Interim Report 2012
Third Quarter

Photo: Hans Fredrik Asbjørnsen

Highlights

- Company working interest production up 80 percent from previous quarter to 41,545 boepd (36,773 boepd)
- Net profit of NOK 98 million (NOK 317 million) on revenues of NOK 541 million (NOK 152 million)
- Q3 operational cash flow affected by completion of Tawke PSC reconciliation
- Cash position of NOK 1.1 billion at the end of period
- West Bukha-4 well was completed and has tested 7,000 barrels of oil per day and 15 million standard cubic feet of gas per day.
- Benenan-3 well results double the estimated oil in place volumes in the field from 300 million barrels to 600-700 million barrels

Key figures

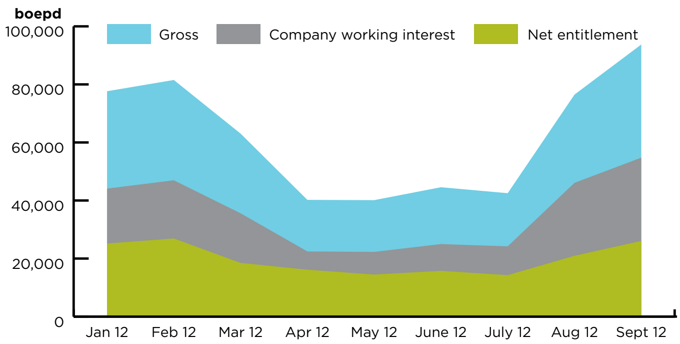
			Year-to-date	
		Restated[1]		Restated
NOK million	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Key financials				
Sales [2) 3)]	540.6	152.4	1,407.5	1,165.7
Gross profit	194.1	69.6	568.4	538.9
Profit/(loss) from operating activities	126.3	34.7	410.1	361.1
Net profit/(loss)	98.4	316.6	229.5	364.3
EBITDA	266.6	44.5	797.3	755.7
Netback	241.5	7.8	649.4	672.3
Acquisition and development costs	296.5	94.1	770.9	259.3
Exploration costs expensed	25.0	6.4	58.5	95.4
Key performance indicators [4)]				
Lifting costs (USD/boe)	9.30	5.76	8.07	4.56
Netback (USD/boe)	10.89	0.42	11.60	10.73

1) Expensed DD&A for the Tawke field in the Kurdistan region of Iraq in all quarters of 2011 has been restated.
2) Sales include USD 104 million in Q2 2011 related to export production from the Tawke field.
3) In Q2 2012, a reconciliation was done of local sales revenues from the Tawke field. Local sales are now allocated according to the PSC.
4) Key performance indicators include export production from the Tawke field.

Operational review

PRODUCTION

The significant increase in production in the third quarter is a result of resumption of oil exports from the Tawke field in the Kurdistan region of Iraq in early August and resumption of oil and gas production from the West Bukha field in early September following the previously reported pipeline repair.



In September, the gross production from DNO International's producing assets was 93,750 barrels of oil equivalent per day with an all time high company working interest (CWI) production to 54,767 barrels per day.

The gross production from the Company's producing assets averaged 70,673 barrels of oil equivalent per day in the third quarter, up from 62,966 barrels per day a year earlier. DNO International's CWI production almost doubled from the previous quarter to 41,545 barrels of oil equivalent per day, up from 36,773 barrels per day last year. Third quarter net entitlement production increased by more than 60 percent to 20,385 barrels of oil equivalent per day compared to a year earlier (12,631 boepd).

Gross production			Year-to-date	
boepd	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	9,835	10,913	10,067	13,140
Kurdistan	53,347	52,053	44,059	52,639
Oman	7,491	-	7,973	-
Total DNO	**70,673**	**62,966**	**62,099**	**65,779**

Company working interest (CWI) production			Year-to-date	
boepd	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	3,948	4,439	4,023	5,231
Kurdistan	33,851	32,334	27,644	36,524
Oman	3,745	-	3,986	-
Total DNO	**41,545**	**36,773**	**35,653**	**41,755**

Net entitlement production *			Year-to-date	
boepd	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	2,301	2,661	2,407	3,152
Kurdistan	15,957	9,970	15,369	19,213
Oman	2,127	-	1,993	-
Total DNO	**20,385**	**12,631**	**19,769**	**22,365**

* 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.

APPRAISAL AND FIELD DEVELOPMENT

Kurdistan

In the Tawke license in the Kurdistan region of Iraq, drilling operations are ongoing as part of the Tawke production enhancement program targeting 100,000 barrels per day of gross oil production capacity by year-end. The Tawke-18 well has been completed and is expected to be tied-in to the production facilities in the near future. This well was also designed to test an exploration footwall target below the main field-bounding fault, but the well was not drilled to this target as per the drilling schedule due to a decision to complete the well as a producer and move the rig to commence drilling of another well to meet the year-end production capacity target. This exploration target will be drilled from a future Tawke development well.

Additional wells currently drilling as part of the Tawke production enhancement program are the Tawke-14 side-track and Tawke-19, both which are expected to be brought on stream before year-end. In addition, the Tawke-17 well designed to both increase Tawke production deliverability as well as test the exploration potential of the deeper Jurassic and Triassic intervals at Tawke is drilling ahead, and the results from this well are expected in the first quarter of 2013.

In the Erbil license, the development of the Bastora and Benenan discoveries was initiated by the spudding of Benenan-3 in July. The well was originally designed as a horizontal producer in the Upper Najmeh formation with a deeper deviated exploratory probe to further appraise the Benenan discovery and contribute additional production. The well encountered an additional 210 meter oil column in the Najmeh reservoir and it produced 800-1,000 barrels per day of 12-16° API oil 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 now be completed as a deviated well capable of producing from several Najmeh intervals as well as from the Bekhme formation. The results from the Benenan-3 well is expected to more than double the Benenan field's gross 2P oil-in-place volumes from 300 million barrels to an estimated 600-700 million barrels. Revised estimates of recoverable reserves for the Benenan field are under preparation and will be reported when completed.

Oman

In Block 8 offshore the Sultanate of Oman, drilling of the West Bukha-4 development well was completed in the third quarter. The longest reach well drilled offshore Oman at nearly 6,000 meters, West Bukha-4 targeted an area not penetrated by previous drilling and is the second of a three well drilling campaign initiated last year in Block 8. The West Bukha-4 well was tested and flowed on a 54/64 inch choke at 7,000 barrels per day of 39° API oil and 15 million standard cubic feet of gas per day through a test separator. West Bukha-4 has been connected to the export pipeline system and is expected to increase the gross production from the West Bukha field to around 15,000 barrels of oil and 45 million standard cubic feet of gas, per day.

Previously in Block 8, the West Bukha-5 development well was completed and produced in excess of 1,000 barrels of oil per day from an initial short term test but once connected to the export pipeline system, the production level from the well has been lower than expected, partly caused by the effect of the export pipeline back-pressure. Additional acid stimulation is currently underway to improve the production rates from the well and other measures will be taken to optimize overall field performance. The third and last well in the current develop-ment drilling campaign in Block 8, Bukha-4, will commence once the acid stimulation work in West Bukha-5 is completed.

Yemen

In Block 43, Republic of Yemen, the Nabrajah-21 well was completed as an infill well in the Nabrajah field. Nabrajah-21, the first horizontal well drilled by DNO International into the Qishn producing interval, is averaging 800 barrels of oil per day and has increased daily Nabrajah field production to 2,200 barrels. Following this positive outcome, the Company has commenced drilling a second horizontal well in Block 43, Nabrajah-20, before moving the rig to Block 47 to drill the Yaalen-3 well as part of the Yaalen field development plan.

EXPLORATION

In the Kurdistan region of Iraq, a Discovery Notice and a Discovery Report for the Peshkabir-1 well were submitted to the Kurdistan Regional Government (KRG) following the results from a test in the Jurassic Sargelu formation which confirmed moveable oil of 27-29° API. A 200 square kilometer 3D program was initiated in the third quarter encompassing the discovery area and with an anticipated completion by year-end 2012.

Following the Summail oil and gas discovery made previously 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 to the KRG on 15 October.

Additional wells to further appraise both the Peshkabir and Summail discoveries are expected to be drilled in 2013.

In Tunisia, the 2D seismic acquisition program initiated earlier this year in the Fkirine prospecting license was completed in September. Processing of the data, and reprocessing of 300 kilometre of vintage lines, is ongoing. In the Hammamet offshore license, evaluation of the newly acquired 3D seismic over Tazerka North and Kasserine areas is ongoing and an application to enter into the second term of the license, including drilling of one commitment well, has been submitted to the authorities.

HEALTH, SAFETY, SECURITY AND ENVIRONMENT

Overall HSSE performance continued at satisfactory levels. Our Lost Time Incident Frequency and Total Recordable Incident Frequency remains within targets. The Company has over the past quarter strengthened the HSSE-team through recruitment of experienced and well qualified professionals and established a Board level HSSE committee to provide further support and oversight.

Financial review

REVENUES, PROFITS AND CASHFLOW (2011 figures in brackets)

Third quarter revenues increased to NOK 541 million (NOK 152 million) due to higher revenue contribution from Kurdistan and resumption of production from Block 8 offshore Oman. Block 8 contribution was NOK 97 million in revenues in the third quarter.

Backed by the higher production, the third quarter profit from operations increased to NOK 126 million (NOK 35 million). Year-to-date, sales revenues were NOK 1,408 million (NOK 1,166 million). The year-to-date figures for 2011 included NOK 565 million in revenues as payment for past export of oil from the Tawke field.

The year-to-date profit from operations was NOK 410 million (NOK 361 million) and the year-to-date net profit was NOK 230 million against NOK 364 million last year. Net profit this year was negatively affected in parts by the reconciliation of revenues from Tawke in the second quarter, while last year's net profit was affected positively by NOK 259 million in gain from the sales of the shares in *Det norske oljeselskap ASA*.

The costs of the partial replacement of the export pipeline connecting the West Bukha- and Bukha fields in Block 8 offshore Oman have been charged as operating expenses with NOK 81 million in the third quarter (NOK 103 million year-to-date). All pipeline replacement costs are expected to be cost recoverable under the Block 8 license agreement.

Net finance costs-year-to date were NOK 84 million. In the third quarter 2011, net finance was positive by NOK 90 million as a result of the gain on sale of shares as reported above.

The cash position was NOK 1,100 million at the end of the third quarter, compared with NOK 1,969 million one year ago, reflecting significant capital projects to increase production in Kurdistan, Oman and Yemen.

COST OF GOODS SOLD

In the third quarter, cost of goods sold was NOK 347 million compared with NOK 83 million in the same period a year earlier. Pipeline repair costs in Block 8 Oman was NOK 81 million in the quarter. The third quarter 2011 was affected by restatement of the depreciation charges for the Tawke field.

Lifting costs

Lifting costs were NOK 206 million in the third quarter, compared with NOK 73 million in the same period a year earlier. The lifting costs per barrel in the quarter were USD 2.1 for the Kurdistan operations, while Oman lifting costs increased due to repair of the pipeline at West Bukha. In Yemen, the lifting costs reflect cost levels in the currently producing mature fields. The Company's overall lifting costs remain low at USD 9.3 per barrel in the third quarter and USD 8.1 per barrel year-to-date.

Lifting costs

			Year-to-date	
NOK million	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	57.3	66.9	157.5	180.4
Kurdistan	37.9	6.2	120.6	51.8
Oman	111.1	-	173.9	-
Total lifting costs	**206.2**	**73.0**	**452.0**	**232.1**

Including export volumes

USD/boe	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	28.77	31.59	26.11	23.97
Kurdistan	2.07	2.41	2.74	1.91
Oman	58.89	NA	29.25	NA
Average lifting costs	**9.30**	**5.76**	**8.07**	**4.56**

Depreciation, Depletion and Amortisation (DD&A)

DD&A costs increased to NOK 139 million in the quarter, as increased production contributed to higher depreciation charges in Kurdistan and Oman.

Depreciation, Depletion and Amortisation

			Year-to-date	
NOK million	**Q3 2012**	**Q3 2011***	**Q3 2012**	**Q3 2011***
Yemen	20.1	22.8	68.3	83.4
Kurdistan	90.7	-13.7	248.4	309.6
Oman	28.0	-	66.8	-
Total DD&A	**138.7**	**9.2**	**383.5**	**393.0**

USD/boe	**Q3 2012**	**Q3 2011***	**Q3 2012**	**Q3 201***
Yemen	17.27	17.96	18.86	18.34
Kurdistan	10.53	(2.72)	10.17	10.67
Oman	24.22	-	20.87	-
Average DD&A	**12.70**	**1.46**	**12.66**	**11.71**

** 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 third quarter were NOK 25 million, up from NOK 6 million in the same period 2011. There were no dry well costs in the third quarter, but a 2D seismic survey in the Fkirine license in Tunisia added NOK 12 million in exploration expenses. Other costs are related to geological and geophysical work in all business units.

Exploration costs expensed

			Year-to-date	
NOK million	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	-0.3	0.2	3.8	31.7
Kurdistan	5.5	5.2	19.7	22.9
Oman	1.1	-	3.7	-
UAE	0.2	-	0.7	-
Tunisia	18.2	-	30.5	-
Other	0.3	1.0	0.2	40.8
Total exploration costs	**25.0**	**6.4**	**58.5**	**95.4**

Acquisition and development costs (incl. intangible assets)

Capital expenditures in the third quarter were NOK 297 million compared with NOK 94 million a year earlier. The main costs are related to drilling at the West Bukha field in Block 8 Oman (NOK 103 million), development of the Benenan and Bastora discoveries in the Erbil license (NOK 39 million) and infill drilling and projects at the Tawke field (NOK 58 million). 3D seismic in the Tawke license and exploration wells Peshkabir-1 and Tawke-17 contributed with NOK 37 million. Drilling operations in Yemen consist of Nabrajah-21 in Block 43 (NOK 27 million), Tasour-27 in Block 32 (NOK 10 million) and Bayoot-11 and Bayoot-12 in Block 53 (NOK 10 million). Development activities at Block 47 in Yemen accounted for NOK 4 million in the quarter.

Acquisition and development costs

			Year-to-date	
NOK million	**Q3 2012**	**Q3 2011**	**Q3 2012**	**Q3 2011**
Yemen	51.3	6.4	73.8	62.6
Kurdistan	134.7	86.8	388.4	195.1
Oman	102.8	-	299.6	-
UAE	7.3	-	7.1	-
Tunisia	-	-	-	-
Other	0.5	0.8	1.9	-0.6
Total A&D costs	**296.5**	**94.1**	**770.9**	**259.3**

Outlook

The Company has ramped up its drilling activities with six rigs currently in operation; four in the Kurdistan region of Iraq, one in Yemen and one offshore Oman.

The Tawke production enhancement program is on track targeting 100,000 barrels per day of gross oil production capacity by year-end, and the Benenan and Bastora development drilling is continuing with the next well expected to spud before year-end.

In Oman, the successful outcome of the West Bukha-4 well will double production from the field and the Bukha-4 well, the last in the three-well development drilling program, is scheduled to commence in December.

The Company is considering further drilling opportunities in the West Bukha field, either prior to or after the planned Saleh drilling campaign in 2013.

The Yaalen development in Yemen is on track with first oil expected in the third quarter 2013 and the Company plans to commence the Saleh re-development by drilling one well next year.

The Company's extensive field development program underway in four countries will add significant production capacity in 2013. Ongoing drilling activities and the wells planned for next year are balanced between exploration, appraisal and development, and are further expected to add significant new reserves to the Company.

Consolidated statements of comprehensive income

Restated; See more information in Note 12

					Restated	Restated	Year-to-date		Full year	
NOK million	**Note**	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Sales	2, 3	540.6	155.4	711.5	904.6	152.4	1,407.5	1,165.7	2,070.2	1,251.8
Cost of goods sold	4	-346.5	-232.3	-260.3	-539.0	-82.8	-839.1	-500.6	-1,039.5	-618.7
Expensing of capitalized 2009 production costs		-	-	-	-	-	-	-126.2	-126.2	-
Gross profit		**194.1**	**-76.9**	**451.2**	**365.6**	**69.6**	**568.4**	**538.9**	**904.5**	**633.1**
Other operating income		-14.7	11.6	10.2	-1.4	3.1	7.0	8.6	7.2	8.9
Tariffs and transportation		-3.5	-4.0	-3.8	-2.6	-1.4	-11.4	-6.2	-8.8	-22.8
Administrative expense/Other operating expenses		-24.6	-52.1	-18.8	-71.8	-30.2	-95.5	-60.2	-132.1	-406.2
Impairment/Reversal impairment oil and gas assets	7	-	-	-	14.4	-	-	-24.5	-10.1	-
Exploration cost expensed	5	-25.0	-19.0	-14.5	-7.6	-6.4	-58.5	-95.4	-103.1	-56.2
Net gain/-loss from sale of PP&E		-	-	-	-	-	-	-	-	0.1
Profit/-loss from operating activities		**126.3**	**-140.4**	**424.2**	**296.6**	**34.7**	**410.1**	**361.1**	**657.7**	**156.8**
Financial income		2.6	11.7	3.4	11.2	330.9	14.7	278.0	361.0	44.7
Financial expenses		-30.1	-34.5	-36.9	-30.6	-29.7	-98.6	-188.2	-290.6	-407.7
Profit/-loss before income tax		**98.9**	**-163.2**	**390.8**	**277.3**	**335.9**	**326.4**	**450.9**	**728.2**	**-206.2**
Income tax expense	6	-0.4	-13.0	-83.5	11.6	-19.3	-96.9	-86.6	-74.9	-76.6
Net profit/-loss		**98.4**	**-176.2**	**307.3**	**288.9**	**316.6**	**229.5**	**364.3**	**653.2**	**-282.9**
Other comprehensive income										
Currency translation differences	8	-194.9	199.0	-183.7	31.0	88.4	-179.6	8.7	39.7	0.8
Fair value changes available-for-sale financial assets		1.5	-0.5	-	-	-140.2	1.0	-86.4	-86.4	96.8
Total other comprehensive income, net of tax	6	**-193.4**	**198.5**	**-183.7**	**31.0**	**-51.8**	**-178.6**	**-77.7**	**-46.7**	**97.6**
Total comprehensive income, net of tax		**-94.9**	**22.3**	**123.6**	**319.9**	**264.8**	**51.0**	**286.6**	**606.5**	**-185.2**
Net profit/-loss attributable to:										
Equity holders of the parent		98.4	-176.2	307.3	288.9	316.6	229.5	364.3	653.2	-282.9
Total comprehensive income attributable to:										
Equity holders of the parent		-94.9	22.3	123.6	319.9	264.8	51.0	286.6	606.5	-185.2
Earnings per share, basic		0.10	-0.17	0.30	0.31	0.34	0.23	0.39	0.70	-0.31
Earnings per share, diluted		0.10	-0.17	0.30	0.31	0.34	0.23	0.39	0.70	-0.31

Condensed consolidated statements of financial position

Restated; See more information in Note 12

Assets

						Restated	Full year	
NOK million	**Note**	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**2011**	**2010**
Non-current assets								
Goodwill	11	264.4	277.5	264.1	-	-	-	-
Deferred income tax assets	6	47.6	50.0	47.6	50.1	-	50.1	-
Other intangible assets	7	838.5	849.0	739.0	691.5	611.8	691.5	930.7
Property, plant and equipment	7	3,769.1	3,830.3	3,561.4	2,259.2	2,253.2	2,259.2	2,212.8
Available for sale investments		4.8	3.3	-	-	-	-	360.0
Total non-current assets		**4,924.4**	**5,010.2**	**4,612.0**	**3,000.7**	**2,865.0**	**3,000.7**	**3,503.5**
Current assets								
Inventories	4	229.6	237.1	231.9	93.5	374.4	93.5	211.6
Trade and other receivables		420.2	446.6	493.5	297.6	214.6	297.6	290.3
Other financial assets at fair value through P&L		-	-	-	-	-	-	2.6
Cash and cash equivalents		1,099.9	1,638.3	1,602.4	1,644.8	1,969.4	1,644.8	1,384.7
Total current assets		**1,749.7**	**2,322.0**	**2,327.7**	**2,035.8**	**2,558.3**	**2,035.8**	**1,889.2**
TOTAL ASSETS		**6,674.1**	**7,332.1**	**6,939.8**	**5,036.5**	**5,423.3**	**5,036.5**	**5,392.7**

Equity and liabilities

						Restated	Full year	
NOK million	**Note**	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**2011**	**2010**
Equity								
Share capital	8	252.6	255.8	255.8	217.5	233.2	217.5	237.5
Other reserves	8	1,157.2	1,454.5	1,255.9	275.1	704.7	275.1	870.1
Retained earnings	8	1,894.7	1,796.3	1,972.4	1,665.2	1,365.9	1,665.2	1,001.6
Total equity		**3,304.5**	**3,506.6**	**3,484.1**	**2,157.7**	**2,303.9**	**2,157.7**	**2,109.1**
Non-current liabilities								
Interest-bearing liabilities	9	1,341.9	1,379.9	1,337.5	1,377.4	1,616.4	1,377.4	1,555.5
Deferred income tax liabilities	6, 12	654.4	706.2	665.9	84.0	69.8	84.0	65.5
Retirement benefit obligations		9.0	9.3	8.4	-	-	-	-
Provisions for other liabilities and charges	10	261.0	292.8	233.5	173.6	115.4	173.6	403.2
Total non-current liabilities		**2,266.3**	**2,388.3**	**2,245.3**	**1,634.9**	**1,801.7**	**1,634.9**	**2,024.2**
Current liabilities								
Trade and other payables		204.8	164.3	130.7	85.8	458.8	85.8	552.2
Income taxes payable		15.4	19.8	83.8	23.6	11.9	23.6	13.9
Current interest-bearing liabilities	9	160.9	161.3	259.4	265.0	-	265.0	257.5
Provisions for other liabilities and charges	10	722.1	1,092.0	736.5	869.5	847.1	869.5	435.8
Total current liabilities		**1,103.3**	**1,437.3**	**1,210.4**	**1,243.9**	**1,317.8**	**1,243.9**	**1,259.4**
TOTAL EQUITY AND LIABILITIES		**6,674.1**	**7,332.1**	**6,939.8**	**5,036.5**	**5,423.3**	**5,036.5**	**5,392.7**

Condensed consolidated cash flow statements

Restated; See more information in Note 12

					Restated	Restated	Year-to-date		Full year	
NOK million	**Note**	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Operating activities										
Profit/-loss before income tax		98.9	-163.2	390.8	277.3	335.9	326.5	450.9	728.2	-206.2
Adjustments to add (deduct) non-cash items:										
+/- Net interest expense (-income)		28.2	27.3	20.0	21.5	21.0	75.5	77.6	99.1	95.2
Previously capitalised exploration and evaluation expenses	6	0.1	0.7	-0.2	-2.8	-0.9	0.6	51.9	49.0	17.3
Depreciation of PP&E	4	139.9	106.5	140.4	366.2	9.8	386.8	394.7	760.9	317.0
Impairment loss/Reversal of impairment on PP&E	9	-	-	-	-14.4	-	-	24.5	10.1	-
-Gain/loss on PPE		-	-	-	-	-	-	-	-	-0.1
-Gain/loss on shares		-	-	-	-	-253.4	-	-259.5	-259.5	-8.3
Impairment/Reversal of impairment of financial assets		-	-	-	-	-	-	0.3	0.3	204.6
Other *		3.9	53.0	260.2	67.9	-17.0	317.1	0.8	68.7	89.8
Changes in working capital:										
- Inventories		7.1	-5.2	-138.4	54.0	-51.5	-136.5	-62.0	-8.0	-54.2
- Trade and other receivables		26.4	46.9	-195.9	-83.0	-18.7	-122.6	75.7	-7.3	-93.2
- Trade and other payables		40.5	33.6	45.0	-373.0	387.8	119.1	-93.5	-466.5	361.3
- Provisions for other liabilities and charges		-369.8	355.5	-133.0	22.4	13.0	-147.3	97.9	120.3	4.2
Cash generated from operations		-24.8	455.1	388.9	336.1	426.0	819.2	759.2	1,095.3	727.2
Income taxes paid		-25.1	-71.2	-51.6	-13.6	-37.0	-147.9	-83.4	-97.0	-94.0
Interest paid		-26.4	-31.3	-23.4	-26.4	-25.3	-81.1	-92.7	-119.1	-108.3
Net cash from operating activities		**-76.3**	**352.6**	**313.9**	**296.1**	**363.7**	**590.2**	**583.0**	**879.2**	**524.9**
Investing activities										
Acquisition of subsidiary, net of cash	11	-	-	-115.5	-	-	-115.5	-	-	-
Purchases of intangible assets	7	-38.9	-76.6	-50.6	-70.0	-56.8	-166.1	-121.8	-191.8	-95.1
Purchases of tangible assets		-257.6	-187.4	-159.8	-92.3	-37.0	-604.8	-137.2	-229.5	-115.0
Proceeds from sale of tangible assets	7	-	-	-	-	-	-	-	-	0.1
Purchases of available-for-sale financial assets		-	-3.9	-	-	-	-3.9	-13.8	-13.8	-7.3
Proceeds from sale of available-for-sale financial assets		-	-	-	-	524.2	-	549.6	549.6	25.9
Interest received		-1.8	3.9	3.4	4.8	4.3	5.5	15.0	19.8	13.1
Net cash from/-used in investing activities		**-298.3**	**-264.0**	**-322.5**	**-157.5**	**434.7**	**-884.8**	**291.7**	**134.2**	**-178.3**
Financing activities										
Proceeds from borrowings		-	-	-	-	-	-	1,309.1	1,309.1	-
Repayment of borrowings	9	-	-106.5	-	-	-1.6	-106.5	-1,527.4	-1,527.4	-1.4
Purchase of treasury shares, including options	8	-107.1	-	-	-466.0	-92.0	-107.1	-92.0	-558.0	-
Proceeds from sale of treasury shares	8	-	-	-	-	-	-	-	-	367.1
Proceeds from issuance of shares	8	-	-	-	-	-	-	-	-	348.6
Net cash from/-used financing activities		**-107.1**	**-106.5**	**-**	**-466.0**	**-93.6**	**-213.6**	**-310.3**	**-776.3**	**714.3**
Net increase/-decrease in cash and cash equivalents		**-481.7**	**-17.9**	**-8.6**	**-327.4**	**704.8**	**-508.2**	**564.7**	**237.1**	**1,061.1**
Cash and cash equivalents at beginning of the period		1,638.3	1,602.4	1,644.8	1,969.4	1,244.8	1,644.8	1,384.7	1,384.7	303.4
Exchange gain/-losses on cash and cash equivalents		-56.7	53.8	-33.7	2.8	19.8	-36.6	20.2	23.0	20.2
Cash and cash equivalents at end of the period		**1,099.9**	**1,638.3**	**1,602.4**	**1,644.8**	**1,969.4**	**1,099.9**	**1,969.4**	**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 million	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		-	-86.4	-	-86.4
Currency translation differences		-	8.7	-	8.7
Other comprehensive income/-loss		-	-77.7	-	-77.7
Profit for the period		-	-	364.3	364.3
Total comprehensive income		-	-77.7	364.3	286.6
Issue of share capital		-	-	-	-
Purchase of treasury shares		-4.3	-87.6	-	-91.9
Sale of treasury shares		-	-	-	-
		-4.3	-87.6	-	-91.9
Balance at 30 September 2011	8	**233.2**	**704.7**	**1,365.9**	**2,303.9**

NOK million	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		-	1.0	-	1.0
Currency translation differences		-	-179.6	-	-179.6
Other comprehensive income/-loss		-	-178.6	-	-178.6
Profit for the period		-	-	229.5	229.5
Total comprehensive income		-	-178.6	229.5	50.9
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
Balance at 30 September 2012	8	**252.6**	**1,157.2**	**1,894.7**	**3,304.5**

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 International 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 International. 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 International annual financial statements for 2011. DNO International 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 International 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 30 September 2012 NOK million	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	129.3	314.0	97.3	-	-	540.6	-	**540.6**
Inter-segment sales		1.9	2.6	5.0	7.5	1.0	-	18.1	-18.1	**-**
Cost of goods sold	4	-	-77.4	-128.9	-139.5	-	-0.2	-345.9	-0.6	**-346.5**
Gross profit		**1.9**	**54.6**	**190.1**	**-34.6**	**1.0**	**-0.2**	**212.8**	**-18.7**	**194.1**
Segment result		**-16.2**	**47.4**	**186.2**	**-42.2**	**0.8**	**-3.2**	**172.8**	**-45.7**	**127.1**
Interest - net										**-28.2**
Gain/-loss on sale of shares										**-**
Income tax expense		-	-21.0	-	20.6	-	-	-0.4	-	**-0.4**
Net profit/-loss										**98.4**
Segment assets		**22.4**	**636.5**	**2,679.8**	**1,761.8**	**512.5**	**49.2**	**5,662.2**	**964.3**	**6,626.5**

Note 2 || Segment information continues

Three months ended 30 September 2011 NOK million	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	141.3	11.1	-	-	-	152.4	-	**152.4**
Inter-segment sales		-	0.9	4.3	-	-	-	5.2	-5.2	**-**
Cost of goods sold	4	-	-89.7	7.2	-	-	-	-82.5	-0.3	**-82.8**
Gross profit		-	**52.5**	**22.6**	**-**	**-**	**-**	**75.1**	**-5.4**	**69.6**
Segment result		**-**	**78.7**	**12.2**	**-**	**-**	**-5.2**	**85.8**	**17.8**	**103.5**
Interest - net										**-21.0**
Gain/-loss on sale of shares										**253.4**
Income tax expense		-	-19.3	-	-	-	-	-19.3	-	**-19.3**
Net profit/-loss										**316.6**
Segment assets		**-**	**609.5**	**2,809.5**	**-**	**-**	**55.9**	**3,474.9**	**1,948.5**	**5,423.3**

Nine months ended 30 September 2012 NOK million	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	411.7	709.0	286.8	-	-	1,407.5	-	**1,407.5**
Inter-segment sales		2.6	7.7	16.6	12.4	1.5	-	40.7	-40.7	**-**
Cost of goods sold	4	-	-225.8	-370.1	-241.1	-	-0.5	-837.4	-1.7	**-839.1**
Gross profit		**2.6**	**193.7**	**355.5**	**58.1**	**1.5**	**-0.5**	**610.8**	**-42.4**	**568.4**
Segment result		**-28.7**	**167.0**	**333.5**	**47.4**	**0.8**	**-10.9**	**509.1**	**-107.7**	**401.4**
Interest - net										**-75.0**
Gain/(loss) on sale of shares										**-**
Income tax expense		-	-67.7	-	-29.2	-	-	-96.9	-	**-96.9**
Net profit/-loss										**229.5**
Segment assets		**22.4**	**636.5**	**2,679.8**	**1,761.8**	**512.5**	**49.2**	**5,662.2**	**964.3**	**6,626.5**

Nine months ended 30 September 2011 NOK million	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	502.9	662.8	-	-	-	1,165.7	-	**1,165.7**
Inter-segment sales		-	10.1	13.2	-	-	1.9	25.2	-25.2	**-**
Cost of goods sold	4	-	-263.8	-236.0	-	-	-0.1	-499.8	-0.7	**-500.6**
Expensing of capitalized 2009 production costs		-	-	-126.2	-	-	-	-126.2	-	**-126.2**
Gross profit		-	**249.2**	**313.8**	**-**	**-**	**1.8**	**564.8**	**-25.9**	**538.9**
Segment result		**-**	**202.3**	**278.2**	**-**	**-**	**-83.7**	**396.8**	**-23.9**	**372.9**
Interest - net										**-181.4**
Gain/-loss on sale of shares										**259.4**
Income tax expense		-	-86.6	-	-	-	-	-86.6	-	**-86.6**
Net profit/-loss										**364.3**
Segment assets		**-**	**609.5**	**2,809.5**	**-**	**-**	**55.9**	**3,474.9**	**1,948.5**	**5,423.3**

Note 3 || Sales

DNO International 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 million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Sale of petroleum products	540.6	155.4	711.5	904.6	152.4	1,407.5	1,165.7	2,070.2	1,251.8
Total sales	**540.6**	**155.4**	**711.5**	**904.6**	**152.4**	**1,407.5**	**1,165.7**	**2,070.2**	**1,251.8**

DNO International 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.
See Q2 report for further details.

Note 4 || Cost of goods sold/inventory

				Restated	Restated	Year-to-date		Full year	
NOK million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Lifting costs *	-206.2	-125.9	-119.9	-172.7	-73.0	-452.0	-232.1	-404.9	-301.7
Depreciation, depletion and amortisation	-140.3	-106.5	-140.4	-366.2	-9.8	-387.1	-394.6	-760.9	-317.0
Total cost of goods sold	**-346.5**	**-232.3**	**-260.3**	**-539.0**	**-82.8**	**-839.1**	**-626.8**	**-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 for Tawke field in Kurdistan region of Iraq in all quarters of 2011 has been adjusted for comparison reasons. See Note 12 for more details. Included in lifting costs for Q3 are NOK 81 million (NOK 103 million YTD) in repair costs related to the pipeline blockage in Block 8 in Oman.

						Full year	
NOK million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**2011**	**2010**
Spare parts	97.2	90.9	82.5	93.5	78.6	93.5	75.8
Other inventory	132.4	146.2	149.4	-	295.8	-	135.8
Total inventory	**229.6**	**237.1**	**231.9**	**93.5**	**374.4**	**93.5**	**211.6**

Other inventory of NOK 132.4 million relates to drilling and completion materials for the offshore blocks in Oman and UAE.

Note 5 || Exploration cost

						Year-to-date		Full year	
NOK million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Exploration expenses (G&G and field surveys)	-11.5	-14.3	-13.8	-8.9	-6.2	-39.6	-38.0	-46.9	-37.7
Seismic costs	-12.2	-3.3	-0.5	-	-0.1	-16.1	0.3	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	-0.1	-0.7	-0.2	2.7	0.9	-1.0	-49.8	-47.1	-17.2
Other exploration cost expensed	-1.2	-0.6	-0.4	-1.5	-1.1	-2.2	-5.9	-7.4	8.1
Total exploration cost expensed *	**-25.0**	**-19.0**	**-14.5**	**-7.6**	**-6.4**	**-58.5**	**-95.4**	**-103.1**	**-56.2**

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

Note 6 || Income tax expense

						Year-to-date		Full year	
NOK million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Deferred taxes	20.3	-5.8	-20.9	36.9	3.8	-6.3	-5.1	31.8	31.3
Income taxes payable related to production sharing agreements (PSAs)	-20.8	-7.2	-62.6	-25.3	-23.1	-90.6	-81.4	-106.7	-108.0
Total income tax expense	**-0.4**	**-13.0**	**-83.5**	**11.6**	**-19.3**	**-96.9**	**-86.6**	**-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 was 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 International’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 International’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 30 September 2012, the deferred tax would amount to approximately NOK 489 million (USD 84 million).

The DNO Group’s intention has also been to apply to the Norwegian Ministry of Finance for tax credit treatment for its results of operations in Oman and the UAE, but is awaiting the approval of the state budget for 2013, where it is proposed to eliminate the credit method.

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

						Year-to-date		Full year	
NOK million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q3 2012**	**Q3 2011**	**2011**	**2010**
Acquisitions of PP&E *	257.6	187.4	159.8	92.3	37.0	604.8	137.2	229.5	56.5
Acquisitions of Intangible assets **	38.1	76.6	50.6	70.0	56.8	165.3	121.8	191.8	95.0
Acquisitions through business combinations ***	-	-	1,463.6	-	-	1,463.6	-	-	-
Net book amount PP&E	**3,769.1**	**3,830.3**	**3,561.4**	**2,259.2**	**2,253.2**	**3,769.1**	**2,253.2**	**2,259.2**	**2,212.8**
Net book amount Intangible assets	**838.5**	**849.0**	**739.0**	**691.5**	**611.8**	**838.5**	**611.8**	**691.5**	**930.7**
Sale of PP&E									
Proceeds	-	-	-	-	-			-	-
Carrying value	-	-	-	-	-			-	-
Net gain/-loss									
Impairment/reversal of impairment of PP&E	-	-	-	-14.4	-	-	24.5	10.1	-

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

Note 8 || Equity

Share capital

NOK million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
At 1 January 2011	**949,857**	**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	**949,857**	**237.5**	**-20.0**	**217.5**
At 1 January 2012	**949,857**	**237.5**	**-20.0**	**217.5**
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**
At 30 September 2012	**1,023,279**	**255.8**	**-3.3**	**252.6**

In connection with the merger with RAK Petroleum's MENA operating subsidiaries in January 2012, DNO International 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 International 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
Balance at 1 January 2011	**369.8**	**347.4**	**96.8**	**213.2**	**-157.0**	**870.1**
Revaluation, net of tax	-	-	-86.4	-	-	-86.4
Treasury shares:						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-87.7	-	-	-	-87.7
Other paid in capital	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Currency translation differences:						
- Group	-	-	-	-	8.7	8.7
Balance at 30 September 2011	**369.8**	**259.6**	**10.3**	**213.2**	**-148.3**	**704.7**
Balance at 1 January 2012	**369.8**	**347.4**	**-**	**-324.9**	**-117.3**	**275.2**
Revaluation, net of tax	-	-	1.0	-	-	1.0
Treasury shares:						
- 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
Currency translation differences:						
- Group	-	-	-	-	-179.6	-179.6
Balance at 30 September 2012	**927.0**	**347.4**	**1.0**	**178.5**	**-296.9**	**1,157.2**

Note 8 || Equity continued

Retained earnings

NOK million	
Balance at 1 January 2011	**1,001.6**
Profit for the period	364.3
Dividend	-
Reclassified from other reserves	-
Balance at 30 September 2011	**1,365.9**
Balance at 1 January 2012	**1,665.2**
Profit for the period	229.5
Dividend	-
Reclassified from other reserves	-
Balance at 30 September 2012	**1,894.7**

Note 9 || Interest-bearing liabilities

						Full year	
NOK million	**Q3 2012**	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**2011**	**2010**
Non-current							
Bonds	1,341.9	1,379.9	1,337.5	1,377.4	1,616.4	1,377.4	1,555.5
Total non-current interest-bearing liabilities	**1,341.9**	**1,379.9**	**1,337.5**	**1,377.4**	**1,616.4**	**1,377.4**	**1,555.5**
Current							
Current portion of bonds	160.9	161.3	259.4	265.0	-	265.0	257.5
Total current interest-bearing liabilities	**160.9**	**161.3**	**259.4**	**265.0**	**-**	**265.0**	**257.5**
Total interest-bearing liabilities	**1,502.8**	**1,541.2**	**1,596.9**	**1,642.4**	**1,616.4**	**1,642.4**	**1,813.0**

					Balance	
NOK million	**Currency**	**Amount**	**Interest**	**Maturity**	**Q3 2012**	**Q2 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	797.9	837.7
Current						
Bond loan (ISIN NO0010270523)	USD	17.3	Libor + 3,5%	06/06/2012	-	-
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 NO0010302649)	NOK	49.0	Nibor + 2,5%	02/03/2011	-	-
Bond loan (ISIN NO0010478027)	USD	0.3	Libor + 4%	12/10/2012	-	-
Bond loan (ISIN NO0010478019)	USD	1.3	Fixed 6,445%	12/10/2012	7.4	7.8
Borrowing issue costs					-16.0	-17.7
Total interest-bearing liabilities					**1,502.8**	**1,541.2**

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

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

Note 10 || Provisions for other liabilities and charges

NOK million	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Full year 2011	Full year 2010
Non-current							
Asset retirement obligations	17.7	18.1	16.7	17.1	16.2	17.1	14.9
Other long-term obligations	243.3	274.7	216.8	156.5	99.2	156.5	388.3
Total non-current provisions for other liabilities and charges	**261.0**	**292.8**	**233.5**	**173.6**	**115.4**	**173.6**	**403.2**
Current							
Other provisions and charges	722.1	1,092.0	736.5	869.5	847.1	869.5	435.8
Total current provisions for other liabilities and charges	**722.1**	**1,092.0**	**736.5**	**869.5**	**847.1**	**869.5**	**435.8**
Total provisions for other liabilities and charges	**983.1**	**1,384.7**	**970.0**	**1,043.1**	**962.5**	**1,043.1**	**839.0**

NOK million	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 statement of comprehensive income:				
- Additional provisions	1.4	118.2	-	119.6
- Unused amounts reversed or reclassified	-0.7	-31.4	-147.3	-179.5
Balance at 30 September 2012	**17.7**	**243.3**	**722.1**	**983.1**

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 International. 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 September 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 International's largest shareholder, to merge RAK Petroleum's operating subsidiaries in the Middle East and North Africa (MENA) region, into a subsidiary of DNO International. 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 International share was agreed, where the value of the RAK assets was set to USD 250 million and the share price of DNO International to NOK 9.50.

The merger between DNO International and RAK Petroleum MENA operating subsidiaries was approved by DNO International'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 International'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 International instead of Rak Petroleum in the company names. The companies hold licenses in Oman, UAE and Tunisia. 100 percent of the shares in the different companies has been acquired by a newly established subsidiary of DNO International, 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 International to RAK Petroleum as further consideration. The total consideration shares were 153,422,343.

In January 2012, DNO International 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 International has updated this preliminary PPA based on the actual DNO International 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 still not completed. 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.

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 12 || Restatement of quarterly interim figures

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:

	Q4 2011			Q3 2011			Q2 2011			Q1 2011		
NOK million	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 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 International.

For further information related to the merger, see Note 11 Business combinations.

Note 14 || Contingencies and events after the balance sheet date

Decision from ØKOKRIM
On 28 September, ØKOKRIM (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) decided to impose a fine of NOK 27 million on DNO International for alleged failures to comply with the Securities Trading Act. ØKOKRIM has charged DNO International with lack of disclosure to the market in respect to the sale of 43,873,960 treasury shares in October 2008. This charge was reviewed and dismissed by the Stock Exchange Appeals Committee in 2009, although DNO International was fined NOK 800,000 for failure to provide required information to the administration of the Oslo Stock Exchange.

DNO International holds that the new ØKOKRIM fine and the reopening of a previously settled case are in violation of fundamental legal provisions against double jeopardy. Furthermore, DNO International disputes the allegation that it has engaged in market manipulation.

Initiation of share buy-back program
On 13 July, DNO International intitiated a share buyback program. The buyback program is pursuant to a shareholder vote at the Annual General Meeting of 11 June 2012 authorising the Company to purchase up to 100 million own shares. At the date of reporting, DNO International has acquired 13,050,000 own shares.

Settlement of bond loans
Bond loans (ISIN NO0010283732, ISIN NO10283724, ISIN NO10478019) of total NOK 160.9 million have been settled in October.

Ongoing drilling operations

Oman
On 1 November, DNO International announced that the just completed West Bukha-4 well, Block 8 offshore Oman, flowed on a 54/64 inch choke at 7,000 barrels per day of 39° API oil and 15 million standard cubic feet of gas per day through a test separator. West Bukha-4 has been connected to the export pipeline system and is expected to increase the gross production from the West Bukha field to around 15,000 barrels of oil and 45 million standard cubic feet of gas, per day.

Kurdistan
On 6 November, DNO International announced that the Benenan-3 well drilled on its Erbil license in the Kurdistan region of Iraq, encountered an additional 210 meter oil column in the Najmeh reservoir which is expected to more than double the Benenan field's gross 2P oil-in-place volumes from 300 million barrels to an estimated 600-700 million barrels. The well produced 800-1,000 barrels per day of 12-16° API oil 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 now be completed as a deviated well capable of producing from several Najmeh intervals as well as from the Bekhme formation.

Yemen
In Block 43, the Nabrajah-21 well was completed as an infill well in the Nabrajah field during October. This is the first horizontal well drilled by DNO International into the Qishn producing interval, and is averaging 800 barrels of oil per day, increasing daily Nabrajah field production to 2,200 barrels.

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