



# 2016 interim results



## Key figures

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
<b>Key financials</b>				
Revenues	41.7	54.5	201.3	187.4
Gross profit	4.8	27.9	72.6	-9.5
Profit/-loss from operating activities	-27.6	-81.3	5.7	-174.0
Net profit/-loss	-31.2	-83.3	-35.3	-212.3
EBITDA	15.0	22.9	94.9	29.4
Netback	13.4	25.2	93.8	22.2
Acquisition and development costs	35.9	0.8	54.0	50.7
Exploration costs expensed	1.3	4.1	20.3	23.5
Key performance indicators <sup>1)</sup>				
Lifting costs (USD/boe)	4.2	0.1	2.7	2.7
Netback (USD/boe)	2.0	3.4	3.7	0.8

<sup>1)</sup> Key performance indicators include exports from the Tawke field.

## Corporate overview

- Back on track in 2016 to profitability and growth
- Commencing in first half of year, more regular payments for Kurdistan oil exports in line with contracts
- Following which DNO resumed drilling in second half of year
- While keeping overall corporate spend below cash from operations
- Leading to operating profits following two consecutive years of losses
- And strengthened balance sheet
- Continue to cut costs by shedding non-performing assets
- Bolstering staff in preparation for increased activity in 2017

## 2016 operational highlights

- Operated production in 2016 averaged 112,600 barrels of oil equivalent per day (boepd)
- Of which Kurdistan represented 107,300 bopd and Oman 5,300 boepd
- Company Working Interest (CWI) production averaged 69,200 boepd in 2016
- Accelerated development of shallow Jeribe reservoir overlying main Tawke Cretaceous reservoir
- Withdrew from five licenses in 2016
- Drilled four new production wells, one appraisal well, one exploration well and one water disposal well

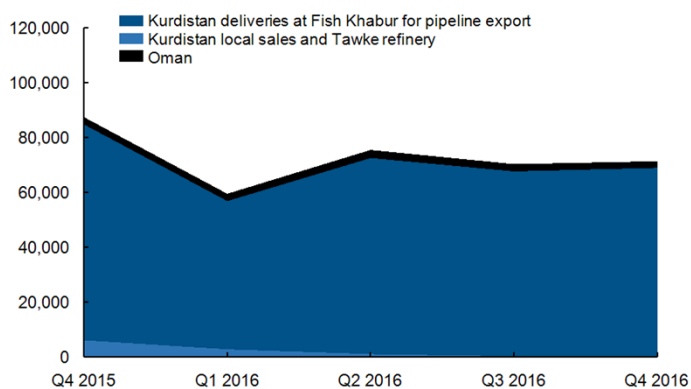
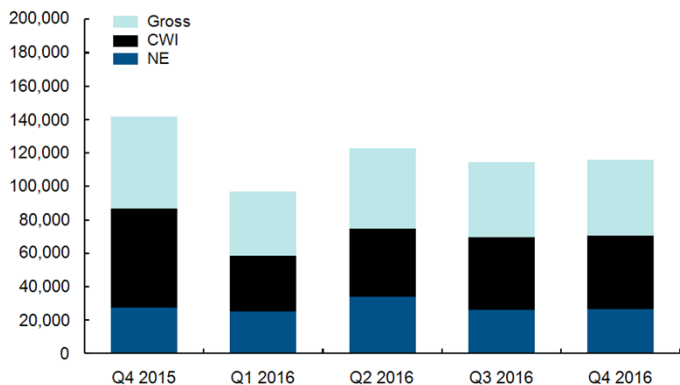
## 2016 financial highlights

- Annual revenues of USD 201 million, up from USD 187 million in 2015
- Received 10 monthly Tawke export payments in 2016 totaling USD 292 million gross, of which USD 210 million net to DNO including USD 26 million towards booked receivables
- Operating profit of USD 6 million, up from operating loss of USD 174 million in 2015 and USD 243 million in 2014
- 2016 operational spend of USD 125 million, down from USD 161 million in 2015
- Exited the year with cash balance of USD 261 million, up from USD 238 million at end-2015

# Operational review

## Production

### Quarterly production (boepd)



Company Working Interest (CWI) production during the fourth quarter averaged 71,373 boepd, up from 70,330 boepd during the third quarter.

In Kurdistan, CWI production averaged 68,963 boepd during the fourth quarter, up from 67,678 boepd in the previous quarter.

In Oman, CWI production averaged 2,411 boepd during the fourth quarter, down from 2,652 boepd in the previous quarter.

Net entitlement production averaged 25,899 boepd during the fourth quarter, down from 25,995 boepd in the previous quarter.

### Gross production

boepd	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	111,229	136,774	107,299	135,416
Oman	4,818	4,922	5,325	8,193
Yemen	-	-	-	621
<b>Total</b>	<b>116,047</b>	<b>141,696</b>	<b>112,624</b>	<b>144,230</b>

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

### Company Working Interest (CWI) production

boepd	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	68,963	84,801	66,525	70,850
Oman	2,411	2,662	2,663	4,139
Yemen	-	-	-	304
<b>Total</b>	<b>71,373</b>	<b>87,463</b>	<b>69,188</b>	<b>75,293</b>

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

### Net entitlement production

boepd	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	23,804	26,091	25,746	8,281
Oman	2,096	1,451	1,630	2,190
Yemen	-	-	-	228
<b>Total</b>	<b>25,899</b>	<b>27,542</b>	<b>27,376</b>	<b>10,699</b>

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

# Activity overview

## Appraisal and field development

### Kurdistan region of Iraq

#### Tawke license

Gross production from the Tawke field averaged 107,299 barrels of oil per day (bopd) during 2016, of which 105,536 bopd was delivered for pipeline export through Turkey and the balance was sold into the local market or processed in the Tawke refinery.

Production was down from 2015 levels of 135,173 bopd as a result of reduced drilling activity during 2015 and the early part of 2016. However, a successful workover campaign initiated during the first half of 2016 helped reverse production declines. Additionally, four new production wells were drilled at Tawke during the second half of 2016, three of which targeted the shallow Jeribe reservoir and one the deeper Cretaceous reservoir. These new wells added more than 10,000 bopd of incremental production.

In October 2016, DNO spudded the Peshkibir-2 well to appraise the Jurassic reservoir and explore the Cretaceous horizon on a previous discovery to the west of the main Tawke field. A discovery was made in the shallower Cretaceous horizon, adding 47.9 million barrels of oil equivalent of gross 2C contingent resources.

#### Erbil license

Testing has shown higher volumes of oil-in-place for the Benenan heavy oil field, currently estimated to hold more than two billion barrels. The company plans to spud the Hawler-1A production and appraisal well during the fourth quarter 2017.

### Oman

Offshore at Block 8, the Bukha and West Bukha fields produced an average of 5,325 boepd during 2016, with output split equally between oil and gas. During the first quarter 2017, DNO initiated a 100 percent sole risk re-drill of the West Bukha-5 well and was planning the reinstatement of the Bukha-1 well.

### Yemen

Production from Block 32 and Block 43 was suspended in early 2015 due to the country's deteriorating security conditions. The two licenses were relinquished in late 2016. Production start-up at the Yaalen field at Block 47, currently under force majeure, remains on hold.

## Exploration

### Oman

The company spudded the Hayah-1 exploration well at onshore Block 36 in early 2016. The well reached a total depth of 3,010 meters but failed to encounter hydrocarbons other than minor gas shows. The well has been plugged and abandoned and the license is under relinquishment.

### Tunisia

The company's exploration and appraisal program is continuing in Tunisia, with 3D seismic activity planned ahead of drilling a well at the Sfax Offshore Exploration Permit. DNO has relinquished the Fkirine exploration license.

### United Arab Emirates

Reprocessing of existing seismic data and an associated basin study on the RAK Onshore license was finalized during 2016. The Saleh field produced small volumes of gas and liquids on an intermittent basis before it was shut in during 2016. DNO has relinquished the RAK B license.

### Somaliland

At Block SL 18 onshore Somaliland, a field geological survey and an environmental impact assessment have been conducted, in addition to a gravity-magnetic survey. The government is in the process of creating an oil security force to support seismic acquisitions.

## Financial review

### Revenues, profits and cash flow

Revenues in the fourth quarter stood at USD 41.7 million compared to USD 48.8 million in the previous quarter.

Kurdistan contributed revenues of USD 35.4 million, with Oman contributing USD 6.3 million. DNO reported an operating loss of USD 27.6 million during the fourth quarter, down from an operating profit of USD 9.1 million in the third quarter.

The company ended the quarter with USD 261.1 million in cash and USD 21.6 million in marketable securities. This was up from USD 237.6 million in cash and USD 13.5 million in marketable securities at end-2015.

### Cost of goods sold

In the fourth quarter, the cost of goods sold was USD 36.9 million compared to USD 29.1 million in the previous quarter.

### Lifting costs

Lifting costs stood at USD 27.5 million in the fourth quarter, up from USD 13.4 million in the third quarter. In Kurdistan, the average lifting cost during the fourth quarter stood at USD 3.9 per barrel of oil equivalent (boe). In Oman, the average lifting cost during the fourth quarter stood at USD 11.4 per boe.

#### Lifting costs

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	24.7	12.5	59.1	69.5
Oman	2.5	2.5	8.6	13.9
Other	0.3	-13.0	1.0	2.6
<b>Total</b>	<b>27.5</b>	<b>2.2</b>	<b>68.6</b>	<b>86.3</b>

Including export volumes

(USD/boe)	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	3.9	1.6	2.4	2.3
Oman	11.4	14.3	8.8	11.3
Other	-	-	-	26.1
<b>Average</b>	<b>4.2</b>	<b>0.3</b>	<b>2.7</b>	<b>2.7</b>

### Depreciation, depletion and amortization (DD&A)

DD&A amounted to USD 8.3 million in the fourth quarter compared to USD 14.8 million in the previous quarter. The depreciation method for the Tawke PSC was changed from a proven and probable reserves (2P) basis to a proven reserves (1P) basis from January 2016.

#### DD&A

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	8.3	22.0	55.8	93.2
Oman	-	2.5	-	13.5
Yemen	-	-	-	0.3
<b>Total</b>	<b>8.3</b>	<b>24.6</b>	<b>55.8</b>	<b>107.0</b>

Including export volumes

(USD/boe)	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	3.8	9.2	5.9	9.1
Oman	-	18.9	-	16.9
Yemen	-	-	-	3.6
<b>Average</b>	<b>3.6</b>	<b>9.8</b>	<b>5.7</b>	<b>9.6</b>

### Exploration costs expensed

Expensed exploration costs of USD 1.3 million in the fourth quarter were related to activities in Oman and Tunisia.

#### Exploration costs expensed

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	-	-	-	-
Oman	-1.1	1.6	10.7	5.9
Yemen	-	-	0.0	5.4
UAE	0.3	0.3	0.8	1.0
Tunisia	2.7	2.0	7.4	10.7
Other	-0.7	0.2	1.4	0.5
<b>Total</b>	<b>1.3</b>	<b>4.1</b>	<b>20.3</b>	<b>23.5</b>

### Acquisition and development costs

(including intangible assets)

Capital expenditures were USD 18.3 million in the fourth quarter, resulting in capital expenditures of USD 36.4 million for the full-year 2016 compared to USD 50.7 million in 2015.

#### Acquisition and development costs

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Kurdistan	15.8	0.4	33.3	46.5
Oman	2.4	0.1	2.4	0.4
Yemen	-	-	-	0.5
UAE	-	-0.2	-	-
Tunisia	-	-	-	0.1
Other	0.1	0.6	0.8	3.1
<b>Total</b>	<b>18.3</b>	<b>0.8</b>	<b>36.4</b>	<b>50.7</b>

## Consolidated statements of comprehensive income

USD million	Note	Quarter		Full year	
		Q4 2016	Q4 2015	2016	2015
Revenues	2, 3	41.7	54.5	201.3	187.4
Cost of goods sold	4	-36.9	-26.7	-128.7	-197.0
<b>Gross profit</b>		<b>4.8</b>	<b>27.9</b>	<b>72.6</b>	<b>-9.5</b>
Other operating income		13.5	1.2	18.9	2.0
Tariffs and transportation		-	-1.0	-	-1.8
Administrative expenses		-9.4	-6.2	-31.0	-19.0
Other operating expenses		-2.0	-19.5	-5.4	-29.3
Impairment oil and gas assets	7	-33.2	-79.7	-29.2	-92.9
Exploration costs expensed	5	-1.3	-4.1	-20.3	-23.5
<b>Profit/-loss from operating activities</b>		<b>-27.6</b>	<b>-81.3</b>	<b>5.7</b>	<b>-174.0</b>
Financial income		15.7	0.7	17.4	15.8
Financial expenses		-20.3	-28.5	-56.8	-78.3
<b>Profit/-loss before income tax</b>		<b>-32.2</b>	<b>-109.1</b>	<b>-33.7</b>	<b>-236.5</b>
Income tax expenses	6	1.0	25.8	-1.6	24.1
<b>Net profit/-loss</b>		<b>-31.2</b>	<b>-83.3</b>	<b>-35.3</b>	<b>-212.3</b>
<b>Other comprehensive income</b>					
Currency conversion differences		-	-0.1	-	0.3
Impairment -/Reversal of impairment in available-for-sale financial assets		-0.7	-	3.2	-
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>		<b>-0.7</b>	<b>-0.1</b>	<b>3.2</b>	<b>0.3</b>
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total other comprehensive income, net of tax</b>	<b>6</b>	<b>-0.7</b>	<b>-0.1</b>	<b>3.2</b>	<b>0.3</b>
<b>Total comprehensive income, net of tax</b>		<b>-31.9</b>	<b>-83.4</b>	<b>-32.1</b>	<b>-212.0</b>
Net profit/-loss attributable to:					
Equity holders of the parent		-31.2	-83.3	-35.3	-212.3
Total comprehensive income attributable to:					
Equity holders of the parent		-31.9	-83.4	-32.1	-212.0
Earnings per share, basic		-0.03	-0.08	-0.03	-0.20
Earnings per share, diluted		-0.03	-0.08	-0.03	-0.20

## Condensed consolidated statements of financial position

<b>ASSETS</b>		<b>Full year</b>	
<b>USD million</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Non-current assets</b>			
Other intangible assets	7	78.1	133.2
Property, plant and equipment	7	411.5	396.6
Available-for-sale investments	8	14.0	10.8
Other non-current assets		30.3	12.5
<b>Total non-current assets</b>		<b>533.9</b>	<b>553.1</b>
<b>Current assets</b>			
Inventories	4	57.3	62.0
Trade and other receivables	9	117.4	155.5
Cash and cash equivalents		261.1	237.6
<b>Total current assets</b>		<b>435.9</b>	<b>455.1</b>
<b>TOTAL ASSETS</b>		<b>969.8</b>	<b>1,008.2</b>
<b>EQUITY AND LIABILITIES</b>		<b>Full year</b>	<b>Full year</b>
<b>USD million</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Equity</b>			
Share capital		35.8	35.9
Other reserves		286.4	288.4
Retained earnings		79.7	111.8
<b>Total equity</b>		<b>401.9</b>	<b>436.2</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities	10	361.7	350.7
Deferred income tax liabilities	6	-	-
Provisions for other liabilities and charges	11	167.3	97.1
<b>Total non-current liabilities</b>		<b>529.0</b>	<b>447.8</b>
<b>Current liabilities</b>			
Trade and other payables		33.1	52.5
Income taxes payable		0.4	1.7
Provisions for other liabilities and charges	11	5.3	70.0
<b>Total current liabilities</b>		<b>38.8</b>	<b>124.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>969.8</b>	<b>1,008.2</b>

## Condensed consolidated cash flow statements

USD million	Note	Quarter		Full year	
		Q4 2016	Q4 2015	2016	2015
<b>Operating activities</b>					
Profit/-loss before income tax		-32.2	-109.1	-33.7	-236.5
<b>Adjustments to add (deduct) non-cash items:</b>					
+/- Net interest expense (-income)		8.8	11.6	35.4	28.4
Previously capitalized exploration and evaluation expenses	5	-	-	-	5.1
Depreciation of PP&E	4	9.4	24.5	60.1	110.5
Impairment loss on oil and gas assets	7	33.2	80.0	29.2	92.9
Loss/-gain on PP&E	7	-	0.0	-	0.2
Impairment/reversal of impairment of financial assets		-	16.6	-	34.1
Other*		-12.0	-17.2	-10.9	-18.0
<b>Changes in working capital:</b>					
- Inventories		9.5	8.8	10.1	13.8
- Trade and other receivables		2.0	6.6	13.6	14.3
- Trade and other payables		4.4	-17.0	-19.4	-87.2
- Provisions for other liabilities and charges		6.4	4.4	13.9	7.1
Cash generated from operations		29.6	8.8	98.2	-35.4
Income taxes paid		1.0	2.3	-1.6	-7.2
Interest paid		-17.8	-17.5	-35.4	-31.6
<b>Net cash from/- used in operating activities</b>		<b>12.8</b>	<b>-6.3</b>	<b>61.2</b>	<b>-74.1</b>
<b>Investing activities</b>					
Purchases of intangible assets	7	-	-0.2	-1.0	-0.1
Purchases of tangible assets	7	-18.3	-0.6	-35.5	-50.6
Interest received		0.4	0.2	0.8	1.1
<b>Net cash from/- used in investing activities</b>		<b>-17.9</b>	<b>-0.6</b>	<b>-35.6</b>	<b>-49.5</b>
<b>Financing activities</b>					
Proceeds from borrowing	10	-	-	-	344.8
Repayment of borrowings		-	-	-	-211.4
Purchase of treasury shares, including options		-	-3.0	-2.1	-3.0
Proceeds from sale of treasury shares		-	-	-	21.4
Proceeds from issuance of shares, net		-	-	-	96.9
<b>Net cash from/- used in financing activities</b>		<b>-</b>	<b>-3.0</b>	<b>-2.1</b>	<b>248.8</b>
<b>Net increase/-decrease in cash and cash equivalents</b>		<b>-5.1</b>	<b>-9.9</b>	<b>23.5</b>	<b>124.9</b>
Cash and cash equivalents at beginning of the period		266.3	247.3	237.6	113.8
Exchange gain/-losses on cash and cash equivalents		-	0.3	-0.1	-1.1
<b>Cash and cash equivalents at the end of the period</b>		<b>261.1</b>	<b>237.6</b>	<b>261.1</b>	<b>237.6</b>

\* 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 statement of changes in equity

USD million	Share capital	Other reserves	Retained earnings	Total equity
<b>Balance at 1 January 2015</b>	<b>33.6</b>	<b>175.1</b>	<b>324.1</b>	<b>532.8</b>
<i>Fair value gains, net of tax:</i>				
- available-for-sale financial assets	-	-	-	-
Currency translation differences	-	0.3	-	0.3
Other comprehensive income/-loss	-	0.3	-	0.3
Loss for the period	-	-	-212.3	-0.2
Total comprehensive income	-	0.3	-212.3	-212.0
Issue of share capital	1.9	95.0	-	96.9
Purchase of treasury shares	-0.1	-2.7	-	-2.8
Sale of treasury shares	0.6	20.8	-	21.4
	2.3	113.1	-	115.4
<b>Balance at 31 December 2015</b>	<b>35.9</b>	<b>288.5</b>	<b>111.8</b>	<b>436.2</b>

USD million	Share capital	Other reserves	Retained earnings	Total equity
<b>Balance at 1 January 2016</b>	<b>35.9</b>	<b>288.5</b>	<b>111.8</b>	<b>436.2</b>
<i>Fair value gains, net of tax:</i>				
- available-for-sale financial assets	-	-	3.2	3.2
Currency translation differences	-	-	-0.0	-0.0
Other comprehensive income/-loss	-	-	3.2	3.2
Loss for the period	-	-	-35.3	-35.3
Total comprehensive income	-	-	-32.2	-32.2
Issue of share capital	-	-	-	-
Purchase of treasury shares	-0.1	-2.0	-	-2.1
Sale of treasury shares	-	-	-	-
	-0.1	-2.0	-	-2.1
<b>Balance at 31 December 2016</b>	<b>35.8</b>	<b>286.5</b>	<b>79.7</b>	<b>401.9</b>

# Notes to the interim condensed consolidated financial accounts

## Note 1 | Basis of preparation and accounting policies

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and IFRS standards issued and effective at date of reporting as adopted by the EU. The interim report has also been prepared in accordance with Oslo Stock Exchange regulations.

The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements as of 31 December 2015. The interim financial information for 2016 and 2015 is unaudited.

The condensed consolidated financial statements have been prepared on a historical cost basis, with the following exception:

\* All financial assets and liabilities held for trading, all liabilities related to share-based payments and all financial assets 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 2015. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ending on 31 December 2015. Due to change in payment procedures, local sales in Kurdistan for 2016 are accounted for using the cash principle (see Note 3).

## Note 2 | Segment information

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

Three months ending 31 December 2016 USD million	Note	KUR	OMAN	YEM	UAE	TUN	Other	Total reporting segment	Unallocated/ eliminated	GROUP
<b>Income statement information</b>										
External sales	3	35.4	6.3	-	-	-	-	41.7	-	41.7
Inter-segment sales		-	0.6	-	-	-	-	0.6	-0.6	-
Cost of goods sold	4	-33.0	-2.6	-	-0.3	-0.1	-	-36.0	-0.9	-36.9
<b>Gross profit</b>		<b>2.4</b>	<b>4.3</b>	<b>-</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-</b>	<b>6.3</b>	<b>-1.5</b>	<b>4.8</b>
<b>Segment operating result</b>		<b>-25.8</b>	<b>12.5</b>	<b>0.4</b>	<b>-1.3</b>	<b>-2.8</b>	<b>1.0</b>	<b>-16.2</b>	<b>-11.5</b>	<b>-27.6</b>
Financial - net										-4.5
Gain/-loss on sale of shares										-
Income tax expense		0.5	1.0	-0.5	-	-	-	1.0	-	1.0
<b>Net profit/-loss</b>										<b>-31.2</b>
<b>Segment assets</b>		<b>625.7</b>	<b>41.0</b>	<b>1.1</b>	<b>0.2</b>	<b>20.0</b>	<b>1.0</b>	<b>688.9</b>	<b>280.9</b>	<b>969.8</b>

## Note 2 | Segment information continues

Three months ending 31 December 2015 USD million	Note	KUR	OMAN	YEM	UAE	TUN	Other	Total reporting segment	Unallocated/ eliminated	GROUP
<b>Income statement information</b>										
External sales	3	51.1	3.5	-	-	-	-	54.5	-	54.5
Inter-segment sales		-	-	-	-	-	-	-	-	-
Cost of goods sold	4	-34.6	-5.0	13.0	-	-0.1	-	-27.0	0.3	-26.7
<b>Gross profit</b>		<b>16.5</b>	<b>-1.6</b>	<b>13.0</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-</b>	<b>27.6</b>	<b>0.3</b>	<b>27.9</b>
<b>Segment operating result</b>		<b>-18.9</b>	<b>-44.6</b>	<b>-2.1</b>	<b>-2.5</b>	<b>-8.0</b>	<b>-0.1</b>	<b>-76.2</b>	<b>-5.1</b>	<b>-81.3</b>
Financial - net										-27.8
Gain/-loss on sale of shares										-
Income tax expense		0.0	25.8	-	-	-	-	25.8	-	25.8
<b>Net profit/-loss</b>										<b>-83.3</b>
<b>Segment assets</b>		<b>691.7</b>	<b>61.2</b>	<b>1.9</b>	<b>2.3</b>	<b>31.8</b>	<b>1.0</b>	<b>872.5</b>	<b>274.2</b>	<b>1,008.2</b>
<b>Twelve months ending 31 December 2016 USD million</b>										
<b>Income statement information</b>										
External sales	3	183.4	17.9	-	-	-	-	201.3	-	201.3
Inter-segment sales		-	0.6	-	-	-	-	0.6	-0.6	-
Cost of goods sold	4	-114.9	-8.7	-	-1.0	-0.2	-	-124.8	-3.9	-128.7
<b>Gross profit</b>		<b>68.4</b>	<b>9.8</b>	<b>-</b>	<b>-1.0</b>	<b>-0.2</b>	<b>-</b>	<b>77.1</b>	<b>-4.4</b>	<b>72.6</b>
<b>Segment operating result</b>		<b>46.0</b>	<b>4.2</b>	<b>-2.6</b>	<b>-4.6</b>	<b>-8.0</b>	<b>-1.4</b>	<b>34.0</b>	<b>-28.4</b>	<b>5.7</b>
Financial - net										-39.4
Income tax expense		0.5	-1.6	-0.5	-	-	-	-1.6	-	-1.6
<b>Net profit/-loss</b>										<b>-35.3</b>
<b>Segment assets</b>		<b>625.7</b>	<b>41.0</b>	<b>1.1</b>	<b>0.2</b>	<b>20.0</b>	<b>1.0</b>	<b>688.9</b>	<b>280.9</b>	<b>969.8</b>
<b>Twelve months ending 31 December 2015 USD million</b>										
<b>Income statement information</b>										
External sales	3	157.4	26.8	3.2	-	-	-	187.4	-	187.4
Inter-segment sales		-	-	-	-	-	-	-	-	-
Cost of goods sold	4	-163.2	-27.6	-2.9	-0.3	-0.2	-	-194.2	-2.8	-197.0
<b>Gross profit</b>		<b>-5.7</b>	<b>-0.8</b>	<b>0.3</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-</b>	<b>-6.7</b>	<b>-2.8</b>	<b>-9.5</b>
<b>Segment operating result</b>		<b>-40.7</b>	<b>-47.5</b>	<b>-41.4</b>	<b>-3.2</b>	<b>-16.6</b>	<b>-0.5</b>	<b>-149.8</b>	<b>-24.2</b>	<b>-174.0</b>
Financial - net										-62.5
Gain/-loss on sale of shares										-
Income tax expense		-	25.3	-1.2	-	-	-	24.1	-	24.1
<b>Net profit/-loss</b>										<b>-212.3</b>
<b>Segment assets</b>		<b>691.7</b>	<b>61.2</b>	<b>1.9</b>	<b>2.3</b>	<b>31.8</b>	<b>1.0</b>	<b>872.5</b>	<b>274.2</b>	<b>1,008.2</b>

## Note 3 | Revenues

DNO presents its operations governed by PSCs according to the net entitlement method when there are observable market prices and the risk related to sale and distribution is minimal. To the extent that the entitlement method cannot be applied, revenue is recognized when the sale criteria in IAS 18 are fulfilled. Kurdistan export sales are recognized as revenue upon cash receipt.

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Sale of petroleum products	41.7	54.5	201.3	187.4
<b>Total sales</b>	<b>41.7</b>	<b>54.5</b>	<b>201.3</b>	<b>187.4</b>

During the fourth quarter of 2016, DNO received two payments from the Kurdistan Regional Government for Tawke deliveries totalling USD 67.5 million, of which USD 47.6 million was net to DNO. Of the net, USD 35.4 million is recognized as revenue and USD 7.5 million as a reduction in the booked underlift receivable.

Following changes in local sales procedures in 2016, the same payment mechanism applies to both local and export sales, and local sales revenue are with effect from February 2016 also recognized upon receipt of cash payment. Local entitlement sales of USD 4 million are not recognized in revenue in 2016.

## Note 4 | Cost of goods sold/inventory

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Lifting costs*	-27.5	-2.2	-68.6	-86.3
Depreciation, depletion and amortization**	-9.4	-24.5	-60.1	-110.6
Other cost of goods sold	-	-	-	-
<b>Total cost of goods sold</b>	<b>-36.9</b>	<b>-26.7</b>	<b>-128.7</b>	<b>-197.0</b>

\* Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention workover activities, insurances, CO<sub>2</sub> taxes, royalties to the state and internal costs.

\*\* Depreciation method for Tawke PSC changed from 2P to 1P from January 2016, which resulted in reduced depreciation.

USD million	Full year	
	2016	2015
Spare parts	54.8	55.2
Other inventory	2.5	6.8
<b>Total inventory</b>	<b>57.3</b>	<b>62.0</b>

Of the total inventory of USD 57.3 million, USD 51.7 million is related to Kurdistan, USD 2.5 million is related to Oman and USD 3.1 million is related to Tunisia.

## Note 5 | Exploration expenses

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Exploration expenses (G&G and field surveys)	-0.8	-2.4	-5.5	-8.4
Seismic costs	-	-	-	-0.5
Exploration costs capitalized in previous years carried to cost	-	-	-	-5.1
Exploration costs capitalized this year carried to cost	2.1	-0.2	-7.6	-3.8
Other exploration cost expensed	-2.6	-1.4	-7.3	-5.7
<b>Total exploration cost expensed*</b>	<b>-1.3</b>	<b>-4.1</b>	<b>-20.3</b>	<b>-23.5</b>

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

## Note 6 | Income taxes

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Deferred taxes	-	22.9	-	31.1
Income taxes payable related to Production Sharing Contracts (PSCs) in Yemen and Oman	1.0	2.9	-1.6	-7.0
<b>Total income tax expense</b>	<b>1.0</b>	<b>25.8</b>	<b>-1.6</b>	<b>24.1</b>

The interim period income tax expense relates mainly to the 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 PSCs 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

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Acquisitions of PP&E *	35.9	0.6	53.2	50.6
Acquisitions of Intangible assets **	-	0.2	0.8	9.4
<b>Net book amount PP&amp;E</b>	<b>411.5</b>	<b>396.6</b>	<b>411.5</b>	<b>396.6</b>
<b>Net book amount Intangible assets</b>	<b>78.1</b>	<b>133.2</b>	<b>78.1</b>	<b>133.2</b>
Impairment of PP&E	-33.2	-79.7	-29.2	-92.9

\* Acquisitions related to development assets, assets in operation and other PP&E

\*\* Acquisitions related to capitalized exploration costs and license interests.

In the fourth quarter, the total impairment charge of USD 33.2 million was related to operations in Kurdistan (USD 26.7 million), Oman (USD 5.8 million) and the United Arab Emirates (USD 0.8 million).

In 2016, the total impairment charge of USD 29.2 million was related to operations in Kurdistan (USD 26.7 million), Oman (USD 5.6 million) and the United Arab Emirates (USD 2.8 million). This accounts for the third quarter impairment of USD 2.1 million in the United Arab Emirates, in addition to a reversal of impairments (USD 6.0 million) recognized during the second quarter which was related to equipment and spare parts booked under the Dohuk license in Kurdistan. The value of these materials were impaired in 2014 but can be used at the Tawke field and was transferred to the Tawke PSC at cost.

In 2015, the impairment charge of USD 92.9 million was related to operations in Oman (USD 42.3 million), Kurdistan (USD 29.3 million), Yemen (USD 13.2 million), Tunisia (USD 6.0 million) and the United Arab Emirates (2.1 million).

## Note 7 | Impairments

Impairment tests of individual cash-generating units are performed when impairment triggers are identified. In Q4 2016, an increase in the country risk for Kurdistan was applied in the WACC and the recoverable amount was below the carrying amount for the Erbil license. As of end-2016, the WACC applied for Kurdistan increased to 17.3 percent. Due to planned relinquishments in the UAE and of Block 36 in Oman, the fair value of spare parts and acquisition costs were also impaired.

USD million	Quarter		Full year			
	Q4 2016 Impairment/ reversal	Q4 2015 Impairment/ reversal	2016 Impairment/ reversal	2016 Recoverable/ carrying amount	2015 Impairment/ reversal	2015 Recoverable carrying amount
Erbil, Kurdistan	-26.7	-25.0	-26.7	74.7	-25.0	101.6
Dohuk, Kurdistan	-	-4.3	6.0	-0.0	-4.3	6.2
Block 8, Oman	-	-41.2	-	4.9	-41.2	3.0
Oman Ltd, Oman	-1.4	-1.1	-1.2	0.1	-1.1	1.8
Block 36, Oman	-4.4	-	-4.4	-	-	3.9
Sfax Offshore Exploaration Permit, Tunisia	-	-6.0	-	-	-6.0	-
Assets in United Arab Emirates	-0.7	-2.1	-2.8	-	-2.1	1.8
Assets in Yemen	-	-	-	-	-13.2	-
<b>Total</b>	<b>-33.2</b>	<b>-79.7</b>	<b>-29.2</b>	<b>79.7</b>	<b>-92.9</b>	<b>118.6</b>

The table shows the recoverable(value in use)/carrying amount for the cash generating units which have been impaired in 2015 and 2016. The recoverable amounts/carrying amounts have changed due to consumption of spare parts.

For explanations of impairment, see previous table.

## Note 8 | Available-for-sale financial assets

Available-for-sale financial assets are recorded at fair value (market price, where available) at the end of each period. Changes in fair value are included in other comprehensive income and are presented as valuation reserve under equity. Impairments will be charged to profit or loss, while reversal of impairments will be taken through other comprehensive income.

USD million	Quarter		Full year	
	Q4 2016	Q4 2015	2016	2015
Beginning of the period	14.7	17.5	10.8	35.0
Revaluation surplus/deficit transfer to equity	-	-	-	-
Impairment	-	-6.7	-	-24.2
Reversal/- impairment of available-for-sale assets	-0.7	-	3.2	-
<b>End of the period <sup>1)</sup></b>	<b>14.0</b>	<b>10.8</b>	<b>14.0</b>	<b>10.8</b>
Non-current portion	14.0	10.8	14.0	10.8
Current portion	-	-	-	-

<sup>1)</sup> Available-for-sale financial assets include the following:

USD million	Full year	
	2016	2015
<b>Listed securities:</b>		
- RAK Petroleum plc	14.0	10.8
<b>Total available-for-sale financial assets</b>	<b>14.0</b>	<b>10.8</b>

DNO has a total of 15,849,737 shares in RAK Petroleum plc. All shares have been acquired in open market transactions. RAK Petroleum plc is listed on the Oslo Stock Exchange.

## Note 9 | Trade and other short-term receivables

USD million	Full year	
	2016	2015
Trade debtors	2.4	7.1
Underlift, entitlement method	62.3	121.4
Other short-term receivables	52.8	27.0
<b>Total trade and other short-term receivables</b>	<b>117.4</b>	<b>155.5</b>

The booked underlift receivable mainly relates to the arrangement for local sales in Kurdistan put into place in 2014 under which the PSC terms for the contractor entitlement were not followed. In 2015, this temporary arrangement was revised to more closely align with the PSC terms. With effect from 1 January 2016, the interim payment arrangements for local sales were abolished and replaced by Tawke PSC contractual entitlement based payments, including payments toward outstanding entitlements.

In the fourth quarter, USD 37 million was reclassified from short term to long term receivable. Of the short term underlift, USD 55.8 million is related to Kurdistan for production in 2014.

As of 31 December, all trade debtors are less than 30 days past the due date.

Other short-term receivables include the receivable related to the farm down in Tunisia (Sfax Offshore Exploration Permit) and working capital in oil and gas licenses, including cash deposits amounting to USD 4.1 million for the Tawke license in a local bank in Kurdistan.

## Note 10 | Interest-bearing liabilities

USD million	Full year	
	2016	2015
<b>Non-current</b>		
Bonds	400.0	400.0
Capitalized borrowing issue costs	-38.3	-49.3
<b>Total non-current interest-bearing liabilities</b>	<b>361.7</b>	<b>350.7</b>
<b>Current</b>		
Current portion of bonds	-	-
<b>Total current interest-bearing liabilities</b>	<b>-</b>	<b>-</b>
<b>Total interest-bearing liabilities</b>	<b>361.7</b>	<b>350.7</b>

### Interest-bearing liabilities:

USD million	Currency	Amount	Interest	Maturity	Balance	
					Q4 2016	Q3 2016
<b>Non-current</b>						
Bond loan (ISIN NO0010740392)	USD	400.0	8.75%	18.06.20	400.0	400.0
Borrowing issue costs					-38.3	-41.0
<b>Total interest-bearing liabilities</b>					<b>361.7</b>	<b>359.0</b>

## Note 11 | Provisions for other liabilities and charges

USD million	Full Year	
	2016	2015
<b>Non-current</b>		
Asset retirement obligations	23.2	4.5
Other long-term provision and charges	144.1	92.6
<b>Total non-current provisions for other liabilities and charges</b>	<b>167.3</b>	<b>97.1</b>
<b>Current</b>		
Other provisions and charges	5.3	70.0
<b>Total current provisions for other liabilities and charges</b>	<b>5.3</b>	<b>70.0</b>
<b>Total provisions for other liabilities and charges</b>	<b>172.6</b>	<b>167.1</b>

Provisions for a water purification capacity building project in the Kurdistan region of Iraq are included in other long-term provision and charges for the Tawke license. The water purification project (WPP) is capitalized and depreciated over the life of the Tawke field. The WPP liability is not currently payable and eventual payments will be contingent on defined gross revenue levels and will be fully recoverable through cost oil.

Changes in the timing of these payments will change the net present value of the liability and the calculated interest. The WPP liability is recorded at net present value, where the unwinding of interest is charged to profit or loss.

Provision for production bonuses for the Tawke and Erbil licenses in the Kurdistan region of Iraq is also included in provision for other liabilities and charges. Production bonuses relate to payments based on different production levels.

In fourth quarter 2016, the expected timing of the payments both for the WPP and production bonuses were reassessed and the change in net present value was recognized in the profit as financial income. At the same time liabilities were classified as long-term.

## Note 12 | Events after the reporting period

The company reported on 23 January 2017 receipt of USD 38.89 million from the Kurdistan Regional Government as payment towards October 2016 crude oil deliveries to the export market from the Tawke field. The funds, shared pro-rata by DNO and partner Genel Energy plc, include USD 32.62 million toward the monthly entitlement for October deliveries and USD 6.27 million toward recovery of outstanding receivables for past deliveries.

The company reported on 30 January 2017 receipt of USD 8.41 million from the Kurdistan Regional Government as payment towards June 2016 crude oil deliveries to the export market from the Tawke field. The funds, shared pro-rata by DNO and partner Genel Energy plc, include USD 2.21 million toward the monthly entitlement for June deliveries and USD 6.20 million toward recovery of outstanding receivables for past deliveries.

The company reported on 7 February 2017 receipt of USD 35.45 million from the Kurdistan Regional Government as payment towards November 2016 crude oil deliveries to the export market from the Tawke field. The funds, shared pro-rata by DNO and partner Genel Energy plc, include USD 29.73 million toward the monthly entitlement for November deliveries and USD 5.72 million toward recovery of outstanding receivables for past deliveries.





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