DNO ASA

Report

2019 Interim Results

Key figures

USD million	Q4 2019	Quarters Q3 2019	Q4 2018	Full-Year 2019	2018
Key financials					
Revenues	274.6	227.0	368.8	971.4	829.3
Gross profit	123.0	88.0	262.0	430.0	478.7
Profit/-loss from operating activities	44.4	-106.0	230.0	75.6	376.8
Net profit/-loss	50.9	-96.4	230.3	73.5	354.3
EBITDA	157.0	109.2	304.8	549.4	638.8
EBITDAX	204.9	156.5	324.4	695.8	703.5
Netback	213.9	109.2	155.1	606.3	489.1
Acquisition and development costs	112.3	108.3	46.1	407.9	138.0
Exploration expenses	47.9	47.4	19.6	146.4	64.7
Key performance indicators					
Lifting costs (USD/boe)	5.6	5.5	3.8	5.4	3.0
Netback (USD/boe)	22.0	12.0	18.4	16.3	16.4

For more information about key figures, see section about alternative performance measures.

2019 operational highlights

- Operated 2019 production averaged 127,000 barrels of oil equivalent per day (boepd), compared to 117,600 boepd in 2018, of which Kurdistan accounted for 124,000 barrels of oil per day (bopd) and the North Sea 3,000 boepd

- Company Working Interest (CWI) record production of 104,800 boepd net to DNO in 2019, split 83:17 between Kurdistan and the North Sea (81,700 boepd in 2018)

- In 2019, delivered largest annual drilling program in DNO's 48-year history with 36 wells drilled or spudded across its portfolio, including 24 development/infill wells and 12 exploration/appraisal wells

- In Kurdistan, DNO continues to produce what are among the lowest cost oil barrels in the industry, anywhere, in terms of finding, development and lifting costs

- At yearend DNO had 106 licenses across its portfolio, with three in Kurdistan, 87 in Norway, 12 in the United Kingdom, two in the Netherlands, one in Ireland and one in Yemen

2019 financial highlights

- Net profits of USD 74 million on record revenues of USD 971 million

- Operational spend of USD 606 million in 2019 including USD 345 million in Kurdistan and USD 261 million in the North Sea (net of exploration tax refund)

- Spent USD 194 million towards dividend distributions (USD 47 million), buybacks of own shares (USD 82 million) and buybacks of bonds originally issued by Faroe Petroleum plc (USD 65 million)

- Exited 2019 with cash balance of USD 486 million

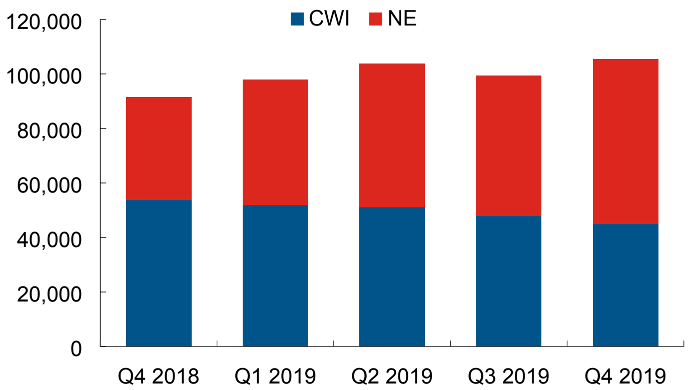
- Cash balance excludes two delayed Kurdistan export payments totaling USD 107 million received in 2020

- Also held USD 145 million in marketable securities at yearend 2019

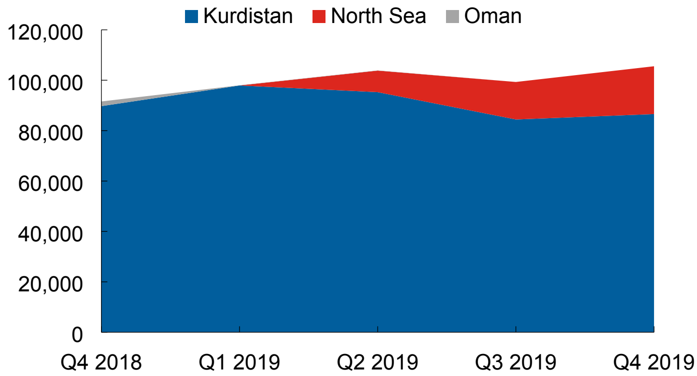
Operational review

Production

Quarterly production (boepd)



CWI production (boepd)



Operated gross production averaged 122,795 bopd during the fourth quarter, compared to 122,754 boepd in the previous quarter.

Company Working Interest (CWI) production during the fourth quarter stood at 105,546 boepd, compared to 99,305 boepd in the previous quarter. In Kurdistan, CWI production averaged 86,570 bopd, up from 84,428 bopd in the previous quarter. CWI production from the North Sea averaged 18,975 boepd, up from 14,876 boepd in the previous quarter. The increase in CWI production from the North Sea compared to the previous quarter, was primarily driven by higher production from the Oda and Vilje fields, partly offset by the planned shutdown of the Trym field from September 2019.

Net entitlement (NE) production averaged 60,507 boepd during the fourth quarter, up from 51,487 boepd in the previous quarter.

Gross production (operated)

	Quarters			Full-Year	
boepd	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	122,795	119,757	127,262	123,940	113,149
North Sea	-	2,997	-	2,999	-
Oman	-	-	4,219	46	4,458
Total	**122,795**	**122,754**	**131,481**	**126,985**	**117,607**

The table above shows gross production (boepd) from the Group's operated licenses.

Company Working Interest (CWI) production

	Quarters			Full-Year	
boepd	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	86,570	84,428	89,720	87,378	79,747
North Sea*	18,975	14,876	-	14,297	-
Oman	-	-	1,850	21	1,965
Total	**105,546**	**99,305**	**91,570**	**101,696**	**81,712**

* The production from assets acquired through the swap agreement is included from the date of transaction completion (30 April 2019).

Net entitlement (NE) production

	Quarters			Full-Year	
boepd	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	41,532	36,611	36,894	38,373	32,240
North Sea*	18,975	14,876	-	14,297	-
Oman	-	-	778	10	767
Total	**60,507**	**51,487**	**37,672**	**52,681**	**33,007**

The table above reflects the Group's NE production (boepd). The NE production (boepd) from the North Sea segment equals the segment's CWI production (boepd).

Activity overview

Kurdistan region of Iraq

Tawke license

Gross production from the Tawke license, containing the Tawke and Peshkabir fields, averaged 122,795 bopd during the fourth quarter of 2019.

The Peshkabir-12 exploration well has been drilled and will be tested. Nine wells are currently producing from Peshkabir and the Peshkabir-3A well is expected to return to production shortly following work over. Peshkabir production averaged 58,914 bopd during the fourth quarter of 2019.

At the Tawke field, the Tawke-57A deep well tested oil with formation water from the shallowest Jurassic interval and has been placed on production. The Tawke-59 Cretaceous well was drilled and came onstream in the fourth quarter of 2019. Seven Jeribe wells were drilled in the fourth quarter of 2019. Tawke production averaged 63,881 bopd during the fourth quarter of 2019.

In Kurdistan, 19 wells were spud by yearend 2019, including two appraisal wells and 17 development wells.

DNO holds a 75 percent operated interest in the Tawke and Peshkabir fields with partner Genel Energy (25 percent).

Baeshiqa license

In November 2019, DNO reported a discovery in the Baeshiqa-2 exploration well after flowing variable rates of light oil and sour gas to surface from the upper part of Triassic Kurra Chine B reservoir following acid stimulation. DNO is currently conducting workover operations prior to resumption of acid stimulation and testing of remaining Triassic reservoirs. Site construction has commenced for third well (Zartik-1) to be spud this spring targeting Jurassic and Triassic formations on the second structure

DNO holds a 32 percent operated interest in the Baeshiqa license. Partners include ExxonMobil with 32 percent, Turkish Energy Company with 16 percent and the Kurdistan Regional Government with 20 percent.

North Sea

CWI production averaged 18,975 boepd in Norway and the UK during the fourth quarter of 2019 (of which 18,090 boepd was in Norway and 885 boepd was in the UK.

The Company was awarded 10 exploration licenses under Norway’s Awards in Predefined Areas (APA) 2019 licensing round with five in the North Sea, two in the Norwegian Sea and three in the Barents Sea. This adds to the 87 licenses already held in Norway, of which 22 are operated. The Company also holds 15 licenses across the United Kingdom, the Netherlands and Ireland.

The Company has diversified production across 13 fields of which nine are in Norway and four in the UK.

In the North Sea, 17 wells were spud by yearend 2019, including 11 exploration and appraisal wells (one in the UK) and six production and injection wells in Norway.

Financial review

Revenues, operating profit and cash

Revenues in the fourth quarter stood at USD 274.6 million, compared to USD 227.0 million in the previous quarter. The increase in revenues compared to the previous quarter was primarily driven by higher lifted volumes in Kurdistan and the North Sea. Kurdistan generated revenues of USD 191.1 million (USD 164.5 million in the previous quarter), while the North Sea generated revenues of USD 83.5 million (USD 61.7 million in the previous quarter). As of the fourth quarter of 2018, Kurdistan revenue recognition changed from a cash to accrual basis, resulting in a one-off booking of an additional USD 182.8 million in the fourth quarter of 2018.

The Company reported an operating profit of USD 44.4 million in the fourth quarter, up from an operating loss of USD 106.0 million in the previous quarter reflecting the increase in revenues and lower impairment charges compared to the previous quarter.

The Company ended the quarter with a cash balance of USD 485.7 million and USD 144.5 million in market value of treasury shares and financial investments, compared to USD 729.1 million and USD 281.3 million at yearend 2018 respectively.

Cost of goods sold

In the fourth quarter, the cost of goods sold stood at USD 151.7 million, compared to USD 139.0 million in the previous quarter. The increase in cost of goods sold compared to the previous quarter was primarily driven by higher depreciation due to higher NE production in the current quarter.

Lifting costs

Lifting costs stood at USD 54.1 million in the fourth quarter, compared to USD 50.4 million in the previous quarter. In Kurdistan, the average lifting cost during the fourth quarter stood at USD 3.3 per barrel of oil equivalent (boe). In the North Sea, the average lifting cost during the fourth quarter stood at USD 15.6 per boe.

	Quarters			Full-Year	
USD million	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	26.6	29.3	30.0	106.7	80.6
North Sea	27.1	21.3	-	92.4	-
Oman	-	-	1.9	-	9.6
Other	0.3	-0.2	-	-	-
Total	**54.1**	**50.4**	**31.9**	**199.1**	**90.4**

	Quarters			Full-Year	
(USD/boe)	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	3.3	3.8	3.6	3.3	2.8
North Sea	15.6	15.5	-	17.7	-
Oman	-	-	11.4	-	13.4
Other	-	-	-	-	-
Average	**5.6**	**5.5**	**3.8**	**5.4**	**3.0**

Depreciation, depletion and amortization (DD&A)

DD&A for assets in operation amounted to USD 87.6 million in the fourth quarter compared to USD 75.8 million in the previous quarter. The increase in DD&A compared to the previous quarter was driven by higher NE production in the current quarter.

	Quarters			Full-Year	
USD million	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	59.4	52.3	74.4	217.6	258.2
North Sea	28.2	23.4	-	89.2	-
Total	**87.6**	**75.8**	**74.4**	**306.8**	**258.2**

	Quarters			Full-Year	
(USD/boe)	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	15.5	15.5	21.9	15.5	21.9
North Sea	16.1	17.1	-	17.1	-
Average	**15.7**	**16.0**	**21.5**	**16.0**	**21.4**

Exploration expenses

Exploration expenses of USD 47.9 million in the fourth quarter were mainly related to exploration activities in the North Sea, including drilling of exploration wells.

	Quarters			Full-Year	
USD million	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	0.6	0.4	0.8	2.1	1.5
North Sea	47.3	47.2	18.9	144.6	45.9
Tunisia	-	-	-	-	16.6
Other	-	-0.2	-	-0.2	0.7
Total	**47.9**	**47.4**	**19.6**	**146.4**	**64.7**

Acquisition and development costs

Acquisition and development costs stood at USD 112.3 million in the fourth quarter, of which USD 73.6 million was in Kurdistan and USD 38.2 million in the North Sea.

	Quarters			Full-Year	
USD million	**Q4 2019**	**Q3 2019**	**Q4 2018**	**2019**	**2018**
Kurdistan	73.6	52.9	45.2	235.6	135.4
North Sea	38.2	55.2	0.2	170.0	1.3
Other	0.5	0.3	0.7	2.4	1.3
Total	**112.3**	**108.3**	**46.1**	**407.9**	**138.0**

Consolidated statements of comprehensive income

(unaudited, in USD million)	Note	Quarters Q4 2019	Q4 2018	Full-Year 2019	2018
Revenues	2,3	274.6	368.8	971.4	829.3
Cost of goods sold	4	-151.7	-106.8	-541.4	-350.6
Gross profit		**123.0**	**262.0**	**430.0**	**478.7**
Other income		-	0.1	-0.5	4.8
Administrative expenses		-6.1	-13.0	-26.1	-36.7
Other operating expenses		-0.9	0.5	-19.3	-3.4
Impairment oil and gas assets	7	-23.7	-	-162.0	-1.9
Exploration expenses	5	-47.9	-19.6	-146.4	-64.7
Profit/-loss from operating activities		**44.4**	**230.0**	**75.6**	**376.8**
Financial income		6.2	4.6	15.9	12.6
Financial expenses	10	-31.8	-19.9	-139.3	-66.9
Profit/-loss before income tax		**18.8**	**214.6**	**-47.8**	**322.5**
Tax income/-expense	6	32.1	15.6	121.3	31.8
Net profit/-loss		**50.9**	**230.3**	**73.5**	**354.3**
Other comprehensive income					
Currency translation differences		18.5	1.1	-27.0	1.4
Items that may be reclassified to profit or loss in later periods		**18.5**	**1.1**	**-27.0**	**1.4**
Net fair value changes from financial instruments	8	1.6	-42.3	25.8	12.1
Items that are not reclassified to profit or loss in later periods		**1.6**	**-42.3**	**25.8**	**12.1**
Total other comprehensive income, net of tax		**20.0**	**-41.2**	**-1.2**	**13.5**
Total comprehensive income, net of tax		**70.9**	**189.1**	**72.3**	**367.7**
Net profit/-loss attributable to:					
Equity holders of the parent		50.9	230.3	73.5	354.3
Total comprehensive income attributable to:					
Equity holders of the parent		70.9	189.1	72.3	367.7
Earnings per share, basic		0.05	0.22	0.07	0.34
Earnings per share, diluted		0.05	0.22	0.07	0.34
Weighted average number of shares outstanding (in millions)		1,001.93	1,048.81	1,036.37	1,048.81

Consolidated statements of financial position

ASSETS (unaudited, USD million)	Note	At 31 Dec 2019	2018
Non-current assets			
Goodwill	12	333.9	-
Deferred tax assets	6	63.7	7.0
Other intangible assets	7	346.6	32.8
Property, plant and equipment	7	1,335.5	758.2
Right-of-use assets	7	14.0	-
Financial investments	8	21.0	230.8
Total non-current assets		**2,114.7**	**1,028.8**
Current assets			
Inventories	4	28.2	8.3
Trade and other receivables	9	478.5	209.8
Tax receivables	6	164.8	28.3
Cash and cash equivalents		485.7	729.1
Total current assets		**1,157.2**	**975.5**
TOTAL ASSETS		**3,271.9**	**2,004.3**

EQUITY AND LIABILITIES (unaudited, USD million)	Note	At 31 Dec 2019	2018
Equity			
Share capital		33.3	35.0
Other reserves		108.6	239.6
Retained earnings		1,019.4	943.2
Total equity		**1,161.3**	**1,217.8**
Non-current liabilities			
Deferred tax liabilities	6	217.6	-
Interest-bearing liabilities	10	836.0	575.7
Lease liabilities	11	11.1	-
Provisions for other liabilities and charges	11	422.8	68.1
Total non-current liabilities		**1,487.5**	**643.8**
Current liabilities			
Trade and other payables		288.9	116.4
Income tax payable	6	0.2	0.5
Current interest-bearing liabilities	10	225.6	18.4
Current lease liabilities	11	3.3	-
Provisions for other liabilities and charges	11	105.1	7.4
Total current liabilities		**623.0**	**142.7**
Total liabilities		**2,110.5**	**786.5**
TOTAL EQUITY AND LIABILITIES		**3,271.9**	**2,004.3**

Consolidated cash flow statement

(unaudited, in USD million)	Note	Quarters Q4 2019	Q4 2018	Full-Year 2019	2018
Operating activities					
Profit/-loss before income tax		18.8	214.6	-47.8	322.5
Adjustments to add/-deduct non-cash items:					
Previously capitalized exploration and evaluation expenses	5	6.7	-	27.8	-
Depreciation, depletion and amortization	4	88.9	74.9	311.8	260.1
Impairment oil and gas assets	7	23.7	-	162.0	1.9
Other*		8.0	15.9	6.7	50.2
Change in working capital items and provisions:					
- Inventories		-1.3	-0.8	-2.0	-2.4
- Trade and other receivables		-178.3	-170.6	-147.4	-181.7
- Trade and other payables		49.4	16.4	-18.1	16.8
- Provisions for other liabilities and charges		5.5	-2.3	92.5	4.7
Cash generated from operations		**21.3**	**148.1**	**385.3**	**472.0**
Tax refund received		56.9	33.2	56.9	33.2
Net interests received/-paid		-20.9	-12.0	-70.7	-34.1
Net cash from/-used in operating activities		**57.3**	**169.3**	**371.5**	**471.1**
Investing activities					
Purchases of intangible assets		-6.6	-5.2	-68.5	-7.8
Purchases of tangible assets		-105.7	-40.9	-339.4	-130.3
Payments for decommissioning		-9.0	-	-22.6	-
Acquisition of Faroe Petroleum plc net of cash acquired**		-	-	-428.7	-
Proceeds from license transactions	12	-	-	29.6	-
Proceeds from sale of financial investments	8	6.6	-	6.6	-
Acquisition of financial investments	8	-	-12.0	-	-201.3
Net cash from/-used in investing activities		**-114.7**	**-58.1**	**-823.0**	**-339.4**
Financing activities					
Proceeds from borrowings net of issue costs	10	73.4	8.6	537.9	223.9
Repayment of borrowings	10	-83.7	-31.0	-197.6	-31.0
Purchase of treasury shares		-47.3	-	-82.3	-
Paid dividend		-22.1	-	-46.6	-25.8
Payments of lease liabilities		-1.1	-	-3.2	-
Net cash from/-used in financing activities		**-80.8**	**-22.3**	**208.3**	**167.1**
Net increase/-decrease in cash and cash equivalents		-138.2	88.9	-243.2	298.9
Cash and cash equivalents at beginning of the period		624.0	640.2	729.1	430.2
Cash and cash equivalents at the end of the period		**485.7**	**729.1**	**485.7**	**729.1**
Of which restricted cash		14.3	3.2	14.3	3.2
Of which held on restricted account in relation to the Faroe Petroleum plc offer		-	-	-	418.1

* Includes net interest income/-expense and amortization of borrowing issue costs.

** The amount consists of USD 583.0 million paid during the first quarter of 2019 for the acquisition of the remaining Faroe Petroleum plc shares less cash acquired of USD 154.5 million (see Note 12).

Consolidated statement of changes in equity

(unaudited, in USD million)	Share capital	Other reserves	Retained earnings	Total equity
Total equity as of 1 January 2018	**35.0**	**262.7**	**578.2**	**875.9**
Fair value changes from equity instruments	-	-	12.1	12.1
Currency translation differences	-	2.6	-1.2	1.4
Other comprehensive income/-loss	-	2.6	10.8	13.4
Profit/-loss for the period	-	-	354.3	354.3
Total comprehensive income	**-**	**2.6**	**365.1**	**367.7**
Issue of share capital	-	-	-	-
Purchase of treasury shares	-	-	-	-
Sale of treasury shares	-	-	-	-
Payment of dividend	-	-25.8	-	-25.8
Transactions with shareholders	**-**	**-25.8**	**-**	**-25.8**
Total equity as of 31 December 2018	**35.0**	**239.6**	**943.2**	**1,217.8**

(unaudited, in USD million)	Share capital	Other reserves	Retained earnings	Total equity
Total equity as of 1 January 2019	**35.0**	**239.6**	**943.2**	**1,217.8**
Fair value changes from equity instruments	-	-	25.8	25.8
Currency translation differences	-	-3.7	-23.4	-27.0
Other comprehensive income/-loss	-	-3.7	2.4	-1.2
Profit/-loss for the period	-	-	73.5	73.5
Total comprehensive income	**-**	**-3.7**	**75.9**	**72.3**
Issue of share capital	-	-	-	-
Purchase of treasury shares	-1.6	-80.7	-	-82.3
Sale of treasury shares	-	-	-	-
Payment of dividend	-	-46.6	-	-46.6
Transactions with shareholders	**-1.6**	**-127.3**	**-**	**-129.0**
Total equity as of 31 December 2019	**33.3**	**108.6**	**1,019.4**	**1,161.3**

Notes to the consolidated interim financial statements

Note 1 | Basis of preparation and accounting policies

Principal activities and corporate information
DNO ASA (the Company) and its subsidiaries (DNO or the Group) are engaged in international oil and gas exploration, development and production.

Basis of preparation
DNO ASA's consolidated interim 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. These interim financial statements have also been prepared in accordance with Oslo Stock Exchange regulations.

The interim 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 *DNO ASA Annual Report and Accounts 2018*.

The interim financial information for 2019 and 2018 is unaudited.

Subtotals and totals in some of the tables included in these interim financial statements may not equal the sum of the amounts shown due to rounding.

The interim financial statements have been prepared on a historical cost basis, with the following exception: liabilities related to share-based payments, derivative financial instruments and equity instruments are recognized at fair value. A detailed description of the accounting policies applied is included in the DNO ASA Annual Report and Accounts 2018.

Changes in accounting policies and estimates
Effective 1 January 2019, the Group made the following changes affecting the significant accounting policies and estimates:

- Implementation of IFRS 16 *Leases.* As described in the DNO ASA Annual Report and Accounts 2018, IFRS 16 entered into force from 1 January 2019. IFRS 16 replaces IAS 17 *Leases* and provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The accounting principles applied are in line with the description provided in the DNO ASA Annual Report and Accounts 2018, Note 1. The impact on the balance sheet is presented on separate balance sheet items, and further details are provided in the notes. The Group has applied the modified retrospective approach with no restatement of comparative figures.
- Change in principle for valuation and presentation of overlift/underlift. Revenues are recognized on the basis of volumes lifted and sold to customers during the period (the sales method). Overlift/underlift balances, previously valued at net realizable value, are now valued at production cost including depreciation and movements in overlift/underlift are presented as an adjustment to cost of goods sold, previously presented as *Other revenues*. This change was made due to the discussion in the IFRS Interpretations Committee (IFRIC) on the topic "Sale of output by a joint operator (IFRS 11 *Joint Arrangements*)", which was concluded in March 2019. The change does not have a material impact on the revenues from Kurdistan but has an impact on revenues from the North Sea segment. Comparative figures have not been restated based on a materiality assessment.
- Change in the unit-of-production depreciation method. The Group has previously depreciated its capitalized costs for oil and gas assets over the estimated remaining proven developed reserves. Following review of the depreciation method, the Group has decided to change the reserves basis from proven (1P) developed reserves to proven and probable (2P) reserves. The change in depreciation method is reflected prospectively as a change in estimate under IAS 8.

Except for the changes described above, the accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of DNO ASA Annual Report and Accounts 2018.

Note 2 | Segment information

From the first quarter of 2019, the Group reports the following two operating segments: Kurdistan and North Sea. The North Sea segment comprise DNO's activities on the Norwegian Continental Shelf (NCS) and the UK Continental Shelf (UKCS). The segment assets do not include internal receivables/liabilities.

Fourth quarter ending 31 December 2019 USD million	Note	Kurdistan	North Sea	Other	Total reporting segments	Un-allocated/ eliminated	Total Group
Income statement information							
Revenues	3	191.1	83.5	-	274.6	-	**274.6**
Inter-segment revenues		-	-	-	-	-0.1	**-**
Cost of goods sold	4	-86.1	-64.3	-	-150.4	-1.3	**-151.7**
Gross profit		**105.0**	**19.2**	**-**	**124.2**	**-1.3**	**123.0**
Profit/-loss from operating activities		**107.3**	**-54.6**	**-2.8**	**49.9**	**-5.6**	**44.4**
Financial income/-expense (net)	10						**-25.6**
Tax income/-expense	6	-	28.8	-	28.8	3.3	**32.1**
Net profit/-loss							**50.9**
Total assets		**1,139.6**	**1,695.5**	**5.0**	**2,840.1**	**431.7**	**3,271.9**

Fourth quarter ending 31 December 2018 USD million	Note	Kurdistan	North Sea	Other	Total reporting segment	Un-allocated/ eliminated	Total Group
Income statement information							
Revenues	3	369.6	-	-0.8	368.8	-	**368.8**
Inter-segment revenues		-	0.2	0.0	0.3	-0.3	**-**
Cost of goods sold	4	-104.5	-0.0	-1.9	-106.4	-0.4	**-106.8**
Gross profit		**265.2**	**0.2**	**-2.7**	**262.6**	**-0.6**	**262.0**
Profit/-loss from operating activities		**265.1**	**-19.3**	**3.1**	**248.9**	**-19.0**	**230.0**
Financial income/-expense (net)	10						**-15.3**
Tax income/-expense	6	-4.0	15.0	-0.2	10.8	4.8	**15.6**
Net profit/-loss							**230.3**
Total assets		**1,065.8**	**48.1**	**10.3**	**1,124.2**	**880.1**	**2,004.3**

Note 2 | Segment information (continued)

Full-Year ending 31 December 2019 USD million	Note	Kurdistan	North Sea	Other	Total reporting segment	Un-allocated/ eliminated	Total Group
Income statement information							
Revenues	3	717.1	253.5	0.8	971.4	-	**971.4**
Inter-segment sales		-	0.5	0.0	0.5	-0.5	**-**
Cost of goods sold	4	-324.9	-213.0	-0.0	-537.9	-3.5	**-541.4**
Gross profit		**392.1**	**41.1**	**0.8**	**434.0**	**-4.0**	**430.0**
Profit/-loss from operating activities		**375.2**	**-257.4**	**-24.5**	**93.2**	**-17.6**	**75.6**
Financial income/-expense (net)	10						**-123.4**
Tax income/-expense	6	0.6	118.0	-	118.7	2.7	**121.3**
Net profit/-loss							**73.5**
Total assets		**1,139.6**	**1,695.5**	**5.0**	**2,840.1**	**431.7**	**3,271.9**

Full-Year ending 31 December 2018 USD million	Note	Kurdistan	North Sea	Other	Total reporting segment	Un-allocated/ eliminated	Total Group
Income statement information							
Revenues	3	811.3	-	18.0	829.3	-	**829.3**
Inter-segment sales		-	0.9	0.1	1.1	-1.1	**-**
Cost of goods sold	4	-338.8	-0.2	-9.8	-348.8	-1.8	**-350.6**
Gross profit		**472.4**	**0.8**	**8.4**	**481.6**	**-2.8**	**478.7**
Profit/-loss from operating activities		**469.9**	**-49.2**	**-19.2**	**401.5**	**-24.8**	**376.8**
Financial income/-expense (net)	10						**-54.3**
Tax income/-expense	6	-	32.8	-1.5	31.3	0.5	**31.8**
Net profit/-loss							**354.3**
Total assets		**1,065.8**	**48.1**	**10.3**	**1,124.2**	**880.1**	**2,004.3**

Note 3 | Revenues

USD million	Quarters Q4 2019	Q4 2018	Full-Year 2019	2018
Oil sales	258.7	368.8	918.1	829.3
Gas sales	9.0	-	36.5	-
Natural gas liquids sales	5.7	-	13.0	-
Tariff income	1.3	-	3.7	-
Total revenues	**274.6**	**368.8**	**971.4**	**829.3**

The full-year 2018 revenues included a recognition of an additional USD 182.8 million (recognized in the fourth quarter of 2018) following a change in Kurdistan revenue recognition criteria.

Note 4 | Cost of goods sold/ inventory

USD million	Quarters Q4 2019	Q4 2018	Full-Year 2019	2018
Lifting costs	-54.1	-31.9	-199.1	-90.4
Tariff and transportation expenses	-11.9	-	-37.7	-
Production cost based on produced volumes	**-66.0**	**-31.9**	**-236.8**	**-90.4**
Movement in overlift/underlift	3.2	-	7.2	-
Production cost based on sold volumes	**-62.8**	**-31.9**	**-229.6**	**-90.4**
Depreciation, depletion and amortization	-88.9	-74.9	-311.8	-260.1
Total cost of goods sold	**-151.7**	**-106.8**	**-541.4**	**-350.6**

Lifting costs consist of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention, workover activities and insurances. Tariff and transportation expenses consist of charges incurred by the Group for the use of infrastructure owned by other companies in the North Sea. For more information about movement in overlift/underlift, see Note 1.

USD million	At 31 Dec 2019	2018
Spare parts	28.2	8.3
Total inventory	**28.2**	**8.3**

Total inventory of USD 28.2 million as of 31 December 2019 is related to Kurdistan (USD 12.3 million) and the North Sea segment (USD 15.9 million).

Note 5 | Exploration expenses

USD million	Quarters		Full-Year	
	Q4 2019	Q4 2018	2019	2018
Exploration expenses (G&G and field surveys)	-2.4	-4.2	-17.6	-13.8
Seismic costs	-2.3	-9.6	-22.0	-18.0
Exploration cost capitalized in previous years carried to cost	-6.7	-	-27.8	-
Exploration costs capitalized this year carried to cost	-25.6	-3.8	-47.9	-8.2
Other exploration cost expensed	-10.9	-2.0	-31.2	-24.8
Total exploration expenses	**-47.9**	**-19.6**	**-146.4**	**-64.7**

For details on geographic spread of exploration expenses, see the Financial review section. The Group allocates its administrative and other expenses related to the North Sea activities to exploration, development and production activities respectively.

Exploration expenses of USD 47.9 million in the fourth quarter were mainly related to exploration activities in the North Sea segment, including expensing of exploration wells.

Note 6 | Income taxes

USD million	Quarters		Full-Year	
	Q4 2019	Q4 2018	2019	2018
Tax income/-expense				
Change in deferred taxes	23.0	1.3	6.8	3.6
Income tax receivable/-payable	9.1	14.3	114.5	28.2
Total tax income/-expense	**32.1**	**15.6**	**121.3**	**31.8**

USD million	At 31 Dec	
	2019	2018
Income tax receivable/-payable		
Tax receivables (non-current)	-	-
Tax receivables (current)	164.8	28.3
Income tax payable	-0.2	-0.5
Net tax receivable/-payable	**164.5**	**27.8**
Deferred tax assets/-liabilities		
Deferred tax assets	63.7	7.0
Deferred tax liabilities	-217.6	-
Net deferred tax assets/-liabilities	**-153.9**	**7.0**

The tax income, tax receivable and recognized deferred tax assets/liabilities relate to activity on the NCS and the UKCS. The Company's subsidiary, DNO Norge AS, which carries out the Group's activity on NCS, is currently not in a tax payable position and can claim a 78 percent refund of the eligible exploration costs limited to taxable losses for the year. The refund is paid out in November-December in the subsequent year. Tax receivables at yearend include exploration tax receivable on NCS, tax receivable in relation to decommissioning spend on UKCS and a tax receivable in relation to cessation of petroleum activity on NCS of DNO North Sea (Norge) AS. Deferred tax asset has been recognized on petroleum activities in Norway and the UK in relation to carry forward losses and temporary differences as it has been considered probable that taxable profits or tax refunds will be available to utilize these deferred tax assets. Deferred tax assets/liabilities are presented net in the statements of financial position if there is a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same tax authority.

Under the terms of the Production Sharing Contracts (PSC) in the Kurdistan region of Iraq, the Company's subsidiary, DNO Iraq AS, is not required to pay any corporate income taxes. The share of profit oil of which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of DNO. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. This is an accounting presentational issue and there is no corporate income tax required to be paid.

Profits/-losses by Norwegian companies from foreign upstream activities outside of Norway are not taxable/deductible in Norway in accordance with the General Tax Act, section 2-39. Under these rules only certain financial income and expenses are taxable in Norway.

Increase in deferred tax assets and liabilities compared to 2018 is mainly due to the acquisition of Faroe Petroleum plc (see Note 12).

Note 7 | Other intangible assets/ Property, plant and equipment (PP&E)/ Right-of-use (RoU) assets

USD million	Quarters Q4 2019	Q4 2018	Full-Year 2019	2018
Additions of other intangible assets	6.6	5.2	68.5	7.9
Additions of other intangible assets through business combination*	-4.7	-	277.4	-
Other intangible assets reclassified to assets held for sale*	-	-	-	
Additions of PP&E	116.9	60.1	387.6	149.3
Additions of PP&E through business combination*	-7.0	-	695.1	-
PP&E assets reclassified to assets held for sale*	-	-	-159.8	-
Additions of RoU assets	3.0	-	15.6	-
Additions of RoU assets through business combination*	-	-	2.0	-
Impairment oil and gas assets	-23.7	-	-162.0	-1.9

* See Note 12 for additions through business combination.

Additions of other intangible assets are related to capitalized exploration costs, license interests and administrative software. Additions of PP&E are related to development assets, assets in operation including estimate change on asset retirement obligations, and other PP&E.

On transition to IFRS 16, the Group recognized USD 12.9 million in right-of-use (RoU) assets. The Group`s right-of-use assets are mainly related to office rent including warehouse and equipment. The Group also leases personal computers and IT equipment with contract terms of one to three years but has elected to apply the practical expedient on low value assets and does not recognize lease liabilities or right-of-use assets and the leases are instead expensed when the costs are incurred. A practical expedient has been applied to not recognize lease liabilities and RoU assets for short-term leases. The RoU assets are depreciated linearly over the lifetime of the related lease contract. The lease term varies from two to six years. See also Note 1.

Impairments

In accordance with IAS 36 *Impairment of Assets*, the Group's oil and gas assets are tested for impairment whenever indicators of impairment exist at the end of each reporting period. Goodwill is tested for impairment at least annually. Technical goodwill is allocated to individual assets (or groups of assets). An impairment charge is recognized when the carrying amount of the asset, including any associated goodwill and reduced with deferred tax (from the date of acquisitions), exceeds the recoverable amount (i.e., recoverable amount is the higher of the asset's fair value less cost to sell and value in use).

During 2019 a total impairment charge of USD 162.0 million was recognized. In the fourth quarter, USD 23.7 million was recognized as part of the annual impairment testing of technical goodwill (with no tax impact) on the Ringhorne East field in the North Sea (USD 13.9 million) and other cash-generating units (CGU) (USD 9.9 million), triggered by updated production and cost profiles and gas price assumptions. In the third quarter, USD 89.4 million was related to impairment of technical goodwill (with no tax impact) on the Brasse discovery in the North Sea, triggered by a reduction in reserve estimate; USD 32.6 million was related to an upward revision in the cost estimate for decommissioning the Schooner and Ketch fields in the North Sea; and USD 16.2 million was related to an impairment of the Erbil PSC in Kurdistan with no significant planned investments in 2020 while the Company re-assesses its position in this asset. During 2018, the total impairment charge was USD 1.9 million related to the SL18 exploration license in Somaliland (USD 0.4 million) and the Sfax Offshore Exploration Permit in Tunisia (USD 1.5 million).

USD million	Full-Year ending 31 December 2019 Impairment charge (-)/ reversal (+)	Net recoverable/ Net carrying amount	Full-Year ending 31 December 2018 Impairment charge (-)/ reversal (+)	Net recoverable/ Net carrying amount
Erbil license, Kurdistan	-16.2	-	-	16.2
Brasse, North Sea	-89.4	39.6	-	-
Ringhorne East, North Sea	-13.9	41.7	-	-
Schooner and Ketch, North Sea	-32.6	-	-	-
Other CGUs	-9.9	61.8	-1.9	-
Total	**-162.0**	**143.1**	**-1.9**	**16.2**

The table shows the recoverable/carrying amount for the CGUs which have been impaired in 2019 and 2018.

Note 8 | Financial investments

Financial investments are comprised of equity instruments and are recorded at fair value (market price, where available) at the end of the reporting period. Fair value changes are included in other comprehensive income (FVTOCI).

	Quarters		Full-Year	
USD million	**Q4 2019**	**Q4 2018**	**2019**	**2018**
Beginning of the period	26.1	261.1	230.8	17.4
Additions	-	12.0	226.3	201.3
Fair value changes through other comprehensive income (FVTOCI)	1.6	-42.3	25.8	12.1
Disposal	-6.6	-	-461.8	-
Total financial investments end of the period	**21.0**	**230.8**	**21.0**	**230.8**
Non-current portion	21.0	230.8	21.0	230.8
Current portion	-	-	-	-

Financial investments include the following:

	At 31 Dec	
USD million	**2019**	**2018**
Listed securities:		
RAK Petroleum plc	21.0	17.9
Faroe Petroleum plc	-	209.2
Panoro Energy ASA	-	3.7
Total financial investments	**21.0**	**230.8**

The Company has a total of 15,849,737 shares in RAK Petroleum plc. RAK Petroleum plc is listed on the Oslo Stock Exchange. Through its subsidiary, RAK Petroleum Holdings B.V., RAK Petroleum plc is the largest shareholder in DNO ASA with 40.45 percent of the total issued shares. The Company's Executive Chairman Bijan Mossavar-Rahmani, the largest shareholder in RAK Petroleum, also serves as Executive Chairman of RAK Petroleum plc.

During 2018, the Company acquired 111,494,028 shares in Faroe Petroleum plc which represented 29.90 percent of the outstanding shares. At yearend 2018, Faroe Petroleum plc was listed on the UK's Alternative Investment Market (AIM) of the London Stock Exchange. On 11 January 2019, the Company obtained control of Faroe Petroleum plc and subsequently de-listed the company from AIM on 14 February 2019 (see Note 12).

On 6 November 2019, the Company sold its shareholding in Panoro Energy ASA.

Note 9 | Trade and other receivables

	At 31 Dec	
USD million	**2019**	**2018**
Trade debtors	301.1	182.8
Underlift	37.6	1.1
Other short-term receivables	139.8	25.9
Total trade and other receivables	**478.5**	**209.8**

The trade debtors relate mainly to crude oil deliveries to the export market from the Tawke license in Kurdistan. The Company has since yearend received deferred export payments for its Tawke August and September 2019 oil sales totaling USD 107.1 million net to DNO.

The underlift receivable of USD 37.6 million as of 31 December 2019 relates mainly to the North Sea, valued at production cost including depreciation, which will be realized based on market value when the barrels are lifted. Other short-term receivables relate mainly to items of working capital for oil and gas licenses in Kurdistan and the North Sea including accrual for earned income at yearend in the North Sea.

Note 10 | Interest-bearing liabilities

Interest-bearing liabilities

USD million	Ticker	Facility currency	Facility amount	Interest	Maturity	At 31 Dec 2019	2018
Non-current							
Bond loan (ISIN NO0010740392)	DNO01	USD	140.0	8.75%	18/06/20	-	200.0
Bond loan (ISIN NO0010823347)	DNO02	USD	400.0	8.75%	31/05/23	400.0	400.0
Bond loan (ISIN NO0010852643)	-	USD	400.0	8.375 %	29/05/24	400.0	-
Bond loan (ISIN NO0010811268)	FAPE01	USD	21.2	8.00%	28/04/23	21.2	-
Borrowing issue costs						-23.0	-24.3
Reserve based lending facility		USD	350.0	see below	07/11/26	37.8	-
Total non-current interest-bearing liabilities						**836.0**	**575.7**
Current							
Bond loan (ISIN NO0010740392)	DNO01	USD	140.0	8.75%	18/06/20	140.0	-
Exploration financing facility		NOK	1,000.0	see below	see below	85.6	18.4
Total current interest-bearing liabilities						**225.6**	**18.4**
Total interest-bearing liabilities						**1,061.6**	**594.1**

Security and pledges

USD million	At 31 Dec 2019	2018
Exploration tax refund	98.4	28.3
Restricted cash	-	0.6
Total book value of assets pledged	**98.4**	**28.9**

Changes in liabilities arising from financing activities split on cash and non-cash changes

USD million	At 1 Jan 2019	Cash flows	Non-cash changes Amortization	Currency	Acquisition	At 31 Dec 2019
Bond loans	600.0	261.2	-	-	100.0	961.2
Borrowing issue costs	-24.3	-8.6	9.9	-	-	-23.0
Reserve based lending facility	-	37.4	-	0.4	-	37.8
Exploration financing facilities (current)	18.4	50.3	-	-0.9	17.7	85.6
Total	**594.1**	**340.3**	**9.9**	**-0.5**	**117.7**	**1,061.6**

USD million	At 1 Jan 2018	Cash flows	Non-cash changes Amortization	Currency	Acquisition	At 31 Dec 2018
Bond loans	400.0	200.0	-	-	-	600.0
Borrowing issue costs	-27.2	-10.5	13.4	-	-	-24.3
Exploration financing facility (current)	17.6	3.4	-	-2.6	-	18.4
Total	**390.4**	**192.9**	**13.4**	**-2.6**	**-**	**594.1**

All the bonds are issued by DNO ASA except for FAPE01 which is issued by its subsidiary, DNO North Sea plc. Facility amount for the bonds is shown net of bonds held by the Company.

On 29 May 2019, DNO ASA completed the placement of USD 400 million of a new, five-year senior unsecured bond issued at 100 percent of par with a coupon rate of 8.375 percent. In connection with the bond placement, the Company agreed to buy back USD 60 million in nominal value of DNO01 at 104.16 percent of par plus accrued interest. The financial covenants of the bonds issued by DNO ASA require minimum USD 40 million of liquidity, and that the Group maintains either an equity ratio of 30 percent or a total equity of a minimum of USD 600 million. The financial covenants of FAPE01 apply to DNO North Sea plc sub-group and require a liquidity of minimum USD 15 million and at least USD 100 million in net assets.

During 2019, DNO ASA acquired USD 64.6 million of FAPE01 bonds at a price range of 107.25 to 107.50 percent of par plus accrued interest.

Note 10 | Interest-bearing liabilities (continued)

The Group has available a revolving exploration financing facility (EFF) in an aggregate amount of NOK 1 billion with an accordion option of NOK 500 million. Utilization requests need to be delivered for each proposed loan. The facility is secured against the Norwegian exploration tax refund and is repaid when the refund is received which is approximately eleven months after the end of the financial year. The interest rate equals NIBOR plus a margin of 1.70 percent. Utilizations can be made until 31 December 2022. Amount utilized as of the reporting date is disclosed in the table above.

The Group has a reserve-based lending (RBL) facility in relation to its Norway and UK production licenses with a total facility amount of USD 350 million which is available for both debt and issuance of letters of credit. In addition, there is an accordion option of USD 350 million. Interest charged on utilizations is based on the LIBOR, NIBOR or EURIBOR rates (depending on the currency of the drawdown) plus a margin ranging from 2.75 to 3.25 percent. The facility will amortize over the loan life with a final maturity date of 7 November 2026. Amount utilized as of the reporting date is disclosed in the table above. In addition, USD 91 million is utilized in respect of letters of credit.

The current EFF and RBL facilities were established on 15 November 2019 and replaced previous facilities.

The short-term bank credit facility of USD 200 million which the Group had available was cancelled in November 2019.

Note 11 | Provisions for other liabilities and charges/ Lease liabilities

	At 31 Dec	
USD million	**2019**	**2018**
Non-current		
Asset retirement obligations	415.7	49.4
Other long-term provisions and charges	7.1	18.7
Lease liabilities	11.1	-
Total non-current provisions for other liabilities and charges and lease liabilities	**433.9**	**68.1**
Current		
Asset retirement obligations	77.1	-
Other provisions and charges	27.9	7.4
Current lease liabilities	3.3	-
Total current provisions for other liabilities and charges and lease liabilities	**108.4**	**7.4**
Total provisions for other liabilities and charges and lease liabilities	**542.3**	**75.6**

Asset retirement obligations
The increase in asset retirement obligations compared to 2018 is mainly due to the acquisition of Faroe Petroleum plc (see Note 12). See Note 7 for impairment charge recognized related to the Schooner and Ketch fields in the UK sector of the North Sea, due to an upward revision in the cost estimate for decommissioning.

Non-cancellable lease commitments
On transition to IFRS 16, the Group recognized USD 12.7 million as lease liabilities. The identified lease liabilities have no significant impact on the Group`s financing, loan covenants or dividend policy. The Group does not have any residual value guarantees. Extension options are included in the lease liability when, based on the management`s judgement, it is reasonably certain that an extension will be exercised.

Undiscounted lease liabilities and maturity of cash outflows (non-cancellable):

	At 31 Dec	
USD million	**2019**	**2018**
Within one year	4.4	3.7
Two to five years	13.0	15.0
After five years	-	-
Total undiscounted lease liabilities end of the period	**17.5**	**18.6**

The Group`s future minimum lease payments under non-cancellable operating leases are related to office rent including warehouse and equipment. The difference between the recognized lease liabilities and undiscounted lease liabilities is due to discounting and adjustment for short-term leases and low-value leases. The Group`s lease of drilling rigs relates to Kurdistan drilling activities. The contracts are cancellable and thus not included in the table above. Total cancellable contracts are estimated to be USD 9 million (gross, undiscounted) as of 31 December 2019.

Note 12 | Business combinations

The Company has completed two transactions during the first half of 2019 as described below. Both transactions are regarded as business combinations and are accounted for using the acquisition method in accordance with IFRS 3 *Business Combinations*. The general principle in IFRS 3 is that the identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. Each identifiable asset and liability is measured at its acquisition date fair value based on guidance in IFRS 3 and IFRS 13 *Fair Value Measurement*. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition emphasizes that the fair value is a market-based measurement, not an entity-specific measurement. When measuring the fair value, the Group uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. Acquired producing and development assets (i.e., PP&E) as well as discovery assets (i.e., intangible assets) have been valued using the income-based approach.

The valuations are based on currently available information about fair values as of the acquisition dates. If new information becomes available within 12 months from the acquisition dates (*measurement period*), the Group may change the fair value assessment in the PPAs in accordance with guidance in IFRS 3. Eventual changes in fair values will be recorded retrospectively from the acquisition dates. During 2019, no material measurement period changes have been booked.

Acquisition of Faroe Petroleum plc (Faroe)

On 8 January 2019, the Company announced the terms of a final cash offer for the entire issued and to be issued share capital of Faroe at a price of 160 pence in cash for each Faroe share. The final offer had become unconditional in all respects on 11 January 2019, which was when the Company obtained control over Faroe by achieving more than 50 percent ownership. The Company acquired 100 percent of the entire issued share capital of Faroe during February 2019 and de-listed the company from AIM on 14 February 2019.

The Company obtained the necessary government approvals for the change of control in Norway and has submitted the required notifications in the UK and Ireland. No notification was necessary in the Netherlands.

The consideration payable by the Company under the terms of the final offer was funded from existing cash resources. The Company's main reason for the acquisition was to firmly establish itself in the North Sea. The Faroe acquisition strengthens the Group's portfolio and operational capabilities in the North Sea, transforming the Group into a more diversified company with a strong, second leg. Through the transaction, the Group obtained attractive exploration, development and production projects and an experienced team with extensive knowledge of the North Sea.

Purchase price allocation (PPA)

The acquisition date is determined to be the date the offer became unconditional in all respects on 11 January 2019, which is when the Company obtained control over Faroe by achieving more than 50 percent ownership. For convenience purposes, the Company has designated 1 January 2019 as the acquisition date. A PPA has been performed as of this acquisition date to allocate the consideration to provisional fair values of acquired assets and assumed liabilities of Faroe. Provisional fair values of the acquired assets and liabilities assumed as of the acquisition date were as shown in the table below:

USD million	**Fair value at acquisition-date**
Deferred tax assets*	45.9
Other intangible assets	277.4
Property, plant and equipment	553.6
Right-of-use assets	2.0
Inventories	17.9
Trade and other receivables	121.0
Tax receivables (current)	31.2
Cash and cash equivalents	154.5
Total assets	**1,203.5**
Deferred tax liabilities*	134.6
Interest-bearing liabilities (non-current)	100.0
Lease liabilities	2.0
Provisions for other liabilities and charges	408.6
Trade and other payables	180.8
Income tax payable	0.5
Current interest-bearing liabilities	17.7
Total liabilities	**844.2**
Total identifiable net assets at fair value	359.3
Consideration	812.0
Goodwill	**452.7**

* Deferred tax assets/liabilities are presented net in the statements of financial position if there is a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same tax authority.

Note 12 | Business combinations (continued)

The PPA above does not include effects from the swap agreement with Equinor as the transaction was completed on 30 April 2019 following approval by Norwegian authorities (see below). The note disclosure information related to assets held for sale was included in the first quarter 2019 interim report.

The goodwill recognized in the transaction relates mainly to technical goodwill due to the requirement to recognize deferred tax assets and liabilities for the temporary difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. Licenses under development and licenses in production can only be sold on a post-tax value pursuant to the Norwegian Petroleum Taxation Act, section 10. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12 *Income Taxes*, a provision is made for deferred tax corresponding to the tax rate multiplied by the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is technical goodwill. This goodwill will be not be deductible for tax purposes.

Total revenues and net profit (after tax) of Faroe since the acquisition date included in the consolidated statement of comprehensive income for 2019 were USD 254 million and USD -156 million respectively.

Swap agreement with Equinor Energy AS (Equinor)
On 30 April 2019, the Company announced the completion of the swap agreement with Equinor Energy AS, a wholly-owned subsidiary of Equinor ASA following approval by Norwegian authorities. The swap agreement was signed on 4 December 2018 and represents a balanced swap with no cash consideration. The effective date of the transaction is 1 January 2019.

As part of the transaction, Faroe Petroleum's interests in the non-producing Njord and Hyme redevelopment and Bauge development assets (divested assets) were exchanged for interests in four Equinor-held producing assets on a cashless basis, including interests in the Alve, Marulk, Ringhorne East and Vilje fields (acquired assets). The Company received a USD 46 million payment from Equinor reflecting net income from the acquired assets, reimbursement of investments related to the divested assets and working capital adjustments from 1 January 2019 to transaction completion on 30 April 2019. The divested assets have been derecognized and no gain or loss was recorded in the Group accounts.

Purchase price allocation (PPA)
The acquisition date is determined to be 30 April 2019, which is the date of completion of the agreement. A PPA has been performed as of this acquisition date to allocate the consideration to provisional fair values of acquired assets and assumed liabilities of the acquired assets. Provisional fair values of the acquired assets and liabilities assumed as of the acquisition date were as shown in the table below:

USD million	Fair value at acquisition-date
Property, plant and equipment	141.5
Tax receivables	-22.6
Trade and other receivables	2.2
Cash and cash equivalents	29.6
Total assets	**150.9**
Deferred tax liabilities*	89.1
Provisions for other liabilities and charges (non-current)	14.0
Total liabilities	**103.1**
Total identifiable net assets at fair value	47.8
Fair value of acquired assets	148.5
Goodwill	**100.7**

* Deferred tax assets/liabilities are presented net in the statements of financial position if there is a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same tax authority.

Note 12 | Business combinations (continued)

The goodwill recognized in the transaction relates to technical goodwill due to the requirement to recognize deferred tax assets and liabilities for the temporary difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination. Licenses under development and licenses in production can only be sold on a post-tax value pursuant to the Norwegian Petroleum Taxation Act, section 10. The assessment of fair value of such licenses is therefore based on cash flows after tax. Nevertheless, in accordance with IAS 12, a provision is made for deferred tax corresponding to the tax rate multiplied by the difference between the acquisition cost and the tax base. The offsetting entry to this deferred tax is technical goodwill. This goodwill will be not be deductible for tax purposes.

Total revenues and net profit (after tax) from the Swap agreement with Equinor since the acquisition date included in the consolidated statement of comprehensive income for 2019 were around USD 97 million and USD 9 million respectively. For comparison purposes, assuming that the acquisition had taken place effective 1 January 2019, it is estimated that revenues in 2019 would have increased by USD 25 million while net profit (after tax) would have increased by USD 5 million.

Note 13 | Subsequent events

DNO receives 10 awards in Norway's APA licensing round
On 14 January 2020, the Company announced that its wholly-owned subsidiary DNO Norge AS has been awarded participation in 10 exploration licenses, of which two are operatorships, under Norway's Awards in Predefined Areas (APA) 2019 licensing round. Of the 10 new licenses, five are in the North Sea, two in the Norwegian Sea and three in the Barents Sea. Prior to that announcement, DNO held interests in 87 licenses offshore Norway, of which 22 are operated by the Company.

DNO calls meeting to cancel 108,381,415 own shares held by Company
On 4 February 2020, the Company, announced that its Board of Directors has called an Extraordinary General Meeting on 28 February 2020 to seek shareholder approval to cancel all 108,381,415 own shares held by the Company. Acquisition of the 10 percent stake was completed in January 2020 at a weighted average price of NOK 10.61.

Alternative performance measures

DNO discloses alternative performance measures (APMs) as a supplement to the Group's financial statements prepared based on issued guidelines from the European Securities and Markets Authority (ESMA). The Company believes that the APMs provide useful supplemental information to management, investors, securities analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of DNO's business operations, financing and future prospects and to improve comparability between periods. Reconciliations of relevant APMs, definitions and explanations of the APMs are provided below.

EBITDA

	Quarters		Full-Year	
USD million	**Q4 2019**	**Q4 2018**	**2019**	**2018**
Revenues	274.6	368.8	971.4	829.3
Lifting costs	-54.1	-31.9	-199.1	-90.4
Tariffs and transportation	-11.9	-	-37.7	-
Movement in overlift/underlift	3.2	-	7.2	-
Exploration expenses	-47.9	-19.6	-146.4	-64.7
Administrative expenses	-6.1	-13.0	-26.1	-36.7
Other operating income/-expenses	-0.9	0.6	-19.8	1.4
EBITDA	**157.0**	**304.8**	**549.4**	**638.8**

EBITDAX

USD million	**Q4 2019**	**Q4 2018**	**2019**	**2018**
EBITDA	157.0	304.8	549.4	638.8
Exploration expenses	47.9	19.6	146.4	64.7
EBITDAX	**204.9**	**324.4**	**695.8**	**703.5**

Netback

USD million	**Q4 2019**	**Q4 2018**	**2019**	**2018**
EBITDA	157.0	304.8	549.4	638.8
Change in revenue recognition criteria, Kurdistan	-	-182.8	-	-182.8
Taxes received/-paid	56.9	33.2	56.9	33.2
Netback	**213.9**	**155.1**	**606.3**	**489.1**

	Q4 2019	**Q4 2018**	**2019**	**2018**
Netback (USD million)	213.9	155.1	606.3	489.1
Company Working Interest production (MMboe)	9.7	8.4	37.1	29.8
Netback (USD/boe)	**22.0**	**18.4**	**16.3**	**16.4**

Lifting costs

	Q4 2019	**Q4 2018**	**2019**	**2018**
Lifting costs (USD million)	-54.1	-31.9	-199.1	-90.4
Company Working Interest production (MMboe)	9.7	8.4	37.1	29.8
Lifting costs (USD/boe)	**5.6**	**3.8**	**5.4**	**3.0**

Acquisition and development costs

USD million	**Q4 2019**	**Q4 2018**	**2019**	**2018**
Purchases of intangible assets	-6.6	-5.2	-68.5	-7.8
Purchases of tangible assets	-105.7	-40.9	-339.4	-130.3
Acquisition and development costs*	**-112.3**	**-46.1**	**-407.9**	**-138.0**

* Acquisition and development costs exclude estimate changes on asset retirement obligations.

Alternative performance measures (continued)

Operational spend

USD million	Quarters Q4 2019	Q4 2018	Full-Year 2019	2018
Lifting costs	-54.1	-31.9	-199.1	-90.4
Exploration expenses	-47.9	-19.6	-146.4	-64.7
Exploration costs capitalized in previous years carried to cost (Note 5)	6.7	-	27.8	-
Acquisition and development costs	-112.3	-46.1	-407.9	-138.0
Operational spend	**-207.5**	**-97.7**	**-725.6**	**-293.2**

Equity ratio

USD	Q4 2019	Q4 2018	2019	2018
Equity	1,161.3	1,217.8	1,161.3	1,217.8
Total assets	3,271.9	2,004.3	3,271.9	2,004.3
Equity ratio	**35.5%**	**60.8%**	**35.5%**	**60.8%**

Free cash flow

USD million	Q4 2019	Q4 2018	2019	2018
Cash generated from operations	21.3	148.1	385.3	472.0
Acquisition and development costs	-112.3	-46.1	-407.9	-138.0
Payments for decommissioning	-9.0	-	-22.6	-
Free cash flow	**-100.0**	**102.0**	**-45.2**	**334.0**

Marketable securities

USD million	Q4 2019	Q4 2018	2019	2018
Financial investments	21.0	230.8	21.0	230.8
Treasury shares*	123.5	50.5	123.5	50.5
Marketable securities	**144.5**	**281.3**	**144.5**	**281.3**

* Treasury shares at the end of the reporting period multiplied by the DNO share price at the end of the reporting period.

Net debt

USD million	Q4 2019	Q4 2018	2019	2018
Cash and cash equivalents	485.7	729.1	485.7	729.1
Bond loan (Note 10)	961.2	600.0	961.2	600.0
Net cash/-debt	**-475.5**	**129.1**	**-475.5**	**129.1**

Exploration financing facilities have been excluded as these are covered by the exploration tax refund recognized as asset in the statements of financial position. See Note 6 and 10.

Alternative performance measures (continued)

Definitions and explanations of APMs

ESMA issued guidelines on APMs that came into effect on 3 July 2016. The Company has defined and explained the purpose of the following APMs:

EBITDA (Earnings before interest, tax, depreciation and amortization)

EBITDA, as reconciled above, can also be found by excluding the DD&A and impairment of oil and gas assets from the profit/-loss from operating activities. Management believes that this measure provides useful information regarding the Group's ability to fund its capital investments and provides a helpful measure for comparing its operating performance with those of other companies.

EBITDAX (Earnings before interest, tax, depreciation, amortization and exploration expenses)

EBITDAX, can be found by excluding the exploration expenses from the EBITDA. Management believes that this measure provides useful information regarding the Group's profitability and ability to fund its exploration activities and provides a helpful measure for comparing its performance with those of other companies.

Netback

Netback comprises EBITDA adjusted for taxes received/-paid. Management believes that this measure is useful because it provides an indication of the profitability of the Group's operating activities before tax for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently. This measure is also helpful for comparing the Group's operational performance between time periods and with those of other companies.

Netback (USD/boe)

Netback (USD/boe) is calculated by dividing netback in USD by the CWI production for the relevant period. Management believes that this measure is useful because it provides an indication of the profitability of the Group's operating activities before tax for the period without regard to significant events and/or decisions in the period that are expected to occur less frequently, per CWI boe produced. This measure is also helpful for comparing the Group's operational performance between time periods and with that of other companies.

Lifting costs (USD/boe)

Lifting costs comprise of expenses related to the production of oil and gas, including operation and maintenance of installations, well intervention activities and insurances. DNO's lifting costs per boe are calculated by dividing DNO's share of lifting costs across producing assets by CWI production for the relevant period. Management believes that the lifting cost per boe is a useful measure because it provides an indication of the Group's level of operational cost effectiveness between time periods and with those of other companies.

Acquisition and development costs

Acquisition and development costs comprise the purchase of intangible and tangible assets irrespective of whether paid in the period. Management believes that this measure is useful because it provides an overview of capital investments used in the relevant period.

Operational spend

Operational spend is comprised of lifting costs, exploration expenses and acquisition and development costs. Management believes that this measure is useful because it provides a complete overview of the Group`s total operational costs and capital investments used in the relevant period.

Equity ratio

The equity ratio is calculated by dividing total equity by the total assets. Management uses the equity ratio to monitor its capital and financial covenants (see Note 9 in the consolidated accounts). The equity ratio also provides an indication of how much of the Group's assets are funded by equity.

Free cash flow

Free cash flow comprises cash generated from operations less acquisition and development costs. Management believes that this measure is useful because it provides an indication of the profitability of the Group's operating activities excluding the non-cash items of the income statement and includes operational spend. This measure also provides a helpful measure for comparing with that of other companies.

Marketable securities

Marketable securities are comprised of the sum of market value of financial investments and treasury shares. Management believes that this measure is useful because it provides an overview of liquid assets that can be converted to cash in a short period of time.

Net debt

Net debt comprises cash and cash equivalents less bond loans (see Note 15 in the consolidated accounts). Management believes that net debt is a useful measure because it provides indication of the minimum necessary debt financing (if the figure is negative) to which the Group is subject at the balance sheet date.

NOTES

DNO ASA
Dokkveien 1
N-0250 Oslo
Norway

Phone: (+47) 23 23 84 80
Fax: (+47) 23 23 84 81

dno.no