change |
|----------------------|---------|---------|--------|
| Operating revenues   | 412.5   | 316.6   | +30.3% |
| Exploration expensed | 85.9    | 10.4    | +726%  |
| EBITDAX              | 328.7   | 259.2   | +26.8% |
| EBITDA               | 242.8   | 248.8   | -2.4%  |
| Netback              | 185.4   | 214.5   | -13.6% |



## YTD 2008: FINANCIAL HIGHLIGHTS



|                      | YTD 2008 | YTD 2007 | Change  |
|----------------------|----------|----------|---------|
| Operating revenues   | 834.4    | 579.9    | + 43.9% |
| Exploration expensed | 120.1    | 73.5     | +63.4%  |
| EBITDAX              | 653.7    | 481.0    | +35.9%  |
| EBITDA               | 533.6    | 407.5    | + 30.9% |
| Netback              | 416.9    | 354.4    | + 17.6% |

## KEY FIGURES

|                                     | THREE MONTHS ENDING |          |          | SIX MONTHS ENDING |          |
|-------------------------------------|---------------------|----------|----------|-------------------|----------|
| Barrels of oil and oil equivalents  | 30.06.08            | 31.03.08 | 30.06.07 | 30.06.08          | 30.06.07 |
| Working interest production per day | <b>20,151</b>       | 17,752   | 11,855   | <b>18,952</b>     | 11,839   |
| Net entitlement production per day  | <b>12,809</b>       | 14,404   | 8,790    | <b>13,607</b>     | 8,718    |

| NOK Million                      | 30.06.08     | 31.03.08 | 30.06.07 | 30.06.08     | 30.06.07 |
|----------------------------------|--------------|----------|----------|--------------|----------|
| EBITDA                           | <b>242.8</b> | 290.8    | 248.8    | <b>533.6</b> | 407.5    |
| Netback                          | <b>185.4</b> | 231.5    | 214.5    | <b>416.9</b> | 354.4    |
| Acquisition and development cost | <b>344.6</b> | 238.2    | 288.1    | <b>582.8</b> | 559.2    |
| Exploration cost expensed        | <b>85.9</b>  | 34.2     | 10.4     | <b>120.1</b> | 73.5     |

| USD/boe                                | 30.06.08     | 31.03.08 | 30.06.07 | 30.06.08     | 30.06.07 |
|--|--------------|----------|----------|--------------|----------|
| Achieved sales price, working interest | <b>74.60</b> | 67.14    | 68.78    | <b>70.93</b> | 61.92    |
| Achieved sales price, net entitlement  | <b>71.46</b> | 61.96    | 68.90    | <b>66.40</b> | 61.98    |
| Lifting cost                           | <b>6.59</b>  | 9.54     | 9.35     | <b>7.75</b>  | 7.77     |
| DD&A                                   | <b>20.26</b> | 21.40    | 13.84    | <b>20.15</b> | 13.81    |
| Netback                                | <b>20.22</b> | 27.47    | 34.19    | <b>23.66</b> | 27.65    |

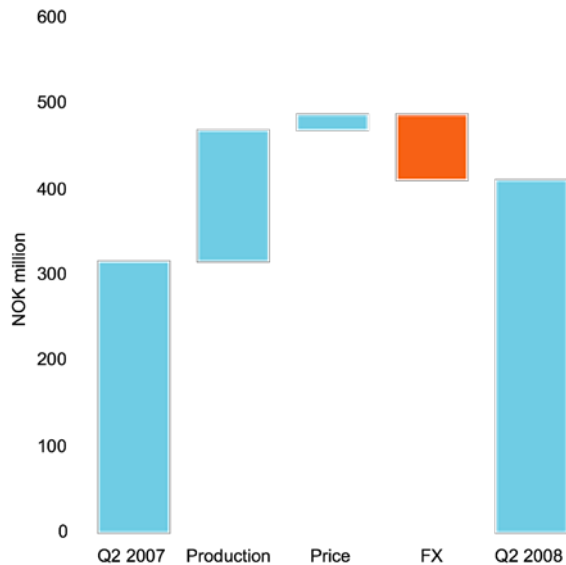


# INCOME STATEMENT

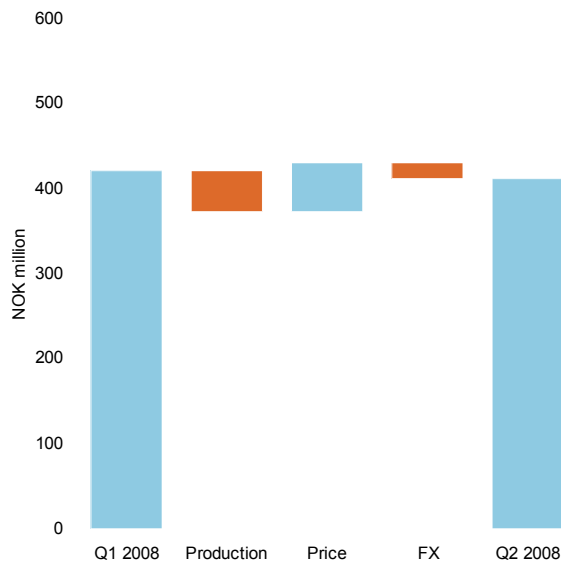
| NOK Million                                      | THREE MONTHS ENDING |              |              | SIX MONTHS ENDING |              |
|--|---------------------|--------------|--------------|-------------------|--------------|
|  | 30.06.08            | 31.03.08     | 30.06.07     | 30.06.08          | 30.06.07     |
| Sales  | 412.5               | 421.9        | 316.6        | 834.4             | 579.9        |
| Cost of goods sold                               | -177.8              | -212.8       | -122.5       | -390.7            | -229.7       |
| <b>Gross profit</b>                              | <b>234.6</b>        | <b>209.1</b> | <b>194.1</b> | <b>443.7</b>      | <b>350.2</b> |
| Dry well cost expensed                           | 0.0                 | -4.1         | 0.6          | -4.1              | -46.8        |
| Seismic and other exploration expensed           | -85.9               | -30.0        | -11.0        | -116.0            | -26.7        |
| Other  | -23.4               | -20.9        | 1.3          | -44.2             | 0.8          |
| <b>Profit / (loss) from operating activities</b> | <b>125.3</b>        | <b>154.1</b> | <b>185.0</b> | <b>279.4</b>      | <b>277.5</b> |
| Share of profit/(loss) associates                | -2.5                | -3.3         | -            | -5.8              | -            |
| Net finance                                      | -43.2               | -35.7        | -35.6        | -79.0             | -58.7        |
| <b>Profit / (loss) before income tax</b>         | <b>79.6</b>         | <b>115.0</b> | <b>149.3</b> | <b>194.7</b>      | <b>218.8</b> |
| Income tax expense                               | -66.0               | -52.6        | -87.0        | -118.7            | -116.3       |
| Net profit discontinued operations               | -                   | -            | 60.2         | -                 | 39.0         |
| <b>Net profit / (loss)</b>                       | <b>13.6</b>         | <b>62.4</b>  | <b>122.5</b> | <b>76.0</b>       | <b>141.5</b> |

## REVENUES UP ON HIGHER PRODUCTION Y/Y

### Q2 2007 VERSUS Q2 2008

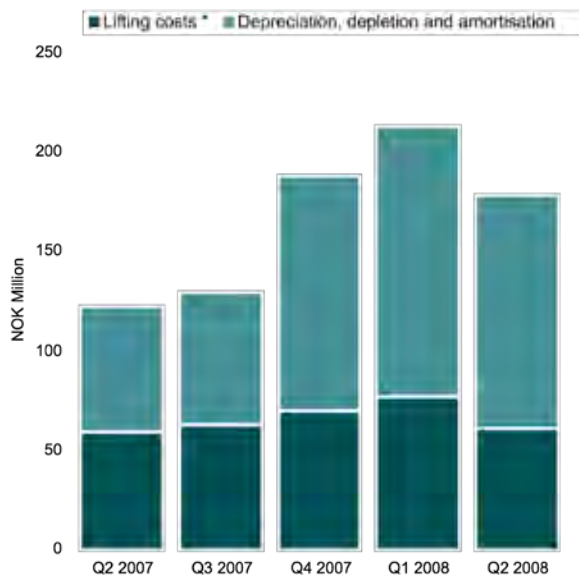


### Q1 2008 VERSUS Q2 2008



## LOWER COSTS OF GOODS SOLD

### COSTS OF GOODS SOLD



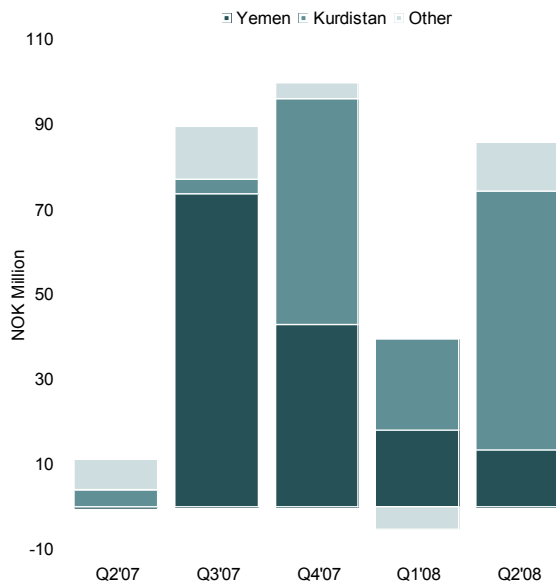
### DECREASE IN COST OF GOODS SOLD

- Reduction of previous lifting cost accruals vs. actual billings in Yemen
- Drop in DD&A due to lower net entitlement production from Yemen

\* Lifting costs consist of expenses relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurances, CO2 taxes, royalties to the state and costs in own organization.

# HIGH EXPLORATION ACTIVITY

## EXPLORATION EXPENSED

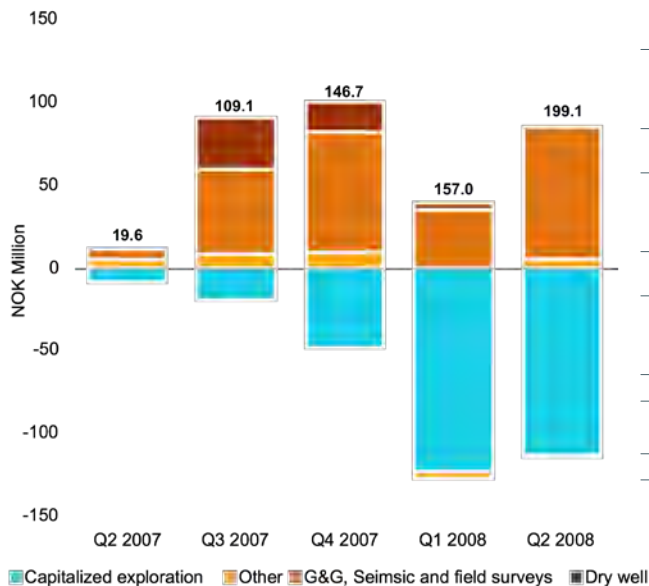


## HIGH ACTIVITY IN KURDISTAN

| YEMEN (NOK million)               | Q2'08       | YTD'08       |
|-----------------------------------|-------------|--------------|
| ▪ Seismic                         | 7.7         | 18.5         |
| ▪ Dry wells                       | 0.0         | 4.1          |
| ▪ G&G and other                   | 5.6         | 7.2          |
| <b>Total</b>                      | <b>13.3</b> | <b>31.3</b>  |
| KURDISTAN (NOK million)           |             |              |
| ▪ Seismic                         | 32.0        | 37.5         |
| ▪ Dry wells                       | 0.0         | 0.0          |
| ▪ G&G and other                   | 28.8        | 44.7         |
| <b>Total</b>                      | <b>60.8</b> | <b>82.2</b>  |
| OTHER (NOK million)               |             |              |
| ▪ Seismic                         | 1.7         | 2.7          |
| ▪ Dry wells                       | 0.0         | 0.0          |
| ▪ G&G and other                   | 10.1        | 3.9          |
| <b>Total</b>                      | <b>11.8</b> | <b>6.6</b>   |
| <b>TOTAL EXPENSED EXPLORATION</b> | <b>85.9</b> | <b>120.1</b> |

# INCREASING TOTAL EXPLORATION

## EXPENSED AND CAPITALIZED EXPLORATION



## HIGHER EXPLORATION

| YEMEN (NOK million)             | Q2'08       | YTD'08       |
|---------------------------------|-------------|--------------|
| ▪ Expensed exploration          | 13.3        | 31.3         |
| ▪ Capitalized exploration wells | 49.3        | 107.3        |
| <b>Total</b>                    | <b>62.6</b> | <b>138.6</b> |

| KURDISTAN (NOK million)         | Q2'08        | YTD'08       |
|---------------------------------|--------------|--------------|
| ▪ Expensed exploration          | 60.8         | 82.2         |
| ▪ Capitalized exploration wells | 58.2         | 122.9        |
| <b>Total</b>                    | <b>119.0</b> | <b>205.1</b> |

| OTHER (NOK million)             | Q2'08       | YTD'08      |
|---------------------------------|-------------|-------------|
| ▪ Expensed exploration          | 11.8        | 6.6         |
| ▪ Capitalized exploration wells | 5.8         | 5.8         |
| <b>Total</b>                    | <b>17.6</b> | <b>12.4</b> |

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| ▪ Total expensed exploration          | 85.9         | 120.1        |
| ▪ Total capitalized exploration wells | 113.2        | 236.0        |
| <b>TOTAL EXPLORATION</b>              | <b>199.1</b> | <b>356.1</b> |

## TAX RECOVERY OF EXPLORATION INVESTMENTS

### DNO'S PRODUCTION SHARING AGREEMENTS

- All recoverable costs add to DNO's cost oil positions under the PSA's
- Recoverable costs include exploration investments such as drilling costs and seismic surveys
- Cost oil positions accumulated in exploration work are recovered through increased entitlement to oil production within each license

### EFFICIENT TAX RECOVERY

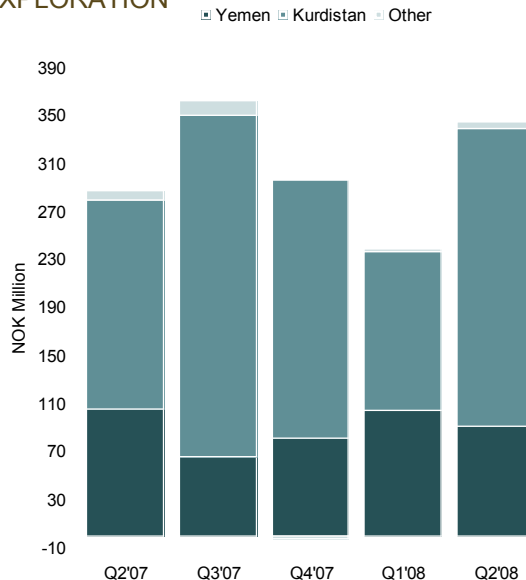
- Cost oil positions are recovered quickly through reduced government take for producing licenses
- For non-producing licenses accumulated cost oil positions are carried forward as recoverable cost from future production





# TOTAL CAPITAL EXPENDITURE

## DEVELOPMENT CAPEX & CAPITALIZED EXPLORATION



## TOTAL CAPEX OF NOK 344.6 MILLION

- NOK 113.2 million in capitalized exploration wells
- NOK 231.4 million in development CAPEX

## DEVELOPMENT CAPEX BREAKDOWN

| YEMEN (NOK million)                   | Q2'08       | YTD'08      |
|---------------------------------------|-------------|-------------|
| ▪ Development and production wells    | 39.3        | 68.4        |
| ▪ Production facilities and pipelines | 3.3         | 11.1        |
| ▪ Other                               | -1.3        | 8.6         |
| <b>Total</b>                          | <b>41.3</b> | <b>88.1</b> |

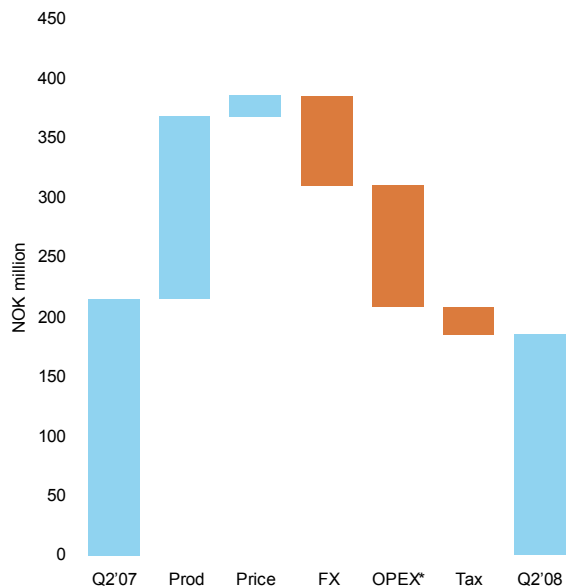
| KURDISTAN (NOK million)               | Q2'08        | YTD'08       |
|---------------------------------------|--------------|--------------|
| ▪ Development and production wells    | 52.7         | 90.7         |
| ▪ Production facilities and pipelines | 96.4         | 119.0        |
| ▪ Other                               | 40.8         | 47.0         |
| <b>Total</b>                          | <b>189.9</b> | <b>256.7</b> |

| OTHER (NOK million)                | Q2'08      | YTD'08     |
|------------------------------------|------------|------------|
| ▪ Development and production wells | 0.2        | 0.0        |
| ▪ Other                            | 0.0        | 2.0        |
| <b>Total</b>                       | <b>0.2</b> | <b>2.0</b> |

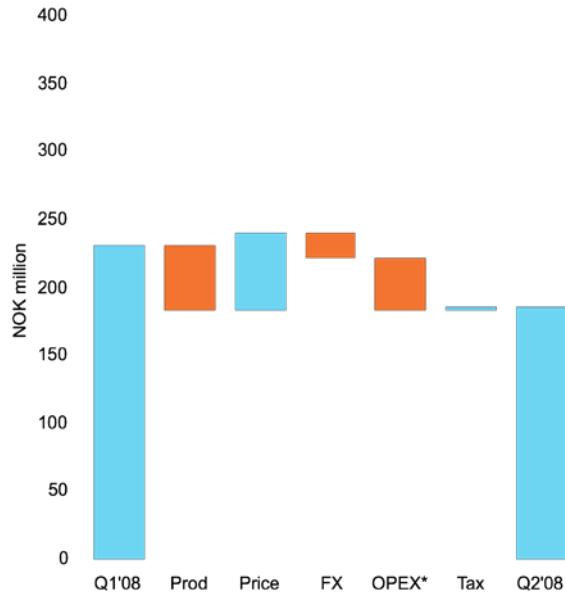
|                                |              |              |
|--------------------------------|--------------|--------------|
| <b>TOTAL DEVELOPMENT CAPEX</b> | <b>231.4</b> | <b>346.8</b> |
|--------------------------------|--------------|--------------|

## MAINTAINING SOLID NETBACK

### Q2 2007 VERSUS Q2 2008



### Q1 2008 VERSUS Q2 2008



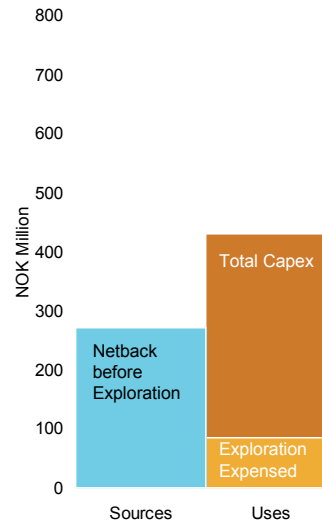
\*OPEX includes expensed exploration

# SOLID CASH FLOW COVERAGE

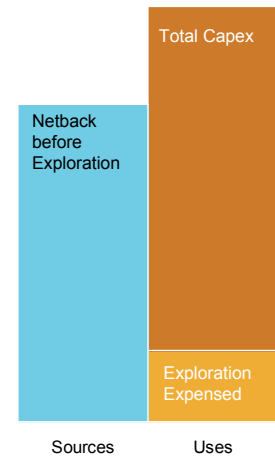
## STRONG YTD COVERAGE

- Netback before exploration covered 63% of high Q2'08 investments
- Netback before exploration covered 76% of YTD'08 investments

## SOURCES AND USES OF CASH



Q2 2008



YTD Q2 2008



# CAPITAL STRUCTURE

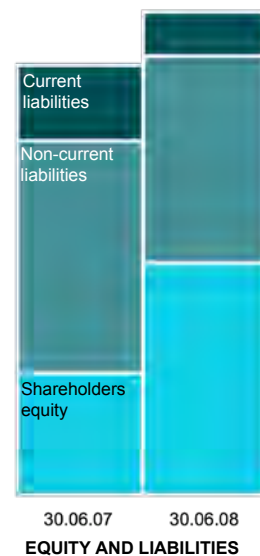
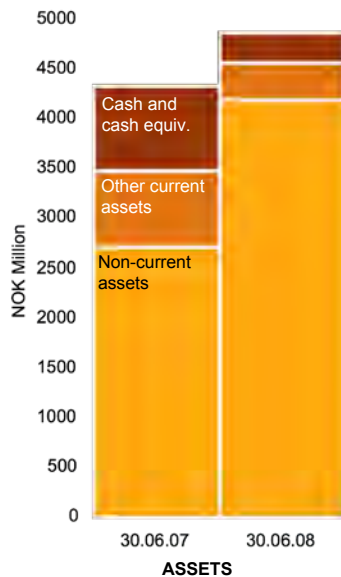
## EQUITY AND DEBT

- Equity ratio increase from 29 percent to 48 percent YOY
- Stable interest bearing debt

## FINANCIAL POSITION

- End of period cash balances of NOK 375 million
- Significant financial assets

## BALANCE SHEETS



## GUIDING 2008

|  | THREE MONTHS |         | SIX MONTHS |         |
|--|--------------|---------|------------|---------|
|  | Q2'08        | Q3'08E  | 1H'08      | 2H'08E  |
| <b>KURDISTAN</b>                           |              |         |            |         |
| Production, working interest (bopd)        | 12,989       | 7,000   | 8,805      | 8,500   |
| Number of exploration wells*               | 2            | 0       | 4          | 1-2     |
| Number of development wells*               | 1            | 1       | 2          | 1-3     |
| Exploration expenses, seismic incl. (MNOK) | 61           | 50-75   | 82         | 75-100  |
| CAPEX (MNOK)                               | 248          | 150     | 380        | 180-200 |
| <b>YEMEN</b>                               |              |         |            |         |
| Production, working interest (bopd)        | 9,924        | 9,000   | 10,146     | 8,500   |
| Number of exploration wells*               | 4            | 3       | 7          | 9       |
| Number of development wells*               | 3            | 3       | 7          | 3       |
| Exploration expenses, seismic incl. (MNOK) | 13           | 40-60   | 31         | 75-100  |
| CAPEX (MNOK)                               | 91           | 100-150 | 196        | 150-200 |
| <b>OTHER INTERNATIONAL</b>                 |              |         |            |         |
| Number of exploration wells*               | 0            | 1       | 0          | 1       |
| Number of development wells                | 0            | 0       | 0          | 0       |
| Exploration expenses, seismic incl. (MNOK) | 12           | 25      | 7          | 30-40   |
| CAPEX (MNOK)                               | 6            | 4-6     | 8          | 10      |

\* Includes ongoing wells spudded in the period



# SUMMARY - YEAR TO DATE

## BUILDING VALUE THROUGH EXPLORATION

- Value addition through several new oil discoveries
- Expanding portfolio of prospects and leads
- Extensive seismic surveys on high potential areas

## HIGHER PRODUCTION

- Strong growth in production from Kurdistan
- Stable Yemen production

## SOLID FINANCIAL RESULTS

- Production feeding strong cash flow
- Strong foundation for increased financial capacity and flexibility



THIRD QUARTER 2008: 12 NOVEMBER 2008

**WELCOME BACK**



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This presentation was prepared for the **August 20, 2008 Second Quarter Presentation**. Information contained within will not be updated. The following slides should be read and considered in connection with the information given orally during the presentation.







