Interim Report 2013
Fourth Quarter and Full Year

2013 highlights

- Record levels of operating revenue of NOK 2.97 billion and of operating cash flow of NOK 1.73 billion
- Operating profit of NOK 580 million following one-off charges for goodwill and impairments; absent charges, record operating profit of NOK 1.48 billion
- Meanwhile, company working interest (CWI) production increased to 39,170 barrels of oil equivalent per day (boepd) from 38,354 boepd in 2012
- Capital expenditure rose to NOK 1.75 billion from NOK 1.26 billion in 2012
- While maintaining strong financial position with free cash balance increasing to NOK 1.62 billion at end 2013 from NOK 1.51 billion at end 2012
- Several key production milestones achieved and two oil discoveries made
- And grew portfolio significantly with addition of four new assets

Key figures

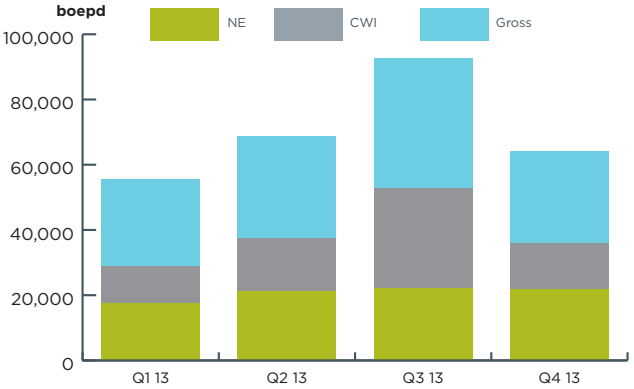
	Quarter		Full year	
NOK million	Q4 2013	Q4 2012	2013	2012
Key financials				
Sales [1]	811.7	1,434.3	2,967.0	2,841.8
Gross profit	517.9	1,060.8	1,742.2	1,629.2
Profit/-loss from operating activities	-434.0	1,006.8	579.7	1,416.9
Net profit/-loss	-506.0	810.1	225.0	1,039.6
EBITDA	576.8	1,262.6	2,054.3	2,059.9
Netback	488.4	1,250.9	1,696.1	1,900.3
Acquisition and development costs	425.1	376.4	1,695.9	1,147.3
Exploration costs expensed	23.6	19.5	60.9	78.0
Key performance indicators [2]				
Lifting costs (USD/boe)	7.81	6.13	7.96	7.48
Netback (USD/boe)	25.15	53.07	20.76	23.84

[1] Sales in 2012 include USD 116 million related to export volumes from the Tawke field.
[2] Key performance indicators include export volumes from the Tawke field.

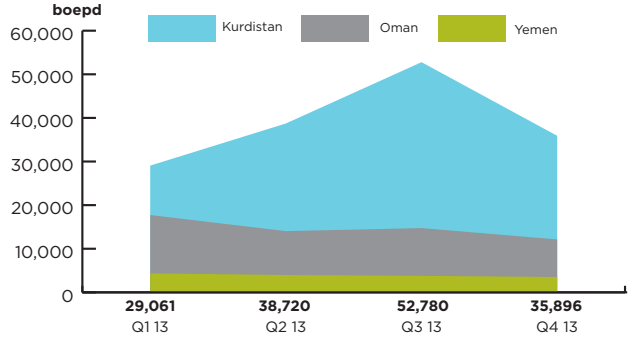
Operational review

Production

Quarterly production



Quarterly production per country (CWI)



Company working interest production during the fourth quarter averaged 35,896 boepd (64,256 boepd gross). The decrease in volumes compared to the previous quarter (52,780 boepd CWI) and corresponding period last year (46,398 boepd CWI) is primarily due to lower local sales of Tawke oil production in Kurdistan. For the full year, average CWI production of 39,170 boepd was above the 2012 level (38,354 boepd) with lower year-on-year production from Kurdistan offset by increased volumes from Block 8 in Oman.

CWI production at the Tawke field decreased to 23,765 barrels of oil per day (bopd) during the fourth quarter (38,207 bopd gross) from 38,045 bopd (61,166 bopd gross) in the previous quarter and 30,914 bopd (49,701 bopd gross) during the corresponding period in 2012. Full year CWI production at the Tawke field was 24,527 bopd (39,433 bopd gross).

In Oman, CWI production from Block 8 was 8,610 boepd (17,219 boepd gross) during the fourth quarter compared to 10,948 boepd (21,899 boepd gross) in the previous quarter and 10,983 boepd (21,965 boepd gross) during the corresponding period in 2012. Full year CWI production at Block 8 was 10,736 bopd (21,473 bopd gross).

Production at the Company's assets in Yemen remained consistent with the Company's expectations at 3,522 bopd CWI (8,830 bopd gross) during the fourth quarter. Full year CWI production averaged 3,907 bopd (9,708 bopd gross) in Yemen.

Net entitlement production during the fourth quarter was 21,738 boepd compared to 22,257 boepd in the previous quarter and 23,207 boepd during the corresponding period in 2012. Full year net entitlement production was 20,956 boepd compared to 20,633 boepd in 2012.

Gross production

	Quarter		Full year	
boepd	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Kurdistan	38,207	49,701	39,433	45,477
Oman	17,219	21,965	21,473	11,490
Yemen	8,830	10,881	9,708	10,271
Total	**64,256**	**82,547**	**70,614**	**67,238**

The table above reflects gross production from the fields. Kurdistan figures include both local sales and exported volumes.

Company Working Interest (CWI) production

	Quarter		Full year	
boepd	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Kurdistan	23,765	30,914	24,527	28,466
Oman	8,610	10,983	10,736	5,745
Yemen	3,522	4,501	3,907	4,143
Total	**35,896**	**46,398**	**39,170**	**38,354**

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

Net entitlement production

	Quarter		Full year	
boepd	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Kurdistan	14,842	12,163	12,679	14,563
Oman	4,508	8,499	5,733	3,628
Yemen	2,389	2,545	2,543	2,442
Total	**21,738**	**23,207**	**20,956**	**20,633**

The table above reflects DNO's net entitlement production including diesel. Net entitlement from past exports from Tawke has been estimated based on the PSC, but the Company has not received payments for the full net entitlement production.

Activity overview

The Company continued its broad exploration, appraisal and development program across the portfolio in 2013. A total of 12 wells were completed during the year and two were drilling ahead at year-end. As at the reporting date the Company had three operated drilling rigs actively engaged in Kurdistan. 2013 was also a year of significant portfolio growth that saw the Company acquire interests in four new exploration and appraisal blocks.

Appraisal and field development

KURDISTAN REGION OF IRAQ

Tawke license

Two horizontal production wells were drilled and completed in 2013 as part of the Company's ongoing field development program. The Tawke-23 horizontal production well was brought onstream in October at a rate of 32,500 bopd, a new record for a single well at the field. The well encountered continuous oil shows throughout a 930 meter horizontal section and ten separate fracture corridors were each tested at an average rate of 9,000 bopd. The first horizontal well completed in the field in July, Tawke-20, is located six kilometers away and set the previous record production rate for a Tawke well at 25,000 bopd. Both wells are subject to wellbore and surface facilities limitations. Throughout the fourth quarter,

the Company was drilling ahead at the Tawke-21 and Tawke-22 horizontal wells. Drilling operations were concluded at both wells post period end and testing is underway.

In 2014, planned activity at the Tawke field includes the drilling of five more horizontal wells in the main Cretaceous reservoir and two wells in the shallower Tertiary reservoir. Work will also continue on expanding capacity of the Tawke production facilities from the current 100,000 bopd to 200,000 bopd. Success with the 2014 drilling program could lead to further expansion of production facilities capacity in the future. To transport the increased field output, it is planned that a new 24 inch pipeline will be installed along the same route as the existing 12 inch pipeline that runs from the central processing facility at the field to the Fish Khabur export facility.

Following the submission of a Discovery Notice and Declaration of Commerciality to the Kurdistan Regional Government (KRG) in relation to the Peshkabir discovery during 2012, the Company submitted a field development plan (FDP) during the fourth quarter of 2013. In 2014 the Company plans to drill the Peshkabir-1A sidetrack well in order to further appraise the discovery and test upside potential.

Dohuk license

During the fourth quarter the Company re-entered, completed and tested the Summail-1 production well. First sales gas from the well is targeted for the first quarter with initial deliveries of 30 to 50 million cubic feet per day (MMcfd) increasing to 100 to 120 MMcfd as new wells are drilled, completed and additional facilities installed. The Summail-3 well was spudded during the fourth quarter and is drilling ahead. The drill location for the Summail-2 well is being prepared and the well will spud during the second quarter. Following the development of the Summail field, the Company will shift its focus to appraisal of the oil potential of the Dohuk license.

Erbil license

The Benenan-4 appraisal well was drilled to test an undrilled part of the Benanan structure. The well encountered strong oil shows and good porosity across several intervals in the Cretaceous Najmeh formation, proving oil outside the previously mapped closure confirming significant upside to oil in place volumes. The Company intends to test the well.

The Benenan-3 well was drilled to a total depth of 3,178 meters in late 2012 as a horizontal appraisal well in the Cretaceous Najmeh formation. The well also encountered moveable oil in the Bekhme formation and proved an additional 210 meter oil column in the Lower Najmeh reservoir. The well has been completed and temporary production facilities installed. At the Bastora oil discovery, the Bastora-2 well has been completed and temporary production facilities installed. The Company is initiating production at both wells.

The Company has commenced a FEED study in order to establish and optimize the full field development options and requirements for both the Bastora and Benenan oil discoveries.

OMAN

At the West Bukha field a rig-based workover of the West Bukha-5 production well commenced in December. Reprocessing of West Bukha 3D seismic data and a review of the reservoir model are underway to evaluate possible new drilling targets and additional exploration opportunities in Block 8.

RAS AL KHAIMAH

The Saleh-8 well was tied into existing infrastructure during the fourth quarter to enable production and pressure monitoring. Artificial lift studies are being undertaken on the partially depleted upper Wasia reservoir.

YEMEN

At Block 47, the Company plans to commence production at the Yaalen field from one well in 2014. Following production start up the Company will gather well, reservoir and fluid properties data to assist in subsequent development activities.

At the Nabrajah field in Block 43, the Company commenced drilling of the Nabrajah-18S/S2 wells during the fourth quarter to test the deeper Shuqra and Basement formation intervals previously encountered at the field with the Nabrajah-5 and Nabrajah-9S wells.

TUNISIA

The Sfax Offshore Exploration Permit and the Ras El Besh Concession are located in the prolific Gulf of Gabes and cover 3,296 km^2, mostly offshore in shallow waters. To date, three discoveries have been made with combined gross contingent resources of 35 million to 60 million barrels of oil. These assets offer significant exploration potential with 29 identified prospects that in aggregate are estimated to contain 500 million to 700 million barrels of gross unrisked prospective resources. The work program in 2014 is focused on commercialization of the existing discoveries and the drilling of one exploration well to test additional upside at the Jawhara discovery.

Exploration

KURDISTAN REGION OF IRAQ

Tawke license

The Company is planning new data acquisition to evaluate the Jurassic oil discovery made in June with the Tawke-17 (Deep) exploration well and the north flank/footwall areas of the field where significant additional prospectivity has been identified, and plans to spud the Tawke-29 Jurassic appraisal well in the third quarter.

OMAN

Block 36 is located in the prolific Rub Al Khali basin and covers a surface area of approximately 18,000 km^2. Two of the three exploration wells previously drilled on the block have confirmed the presence of source rock in the basal Silurian hot shale, an organic rich shale that has sourced the majority of the oil and gas fields discovered in the Arabian Peninsula and north Africa. All three wells have hydrocarbon shows. Multiple stacked reservoir units have been identified and mapped on the existing seismic data comprising approximately 10,000 km of 2D seismic complemented by high resolution gravity and aeromagnetic surveys. The Company has commenced reprocessing and interpretation of the existing 2D seismic data and is planning the acquisition of new 2D and 3D seismic data over areas of identified prospectivity that are expected to lead to the spudding of one exploration well late 2014.

YEMEN

In October, the Salsala-1 exploration well made a new oil discovery in Block 32. Salsala-1 was directionally drilled to a total depth of 4,147 meters and encountered oil shows in the Shuqra formation which was perforated over a 32 meter interval, acidized and tested. The well flowed naturally at an initial rate of 5,900 bopd before being choked back to a final flow rate of 3,400 bopd due to facilities constraints. The Company plans to appraise the discovery in 2014.

TUNISIA

The Company plans to drill the Jawhara-3 exploration well in 2014 to test additional upside potential in a separate, undrilled fault block approximately four kilometers north of the Jawhara-1 discovery well that flowed 1,500 bopd. The well is expected to spud and complete during the third quarter.

At the Fkirine license onshore Tunisia, reprocessing and interpretation of 2D seismic data is ongoing. At the Hammamet offshore license, a 2D seismic acquisition is planned to better define three identified prospects.

SOMALILAND

Block SL18 onshore Somaliland covers a surface area of 12,000 km^2 and adds substantial exploration acreage to the Company's portfolio in a high potential area that is both prospective and undrilled. Having been active across the Gulf of Aden in Yemen since the late 1990's, the opportunity falls within the Company's geographical and geological sphere of expertise. The Company has completed a study of remote data over the block that will guide the acquisition of new seismic and gravity/aeromagnetic data, and farmed down its interest from 100 percent to 60 percent.

Health, safety, security and environment

A key element in DNO's HSSE management system is the recording, reporting and assessment of relevant data. Following the implementation of a new industry recognized HSSE management IT tool, the Company has established monitoring of additional key performance indicators (KPIs) in order to provide information on historical trends. In the fourth quarter the Company's HSSE performance remained within satisfactory levels with no major cases recorded.

Financial review

Sales, profits and cash flow

Sales revenues in the fourth quarter were NOK 812 million, remaining flat compared to the previous quarter (NOK 810 million). Full year sales revenues were NOK 2,967 million, compared to NOK 2,842 million in 2012.

Oil exports from the Tawke field in the Kurdistan region of Iraq were halted during early January 2013, meaning that no export revenues have been recorded in 2013. However, the Company continued to sell production from the field into the local market throughout the year. Local sales contributed NOK 507 million in the fourth quarter.

Revenues from oil and gas production at Block 8 offshore Oman amounted to NOK 170 million in the fourth quarter, and revenues from the Company's producing assets onshore Yemen amounted to NOK 135 million.

Operating loss during the fourth quarter was NOK 434 million and net loss NOK 506 million, impacted by one-off charges of NOK 869 million for goodwill and asset impairments in relation to the Company's blocks offshore UAE and Oman. For the full year operating profit and net income were NOK 580 million and NOK 225 million respectively. Total investments made during the fourth quarter were NOK 425 million, and for the full year NOK 1,696 million.

The Company has continued to maintain a conservative capital structure. At the end of the fourth quarter the Company's free cash position was NOK 1,618 million. Gross debt as at 31 December was NOK 1,402 million, representing a net cash position of NOK 216 million.

Cost of goods sold

In the fourth quarter, cost of goods sold was NOK 294 million compared with NOK 374 million in the corresponding period last year. Full year cost of goods sold was NOK 1,225 million.

LIFTING COSTS

Lifting costs were NOK 152 million in the fourth quarter, compared with NOK 144 million in the corresponding period last year. Total and unit lifting costs per country are presented in the accompanying table.

Lifting cost

	Quarter		Full year	
NOK million	Q4 2013	Q4 2012	2013	2012
Kurdistan	58.8	54.7	276.2	175.3
Oman	40.1	23.2	112.3	197.1
Yemen	52.8	66.5	261.5	224.0
Total	**151.7**	**144.4**	**650.0**	**596.4**

Including export volumes

USD/boe	Q4 2013	Q4 2012	2013	2012
Kurdistan	4.48	3.41	5.29	2.92
Oman	8.93	4.34	5.17	17.32
Yemen	29.47	30.31	33.74	27.21
Average	**7.81**	**6.13**	**7.96**	**7.48**

DEPRECIATION, DEPLETION AND AMORTIZATION (DD&A)

DD&A amounted to NOK 140 million in the fourth quarter compared to NOK 228 million in the corresponding period last year.

DD&A

	Quarter		Full year	
NOK million	Q4 2013	Q4 2012	2013	2012
Kurdistan	64.1	66.7	210.2	315.0
Oman	47.7	134.2	239.5	201.0
Yemen	28.3	26.9	119.0	95.2
Total DD&A	**140.1**	**227.8**	**568.7**	**611.3**

Including export volumes

USD/boe	Q4 2013	Q4 2012	2013	2012
Kurdistan	7.81	10.63	7.79	10.28
Oman	18.99	30.23	19.48	26.02
Yemen	23.40	21.66	23.67	19.57
Average DD&A	**11.74**	**19.05**	**12.83**	**14.90**

Exploration and capital expenditure

EXPLORATION COSTS EXPENSED

Expensed exploration costs in the fourth quarter were NOK 24 million, and relate mainly to the SFAX Offshore Exploration Permit in Tunisia.

Exploration costs expensed

	Quarter		Full year	
NOK million	Q4 2013	Q4 2012	2013	2012
Kurdistan	1.0	4.6	2.5	24.3
Oman	5.0	3.5	9.7	7.2
Yemen	0.9	2.7	3.7	6.5
UAE	1.1	1.4	2.6	2.1
Tunisia	14.5	7.3	37.3	37.8
Other	1.2	-	5.1	0.2
Total	**23.6**	**19.5**	**60.9**	**78.0**

ACQUISITION AND DEVELOPMENT COSTS
(INCL. INTANGIBLE ASSETS)

Capital expenditures in the fourth quarter were NOK 425 million compared with NOK 376 million in the corresponding period last year. Costs associated with development projects at the Tawke field amounted to NOK 133 million. Costs associated with the Summail field development amounted to NOK 145 million and costs associated with appraisal and development work at the Erbil license amounted to NOK 65 million. In Yemen, capitalized exploration costs in Block 32 amounted to NOK 11 million. Investments in Block 53 were NOK 7 million, and in Block 43 NOK 2 million. Development costs associated with the Yaalen field in Block 47 amounted to NOK 8 million. Drilling and completion costs of the West Bukha-5 workover offshore Oman amounted to NOK 11 million.

Acqusition and development cost

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Kurdistan	357.2	212.4	988.8	600.8
Oman	28.1	136.1	182.6	435.8
Yemen	26.2	25.9	156.8	99.8
UAE	10.7	-0.2	354.7	6.9
Tunisia	-	-	-	-
Other	2.9	2.2	13.0	4.0
Total	**425.1**	**376.4**	**1,695.9**	**1,147.3**

Settlement of ØKOKRIM claim

On 25 October, DNO reached an out of court settlement with ØKOKRIM (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) for alleged failures five years ago to comply with the Securities Trading Act. ØKOKRIM had charged the Company with lack of disclosure to the market in respect to its sale of 43,873,960 treasury shares in October 2008. A similar charge was reviewed and dismissed by the Stock Exchange Appeals Committee in 2009, although the Company was fined NOK 800,000 for failure to provide required information to the Oslo Stock Exchange. As part of this settlement the Company agreed to pay a reduced fine of NOK 20 million, without admitting any liability, to bring an end to a protracted and costly distraction involving matters that predate the current executive management and board of directors of DNO. The payment of NOK 20 million was recorded in the Company's Q3 2013 financial results.

Consolidated statements of comprehensive income

NOK million	Note	Quarter Q4 2013	Quarter Q4 2012	Full year 2013	Full year 2012
Sales	2, 3	811.7	1,434.3	2,967.0	2,841.8
Cost of goods sold	4	-293.8	-373.5	-1,224.8	-1,212.7
Gross profit		**517.9**	**1,060.8**	**1,742.2**	**1,629.2**
Other operating income		0.4	3.4	2.0	10.4
Tariffs and transportation		-3.4	-4.3	-24.5	-15.6
Administrative expense/Other operating expenses		-56.6	-6.9	-179.3	-102.4
Impairment/Reversal impairment oil and gas assets	7	-868.6	-	-899.3	-
Exploration cost expensed	5	-23.6	-19.5	-60.9	-78.0
Net gain/-loss from sale of PP&E	7	-	-26.7	-0.5	-26.7
Profit/-loss from operating activities		**-434.0**	**1,006.8**	**579.7**	**1,416.9**
Financial income		1.4	11.1	13.4	23.4
Financial expenses		-8.3	-21.8	-69.9	-117.9
Profit/-loss before income tax		**-440.8**	**996.0**	**532.2**	**1,322.5**
Income tax expense	6	-65.2	-185.9	-298.2	-282.8
Net profit/-loss		**-506.0**	**810.1**	**225.0**	**1,039.6**
Other comprehensive income					
Currency translation differences	9	80.5	-100.3	473.7	-279.9
Fair value changes available-for-sale financial assets		-	-1.0	-	-
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		**80.5**	**-101.3**	**473.7**	**-279.9**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**-**	**-**	**-**	**-**
Total other comprehensive income, net of tax	6	**80.5**	**-101.3**	**473.7**	**-279.9**
Total comprehensive income, net of tax		**-425.5**	**708.8**	**698.7**	**759.8**
Net profit/-loss attributable to:					
Equity holders of the parent		-506.0	810.1	225.0	1,039.6
Total comprehensive income attributable to:					
Equity holders of the parent		-425.5	708.8	698.7	759.8
Earnings per share, basic		-0.25	0.80	0.22	1.02
Earnings per share, diluted		-0.25	0.80	0.22	1.02

Condensed consolidated statements of financial position

ASSETS

NOK million	Note	Full year 2013	2012
Non-current assets			
Goodwill	12	-	258.2
Deferred income tax assets	6	46.9	42.9
Other intangible assets	7	962.9	728.8
Property, plant and equipment	7	4,628.2	3,885.9
Available for sale investments	8	65.9	2.5
Other non-current assets		14.6	-
Total non-current assets		**5,718.5**	**4,918.3**
Current assets			
Inventories	4	309.2	227.7
Trade and other receivables		693.3	688.8
Cash and cash equivalents		1,617.8	1,508.1
Total current assets		**2,620.3**	**2,424.6**
TOTAL ASSETS		**8,338.8**	**7,343.0**

EQUITY AND LIABILITIES

NOK million	Note	Full year 2013	2012
Equity			
Share capital	9	252.6	252.6
Other reserves	9	1,529.5	1,055.9
Retained earnings	9	2,929.8	2,704.8
Total equity		**4,711.9**	**4,013.3**
Non-current liabilities			
Interest-bearing liabilities	10	1,401.6	1,324.6
Deferred income tax liabilities	6	736.1	781.7
Retirement benefit obligations		3.2	2.7
Provisions for other liabilities and charges	11	562.9	184.5
Total non-current liabilities		**2,703.7**	**2,293.4**
Current liabilities			
Trade and other payables		344.0	222.6
Income taxes payable	6	94.5	41.4
Provisions for other liabilities and charges	11	484.7	772.2
Total current liabilities		**923.2**	**1,036.2**
TOTAL EQUITY AND LIABILITIES		**8,338.8**	**7,343.0**

Condensed consolidated cash flow statements

NOK million	Note	Quarter Q4 2013	Quarter Q4 2012	Full year 2013	Full year 2012
Operating activities					
Profit/-loss before income tax		-440.8	996.0	523.2	1,322.5
Adjustments to add (deduct) non-cash items:					
+/- Net interest expense (-income)		3.9	18.9	42.1	94.4
Previously capitalized exploration and evaluation expenses		-	-	-	0.6
Depreciation of PP&E	4	142.1	229.6	574.8	616.4
Impairment loss/Reversal of impairment on PP&E	7	868.6	-	899.3	-
(Gain)/loss on PPE	7	-	26.7	0.5	26.7
(Gain)/loss on shares		-	-0.3	-0.3	-0.3
Other *		368.3	-47.8	431.7	311.6
Changes in working capital:					
- Inventories		-80.6	1.8	-81.5	-134.7
- Trade and other receivables		-133.7	-268.6	-19.0	-391.2
- Trade and other payables		216.1	17.8	121.2	136.9
- Provisions for other liabilities and charges		-313.0	50.0	-287.5	-97.3
Cash generated from operations		631.0	1,024.1	2,204.6	1,885.6
Income taxes paid		-88.4	-11.7	-358.2	-159.6
Interest paid		-30.2	-19.8	-119.2	-143.2
Net cash from operating activities		**512.5**	**992.6**	**1,727.2**	**1,582.8**
Investing activities					
Acquisition of subsidiary, net of cash		-	-	-	-115.5
Purchases of intangible assets	7	-30.0	-83.6	-207.7	-249.7
Purchases of tangible assets	7	-395.1	-292.8	-1,488.2	-897.6
Proceeds from sale of tangible assets		-	2.3	-	2.3
Purchases of available-for-sale financial assets		-65.9	-	-65.9	-3.9
Proceeds from sale of available-for-sale financial assets		-	1.7	2.8	1.7
Interest received		1.0	1.0	3.3	6.5
Net cash from/-used in investing activities		**-490.1**	**-371.5**	**-1,755.8**	**-1,256.3**
Financing activities					
Repayment of borrowings		-	-172.8	-	-279.3
Purchase of treasury shares, including options	9	-	-	-	-107.1
Net cash from/-used financing activities		**-**	**-172.8**	**-**	**-386.4**
Net increase/-decrease in cash and cash equivalents		**22.4**	**448.2**	**-28.6**	**-60.0**
Cash and cash equivalents at beginning of the period		1,576.5	1,099.9	1,508.1	1,644.8
Exchange gain/-losses on cash and cash equivalents		19.0	-40.0	138.3	-76.6
Cash and cash equivalents at end of the period		**1,617.8**	**1,508.1**	**1,617.8**	**1,508.1**

* Included in the line Other under Operating activities are foreign currency effects 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 2012		**217.5**	**275.1**	**1,665.2**	**2,157.7**
Fair value gains, net of tax:					
- 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
Balance at 31 December 2012	9	**252.6**	**1,055.9**	**2,704.8**	**4,013.3**

NOK million	Note	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013		**252.6**	**1,055.9**	**2,704.8**	**4,013.3**
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-	-	-
Currency translation differences		-	473.7	-	473.7
Other comprehensive income/-loss		-	473.7	-	473.7
Profit for the period		-	-	225.0	225.0
Total comprehensive income		-	473.7	225.0	698.7
Issue of share capital		-	-	-	-
Purchase of treasury shares		-	-	-	-
Sale of treasury shares		-	-	-	-
		-	-	-	-
Balance at 31 December 2013	9	**252.6**	**1,529.5**	**2,929.8**	**4,711.9**

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 2012. The interim financial information for 2013 and 2012 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 2012.

Note 2 || Segment information

DNO is reporting five (5) operating segments; Yemen (YEM), Kurdistan (KUR), Oman (OMAN), Ras Al Khaimah (UAE) and Tunisia (TUN). The operating segments equal the reportable segments.

Three months ended 31 December 2013 NOK mill	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	134.7	507.4	169.6	-	-	811.7	-	**811.7**
Inter-segment sales		4.9	0.9	1.7	18.5	2.4	1.0	29.4	-29.4	**-**
Cost of goods sold	4	-	-81.1	-123.6	-88.0	-	-0.2	-292.9	-0.9	**-293.8**
Gross profit		**4.9**	**54.6**	**385.5**	**100.1**	**2.4**	**0.8**	**548.3**	**-30.4**	**517.9**
Segment operating result		**-9.7**	**44.5**	**356.3**	**-262.6**	**-585.1**	**-3.1**	**-459.6**	**-38.6**	**-498.3**
Interest - net										**-3.9**
Gain/-loss on sale of shares										**-**
Income tax expense		-	-19.2	-	-45.9	-	-	-65.2	-	**-65.2**
Net profit/-loss										**-506.0**
Segment assets		**60.3**	**720.3**	**4,173.5**	**1,835.9**	**300.0**	**12.8**	**7,102.8**	**1,236.0**	**8,338.8**

Three months ended 31 December 2012 NOK mill	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	143.4	853.5	437.5	-	-	1,434.3	-	**1,434.3**
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	**-373.5**
Gross profit		**1.2**	**51.8**	**736.7**	**286.5**	**0.6**	**-0.2**	**1,076.8**	**-16.0**	**1,060.8**
Segment operating result		**-6.0**	**34.9**	**728.0**	**277.4**	**-5.8**	**-29.1**	**999.5**	**12.1**	**1,011.5**
Interest - net										**-15.9**
Gain/-loss on sale of shares										**0.3**
Income tax expense		-	-27.1	-	-158.8	-	-	-185.9	-	**-185.9**
Net profit/-loss										**810.1**
Segment assets		**21.0**	**684.8**	**2,813.6**	**1,913.3**	**491.7**	**19.3**	**5,943.8**	**1,399.2**	**7,343.0**

Note 2 || Segment information continues

Twelve months ended 31 December 2013 NOK mill	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	549.2	1,628.4	789.5	-	-	2,967.0	-	**2,967.0**
Inter-segment sales		9.1	10.7	20.9	33.3	14.7	2.4	91.0	-91.0	**-**
Cost of goods sold	4	-	-380.6	-488.5	-352.1	-	-0.7	-1,221.9	-2.9	**-1,224.8**
Gross profit		**9.1**	**179.3**	**1,160.7**	**470.7**	**14.7**	**1.7**	**1,836.1**	**-93.9**	**1,742.2**
Segment operating result		**-30.4**	**112.2**	**1,088.2**	**111.2**	**-590.0**	**-2.2**	**689.0**	**-123.9**	**565.0**
Interest - net										**-42.1**
Gain/-loss on sale of shares										**0.3**
Income tax expense		-	-52.0	-	-246.2	-	-	-298.2	-	**-298.2**
Net profit/-loss										**225.0**
Segment assets		**98.3**	**720.3**	**4,173.5**	**1,835.9**	**300.0**	**-25.1**	**7,102.8**	**1,236.0**	**8,338.8**

Twelve months ended 31 December 2012 NOK mill	Note	TUN	YEM	KUR	OMAN	UAE	OTHER	Total report. segm.	Unalloc./ elimin.	GROUP
Income statement information										
External sales	3	-	555.1	1,562.5	724.3	-	-	2,841.8	-	**2,841.8**
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	**-1,212.7**
Gross profit		**3.8**	**245.5**	**1,092.2**	**344.6**	**2.1**	**-0.7**	**1,687.6**	**-58.5**	**1,629.2**
Segment operating result		**-34.7**	**201.9**	**1,061.6**	**324.9**	**-5.0**	**-40.0**	**1,508.6**	**-95.6**	**1,412.9**
Interest - net										**-90.8**
Gain/-loss on sale of shares										**0.3**
Income tax expense		-	-94.9	-	-188.0	-	-	-282.8	-	**-282.8**
Net profit/-loss										**1,039.6**
Segment assets		**21.0**	**684.8**	**2,813.6**	**1,913.3**	**491.7**	**19.3**	**5,943.8**	**1,399.2**	**7,343.0**

Note 3 || Sales

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

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Sale of petroleum products	811.7	1,434.3	2,967.0	2,841.8
Total sales	**811.7**	**1,434.3**	**2,967.0**	**2,841.8**

Note 4 || Cost of goods sold/inventory

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Lifting costs *	-151.7	-144.4	-650.0	-596.4
Depreciation, depletion and amortization	-142.1	-229.2	-574.8	-616.3
Total cost of goods sold	**-293.8**	**-373.5**	**-1,224.8**	**-1,212.7**

* 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 organization.

	Full year	
NOK million	**2013**	**2012**
Spare parts	224.2	116.5
Other inventory	84.9	111.2
Total inventory	**309.2**	**227.7**

Spare parts relate mainly to the Tawke field in the Kurdistan region of Iraq. Other inventory relates to drilling and completion materials for the offshore blocks in Oman and UAE.

Note 5 || Exploration cost

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Exploration expenses (G&G and field surveys)	-9.6	-10.7	-19.9	-50.4
Seismic costs	-0.4	-2.2	-2.1	-18.3
Exploration costs capitalized in previous years carried to cost	0.1	-	0.2	0.4
Exploration costs capitalized this year carried to cost	-	-	0.3	-1.0
Other exploration cost expensed	-13.8	-6.5	-39.3	-8.7
Total exploration cost expensed *	**-23.6**	**-19.5**	**-60.9**	**-78.0**

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

Note 6 || Income taxes

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Deferred taxes	20.0	-148.2	113.0	-154.6
Income taxes payable related to Production Sharing Agreements (PSAs)	-85.1	-37.7	-411.2	-128.3
Total income tax expense	**-65.2**	**-185.9**	**-298.2**	**-282.8**

Income taxes payable amounting to NOK 94.5 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 the Kurdistan region of Iraq as there is currently no established tax regime.

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

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

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Acquisitions of PP&E *	395.1	292.8	1,488.2	897.6
Acquisitions of intangible assets **	30.0	84.4	207.7	249.7
Acquisitions through business combinations ***	-	-	-	1,508.6
Net book amount PP&E	**4,628.2**	**3,885.9**	**4,628.2**	**3,885.9**
Net book amount intangible assets	**962.9**	**728.8**	**962.9**	**728.8**
Sale of PP&E				
Proceeds	0.1	2.0	4.1	2.0
Carrying value	0.1	28.7	4.6	28.7
Net gain/-loss	-	-26.7	-0.5	-26.7
Impairment/reversal of impairment of PP&E	868.6	-	899.3	-

* Acquisitions related to development assets, assets in operation and other PP&E
** Acquisitions related to capitalized exploration costs and license interests
*** Acquisitions through business combinations are related to the merger with RAK Petroleum PCL's MENA subsidiaries

Impairment charge of NOK 868.6 million (USD 141.6 million) in Q4 2013 is related to the assets in UAE (Saleh and RAK B) and Block 8 in Oman. See Note 12 for further details. Impairment charge of NOK 30.7 million related to Block 31 in Oman was recorded in Q3 2013.

Sale of PP&E in 2012 was related to the sale of the 5 percent license interest in Block P in Equatorial Guinea.

Note 8 || Available-for-sale financial assets

Available-for-sale financial assets are revalued at fair value (market price, where available) at the end of each period, with changes charged to other comprehensive income. Impairment will be charged to profit or loss, while reversal of impairment will be taken through other comprehensive income.

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Beginning of the period	-	4.8	2.5	-
Additions	66.4	-	66.4	3.9
Sales	-	-1.3	-2.5	-1.3
Revaluation surplus/deficit transfer to equity	-	-0.8	-0.1	0.1
Impairment	-	-	-	-
Exchange differences	-0.4	-0.1	-0.4	-0.1
End of the period [1)]	**65.9**	**2.5**	**65.9**	**2.5**
Non-current portion	65.9	2.5	65.9	2.5
Current portion	-	-	-	-

[1)] Available-for-sale financial assets include the following:

	Quarter		Full year	
NOK million	**Q4 2013**	**Q4 2012**	**2013**	**2012**
Listed securities:				
- Other securities	-	2.5	-	2.5
Unlisted securities:				
- RAK Petroleum PCL	65.9	-	65.9	-
[1)] Total available-for-sale financial assets	**65.9**	**2.5**	**65.9**	**2.5**

In the fourth quarter 2013, DNO acquired 39,996,708 shares (1.25 percent of outstanding shares) in RAK Petroleum PCL. These shares have been acquired in open market transactions and classified as available for sale in DNO's accounts.

Note 9 || Equity

Share capital

NOK million	Number of shares (1,000)	Ordinary shares	Treasury shares	Total
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 31 December 2012	**1,023,279**	**255.8**	**-3.3**	**252.6**
At 1 January 2013	**1,023,279**	**255.8**	**-3.3**	**252.6**
Share option scheme:				
- value of services provided	-	-	-	**-**
- proceeds from shares issued	-	-	-	**-**
Treasury shares purchased/sold	-	-	-	**-**
Share issues	-	-	-	**-**
At 31 December 2013	**1,023,279**	**255.8**	**-3.3**	**252.6**

In connection with the merger with RAK Petroleum PCL's MENA 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 PCL as further consideration. The total number of ordinary shares is 1,023,279,255 shares with a par value of NOK 0.25 per share. All issued shares are fully paid.

Other reserves

NOK million	Share premium	Other paid-in capital	Available-for-sale investm.	Other reserves	Translation	Total
Balance at 1 January 2012	**369.8**	**347.4**	**-**	**-324.7**	**-117.3**	**275.1**
Revaluation, net of tax	-	-	-	-	-	-
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	-	-	-	-	-279.9	-279.9
Balance at 31 December 2012	**927.0**	**347.4**	**-**	**178.6**	**-397.2**	**1,055.9**
Balance at 1 January 2013	**927.0**	**347.4**	**-**	**178.6**	**-397.2**	**1,055.9**
Revaluation, net of tax	-	-	-	-	-	-
Treasury shares:						
- Sale of treasury shares	-	-	-	-	-	-
- Purchase of treasury shares	-	-	-	-	-	-
Other paid in capital	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Currency translation differences:						
- Group	-	-	-	-	473.7	473.7
Balance at 31 December 2013	**927.0**	**347.4**	**-**	**178.6**	**76.5**	**1,529.5**

Note 9 || Equity continues

Retained earnings

NOK million	
Balance at 1 January 2012	**1,665.2**
Profit for the period	1,039.6
Balance at 31 December 2012	**2,704.8**
Balance at 1 January 2013	**2,704.8**
Profit for the period	225.0
Balance at 31 December 2013	**2,929.8**

Note 10 || Interest-bearing liabilities

	Full year	
NOK million	**2013**	**2012**
Non-current		
Bonds	1,401.6	1,324.6
Total non-current interest-bearing liabilities	**1,401.6**	**1,324.6**
Current		
Current portion of bonds	-	-
Total current interest-bearing liabilities	**-**	**-**
Total interest-bearing liabilities	**1,401.6**	**1,324.6**

					Quarter	
NOK million	**Currency**	**Amount**	**Interest**	**Maturity**	**Q4 2013**	**Q3 2013**
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	851.7	841.1
Borrowing issue costs					-10.2	-11.3
Total interest-bearing liabilities					**1,401.6**	**1,389.8**

Note 11 || Provisions for other liabilities and charges

NOK million	Full year 2013	2012
Non-current		
Asset retirement obligations	21.8	17.8
Other long-term obligations	541.1	166.7
Total non-current provisions for other liabilities and charges	**562.9**	**184.5**
Current		
Other provisions and charges	484.7	772.2
Total current provisions for other liabilities and charges	**484.7**	**772.2**
Total provisions for other liabilities and charges	**1,047.5**	**956.6**

NOK million	Asset retirement obligation	Other non-current	Other current	Total
Balance at 31 December 2012	**17.8**	**166.7**	**772.2**	**956.6**
Charged to consolidated statement of comprehensive income:				
- Additional provisions	-	377.2	47.0	424.2
Exchange differences	4.0	-	-	4.0
Incurred and charged against the provision during the period	-	-2.8	-334.5	-337.3
Balance at 31 December 2013	**21.8**	**541.1**	**484.7**	**1,047.5**

Included in provison for other liabilities and charges is provision for the Water Purification Project (WPP) in the Kurdistan region of Iraq. 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. Most of the WPP liability has been classified as short-term at 31 December 2013 and included in other provisions and charges (current).

Note 12 || Impairment assessments

DNO has performed impairment assessments for its assets at year-end 2013, 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 2013. Booked values of the assets have been compared to values in use calculated as the net present value 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 2013 adjusted for any discounts in oil quality applicable to each field and the discount rate used for impairment purposes is based on DNO's WACC (Weighted Average Cost of Capital).

Based on the calculations, an impairment charge of NOK 284.5 million (USD 46.4 million) has been recorded for Block 8 in Oman, extinguishing the technical goodwill related to the excess values from the purchase price allocation (PPA). In addition, an impairment charge of NOK 584.1 million (USD 95.2 million) has been recorded for the RAK Saleh and RAK B fields in the UAE.

Note 13 || Contingencies and events after the balance sheet date

COMPLETION OF FARM-IN AGREEMENT IN TUNISIA

On 20 January 2014, DNO announced the completion of the farm-in by its wholly-owned subsidiary DNO Tunisia AS to the Sfax Offshore Exploration Permit and the Ras El Besh Concession in the Republic of Tunisia, pursuant to the previously announced agreement with Eurogas International Inc. and Atlas Petroleum Exploration Worldwide Ltd. DNO Tunisia AS now holds an 87.5 percent participating (100 percent paying) interest in the permit and the concession, in respect of which it has assumed operatorship and a significant share of the existing cost pool.

CHANGE OF PRESENTATION CURRENCY FROM NOK TO USD

The Company is changing its presentation currency for the consolidated financial statements from NOK to USD with effect from 1 January 2014. The change is made to better reflect the profile of an industry with revenues, costs and cash-flows primarily generated in USD.

Restated condensed financial statements as of 31 December 2013 as if the change in the group presentation currency was effective since 1 January 2005 (IFRS transition), will be presented in the Q1 2014 report.

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