DNO ASA

Report

Half-Year 2019 Interim Results

DNO

EST - 1971

Key figures

USD million	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Key financials					
Revenues	265.7	147.0	469.7	289.3	829.3
Gross profit	131.9	72.9	219.0	139.8	478.7
Profit/-loss from operating activities	99.4	51.2	137.3	76.2	376.8
Net profit/-loss	68.0	42.5	119.1	60.9	354.3
EBITDA	176.6	105.2	283.2	191.3	638.8
Netback	176.6	105.2	283.2	191.3	489.1
Acquisition and development costs	94.7	31.7	187.3	50.1	138.0
Exploration expenses	18.3	11.0	51.2	37.8	64.7
Key performance indicators					
Lifting costs (USD/boe)	4.8	3.0	5.2	2.6	3.0
Netback (USD/boe)	18.8	15.5	15.5	13.8	16.4

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

Corporate overview

- Solid first-half 2019 with rising revenues, strong profitability, record activity levels and with a material contribution from the North Sea
- H1 2019 net profit of USD 119 million, double H1 2018 level
- H1 2019 Company Working Interest (CWI) production of 107,100 barrels of oil equivalent per day (boepd), up 39 percent from the same period a year earlier
- H1 2019 operational spend of USD 274 million (including capex, expex and lifting costs), of which 60 percent in Kurdistan and 40 percent in North Sea (net after tax)
- Full year 2019 projected operational spend of USD 680 million split evenly between Kurdistan and North Sea (net after tax)
- Continue to pursue M&A activity with focus on development and producing assets

Q2 2019 operational highlights

- DNO ramps up operational activity with 14 wells spud in H1 2019
- On track to deliver largest annual drilling program in the Company's 48-year history with 36 wells across portfolio, of which 23 development/infill and 13 exploration/appraisal wells
- H1 2019 CWI production averaged 89,300 barrels of oil per day (bopd) from Kurdistan and 17,800 boepd from North Sea
- Operated production in Kurdistan climbed 20 percent to 126,700 bopd from 106,000 bopd in H1 2018
- Operated production in North Sea in H1 2019 averaged 4,100 bopd (following acquisition of Faroe Petroleum plc)

Q2 2019 financial highlights

- H1 2019 revenues of USD 470 million, up 63 percent from the same period a year earlier, of which USD 362 million from Kurdistan and USD 108 million from North Sea

- Completed USD 780 million acquisition of Faroe Petroleum plc in March 2019

- USD 400 million bond issue closed in May 2019 and bought back USD 78 million of previous bonds

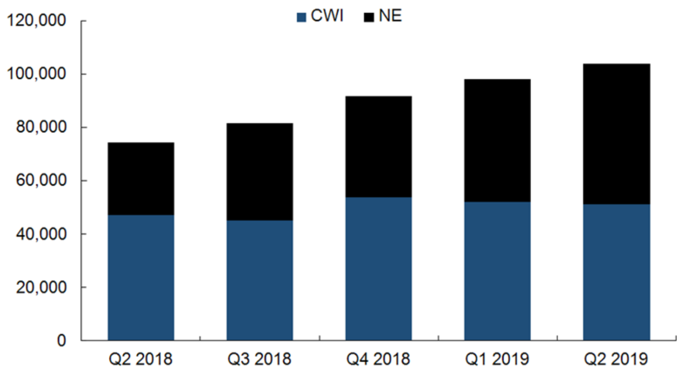
- Exited H1 2019 with cash balance of USD 574 million plus USD 94 million in treasury shares and marketable securities

- Shareholders approved second year dividend distribution on back of strong financials

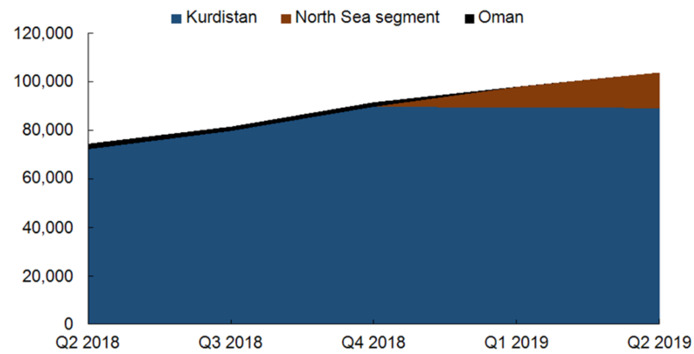
Operational review

Production

Quarterly production (boepd)



CWI production (boepd)



Operated gross production averaged 130,050 boepd during the second quarter, of which 126,538 bopd was from Kurdistan and 3,512 boepd from the North Sea segment.

Company Working Interest (CWI) production during the second quarter stood at 103,902 boepd, up from 98,030 boepd in the previous quarter. In Kurdistan, CWI production averaged 89,209 bopd, compared to 89,365 bopd in the previous quarter. CWI production from the North Sea segment averaged 14,692, up from 8,578 boepd previous quarter. The increase in production was primarily driven by the production from assets acquired through the Norwegian assets swap with Equinor, ramp-up of production from Oda, partly offset by a planned one-month maintenance shutdown in the Ula Area towards the end of the quarter.

Entitlement production averaged 52,626 boepd during the second quarter, up from 46,010 boepd in the previous quarter.

Gross production (operated)

	Quarters			First Half-Year		Full-Year
boepd	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	126,538	126,759	102,535	126,648	105,962	113,149
North Sea	3,512	4,723	-	4,114	-	-
Oman	-	187	4,645	93	4,607	4,458
Total	**130,050**	**131,669**	**107,180**	**130,855**	**110,570**	**117,607**

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

Company Working Interest (CWI) production

	Quarters			First Half-Year		Full-Year
boepd	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	89,209	89,365	72,216	89,287	74,667	79,747
North Sea*	14,692	8,578	-	11,625	-	-
Oman	-	87	2,254	43	2,128	1,965
Total	**103,902**	**98,030**	**74,470**	**100,955**	**76,795**	**81,712**

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

Net entitlement production

	Quarters			First Half-Year		Full-Year
boepd	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	37,933	37,390	26,567	37,663	28,206	32,240
North Sea*	14,692	8,578	-	11,625	-	-
Oman	-	42	779	21	762	767
Total	**52,626**	**46,010**	**27,346**	**49,309**	**28,968**	**33,007**

The table above reflects the Group's net entitlement production (boepd). The net entitlement 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 126,650 bopd during the first half of 2019.

The Peshkabir-9 well and the Peshkabir-10A side track well were completed and placed on production during the first half of the year. The Peshkabir-11 well was spud in May 2019 and will come onstream shortly. Peshkabir production averaged 54,950 bopd during the first half of 2019.

At the Tawke field, the Tawke-52, Tawke-54 and Tawke-55 Cretaceous wells came onstream in the first half of 2019. The Tawke-56 Cretaceous well was spud in June 2019 and will come onstream shortly. Tawke production averaged 71,700 bopd during the first half of 2019.

The Company's active 2019 drilling campaign at the Tawke and Peshkabir fields continues with up to four Peshkabir wells and up to 13 Tawke wells to spud by yearend.

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

Baeshiqa license

Baeshiqa-1 exploration well, spud in October 2018, targeting the shallow Cretaceous reservoirs was drilled to 1,511 meters and has been suspended pending completion of testing of the adjacent Baeshiqa-2 well.

Baeshiqa-2, spud in February 2019, targeting the deeper Jurassic and Triassic reservoirs on the same structure has been drilled to 3,202 meters and completed with rigless testing to commence in the second part of August.

A third well, targeting the deeper Jurassic and Triassic reservoirs on a separate structure is planned to spud early next year.

DNO acquired a 32 percent interest and operatorship of the Baeshiqa license in 2017. 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 17,820 boepd in Norway and the UK during the first half of 2019 (including the net production from assets acquired through the Norwegian assets swap with Equinor Energy AS, a wholly-owned subsidiary of Equinor ASA), of which 16,920 boepd was in Norway and 900 boepd was in the UK.

In June 2019, DNO was awarded two exploration licenses as operator in the United Kingdom (UK) by the Oil and Gas Authority under the UK's 31st licensing round. DNO exited license PL889 in the Norwegian Sea at the end of June 2019. The Company now holds 89 licenses in Norway, of which 23 are operated.

The Company has production diversified across 13 fields, of which nine are in Norway and four in the UK, with Norway and the UK now accounting for around 17 percent of DNO's portfolio in terms of production.

Ten North Sea exploration and appraisal wells and five development wells are planned to spud by yearend.

Financial review

Revenues, operating profit and cash

Revenues in the second quarter stood at USD 265.7 million, compared to USD 204.1 million in the previous quarter. The increase was primarily driven by higher realized oil prices in Kurdistan and higher lifted volumes in the North Sea segment. Kurdistan contributed revenues of USD 192.8 million, with the North Sea segment contributing USD 72.8 million.

The Company reported an operating profit of USD 99.4 million in the second quarter, up from USD 37.9 million in the previous quarter reflecting increase in revenues.

The Company ended the quarter with a cash balance of USD 573.8 million and USD 94.3 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. The net decrease is mainly due to the acquisition of Faroe Petroleum plc (see Note 12).

Cost of goods sold

In the second quarter, the cost of goods sold stood at USD 133.8 million, compared to USD 117.0 million in the previous quarter. The increase is primarily driven by higher depreciation from the North Sea segment due to higher production and recognition of assets acquired through the Norwegian assets swap with Equinor.

Lifting costs

Lifting costs stood at USD 44.9 million in the second quarter, compared to USD 49.8 million in the previous quarter. In Kurdistan, the average lifting cost during the second quarter stood at USD 2.8 per barrel of oil equivalent (boe). In the North Sea segment, the average lifting cost during the second quarter stood at USD 16.8 per boe.

		Quarters		First Half-Year		Full-Year
USD million	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	22.5	28.2	18.7	50.8	31.1	80.6
North Sea	22.4	21.5	-	43.8	-	-
Oman	-		1.7	-	5.0	9.6
Other	-		0.1	-	0.3	-
Total	**44.9**	**49.8**	**20.5**	**94.6**	**36.4**	**90.4**

Including export volumes

		Quarters		First Half-Year		Full-Year
(USD/boe)	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	2.8	3.5	2.8	3.1	2.3	2.8
North Sea	16.8	28.0	-	20.8		-
Oman	-		8.5	-	13.1	13.4
Other	-		-		-	-
Average	**4.8**	**5.6**	**3.0**	**5.2**	**2.6**	**3.0**

Depreciation, depletion and amortization (DD&A)

DD&A for assets in operation amounted to USD 75.9 million in the second quarter compared to USD 67.4 million in the previous quarter.

		Quarters		First Half-Year		Full-Year
USD million	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	53.7	52.2	53.2	105.9	112.1	258.2
North Sea	22.2	15.2	-	37.3	-	-
Total	**75.9**	**67.4**	**53.2**	**143.2**	**112.1**	**258.2**

Including export

		Quarters		First Half-Year		Full-Year
(USD/boe)	**Q2 2019**	**Q1 2019**	**Q2 2018**	**Q2 2019**	**Q2 2018**	**2018**
Kurdistan	15.6	15.5	22.0	15.5	22.0	21.9
North Sea	16.6	19.7	-	17.7	-	-
Average	**15.9**	**16.3**	**21.4**	**16.0**	**21.4**	**21.4**

Exploration expenses

Exploration expenses of USD 18.3 million in the second quarter were mainly related to exploration activities in the North Sea segment including the purchase of seismic.

		Quarters		First Half-Year		Full-Year
USD million	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	0.5	0.7	0.3	1.2	0.3	1.5
North Sea	17.8	32.2	10.2	50.0	20.3	45.9
Tunisia	-	-	0.8	-	16.6	16.6
Other	-	-0.1	-0.3	-0.1	0.6	0.7
Total	**18.3**	**32.8**	**11.0**	**51.2**	**37.8**	**64.7**

Acquisition and development costs

Capital expenditures stood at USD 94.7 million in the second quarter, of which USD 24.4 million was in the North Sea segment and USD 69.7 million in Kurdistan.

		Quarters		First Half-Year		Full-Year
USD million	**Q2 2019**	**Q1 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Kurdistan	69.7	39.4	31.4	109.1	49.5	135.4
North Sea	24.4	52.1	0.2	76.6	0.2	1.3
Other	0.5	1.1	0.1	1.6	0.4	1.3
Total	**94.7**	**92.6**	**31.7**	**187.3**	**50.1**	**138.0**

Risks and uncertainty

The Group is subject to a range of risks and uncertainties which may affect its business operations and financial condition. The description of key risks and uncertainties in the DNO ASA Annual Report and Accounts 2018 gives a fair description of key risks and uncertainties that may affect the Group in the second half of 2019 and we are not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties, except for those described herein.

Responsibility statement

We confirm to the best of our knowledge that the Group's interim financial statements for the period 1 January to 30 June 2019 has been prepared in accordance with IAS 34 *Interim Financial Reporting* and gives a fair view of the Group's assets, liabilities, financial position and result for the period viewed in their entirety, and that the interim management report includes a fair review of any significant events that arose during the six-month period and their effect on the half-year financial report, any significant related-party transactions, and a description of the significant risks and uncertainties for the remaining six months of the year.

Oslo, 30 July 2019

Bijan Mossavar-Rahmani Executive Chairman	Lars A. Takla Deputy Chairman	Elin Karfjell Director
Gunnar Hirsti Director	Shelley Watson Director	Bjørn Dale Managing Director

Consolidated statements of comprehensive income

		Quarters		First Half-Year		Full-Year
(unaudited, in USD million)	**Note**	**Q2 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Revenues	2,3	265.7	147.0	469.7	289.3	829.3
Cost of goods sold	4	-133.8	-74.1	-250.7	-149.5	-350.6
Gross profit		**131.9**	**72.9**	**219.0**	**139.8**	**478.7**
Other income	3	-0.7	-	-0.7	-1.4	4.8
Administrative expenses		2.3	-5.7	-13.1	-15.6	-36.7
Other operating expenses		-15.7	-4.6	-16.8	-6.9	-3.4
Impairment oil and gas assets	7	-	-0.4	-	-1.9	-1.9
Exploration expenses	5	-18.3	-11.0	-51.2	-37.8	-64.7
Profit/-loss from operating activities		**99.4**	**51.2**	**137.3**	**76.2**	**376.8**
Financial income		2.6	1.7	5.7	4.2	12.6
Financial expenses	10	-38.3	-17.1	-63.6	-30.1	-66.9
Profit/-loss before income tax		**63.7**	**35.7**	**79.4**	**50.4**	**322.5**
Tax income/-expense	6	4.3	6.8	39.7	10.6	31.8
Net profit/-loss		**68.0**	**42.5**	**119.1**	**60.9**	**354.3**
Other comprehensive income						
Currency translation differences		8.8	-	5.7	-	1.4
Items that may be reclassified to profit or loss in later periods		**8.8**	**-**	**5.7**	**-**	**1.4**
Net fair value changes from financial instruments	8	-0.4	16.5	28.9	19.0	12.1
Items that are not reclassified to profit or loss in later periods		**-0.4**	**16.5**	**28.9**	**19.0**	**12.1**
Total other comprehensive income, net of tax		**8.4**	**16.5**	**34.6**	**19.0**	**13.5**
Total comprehensive income, net of tax		**76.4**	**59.0**	**153.7**	**80.0**	**367.7**
Net profit/-loss attributable to:						
Equity holders of the parent		68.0	42.5	119.1	60.9	354.3
Total comprehensive income attributable to:						
Equity holders of the parent		76.4	59.0	153.7	80.0	367.7
Earnings per share, basic		0.06	0.04	0.11	0.06	0.34
Earnings per share, diluted		0.06	0.04	0.11	0.06	0.34

Consolidated statements of financial position

ASSETS (unaudited, USD million)	Note	At 30 Jun 2019	At 30 Jun 2018	At 31 Dec 2018
Non-current assets				
Goodwill	12	482.8	-	-
Deferred tax assets	6	44.3	6.2	7.0
Other intangible assets	7	355.8	27.7	32.8
Property, plant and equipment	7	1,334.5	804.0	758.2
Right-of-use assets	7	13.3	-	-
Financial investments	8	30.8	223.1	230.8
Tax receivables	6	55.4	9.2	-
Total non-current assets		**2,316.8**	**1,070.1**	**1,028.7**
Current assets				
Inventories	4	24.0	6.1	8.3
Trade and other receivables	2,9	391.9	30.4	209.8
Tax receivables	6	62.2	33.9	28.3
Cash and cash equivalents		573.8	584.0	729.1
Total current assets		**1,051.8**	**654.4**	**975.5**
TOTAL ASSETS		**3,368.7**	**1,724.5**	**2,004.3**

EQUITY AND LIABILITIES (unaudited, USD million)	Note	At 30 Jun 2019	At 30 Jun 2018	At 31 Dec 2018
Equity				
Share capital		35.0	35.0	35.0
Other reserves		218.7	262.7	239.6
Retained earnings		1,093.2	658.6	943.2
Total equity		**1,346.9**	**956.2**	**1,217.8**
Non-current liabilities				
Deferred tax liabilities	6	204.0	-	-
Interest-bearing liabilities	10	1,023.2	579.7	575.7
Lease liabilities	11	10.5	-	-
Provisions for other liabilities and charges	11	475.0	48.8	68.1
Total non-current liabilities		**1,712.6**	**628.5**	**643.8**
Current liabilities				
Trade and other payables		219.6	88.2	116.4
Income tax payable	6	-	0.7	0.5
Current interest-bearing liabilities	10	57.5	32.2	18.4
Current lease liabilities	11	3.2	-	-
Provisions for other liabilities and charges	11	28.9	18.6	7.4
Total current liabilities		**309.2**	**139.8**	**142.7**
Total liabilities		**2,021.8**	**768.2**	**786.5**
TOTAL EQUITY AND LIABILITIES		**3,368.7**	**1,724.5**	**2,004.3**

Consolidated cash flow statement

(unaudited, in USD million)	Note	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Operating activities						
Profit/-loss before income tax		63.7	35.7	79.4	50.4	322.5
Adjustments to add/-deduct non-cash items:						
Depreciation, depletion and amortization	4	77.1	53.6	145.8	113.1	260.1
Impairment oil and gas assets	7	-	0.4	-	1.9	1.9
Other*		20.6	21.4	40.3	23.6	50.2
Change in working capital items and provisions:						
- Inventories		2.5	0.3	2.3	-0.2	-2.4
- Trade and other receivables		-72.6	-0.9	-62.3	-2.5	-181.7
- Trade and other payables		-23.5	-3.7	-87.4	-11.4	16.8
- Provisions for other liabilities and charges		8.8	-7.4	17.9	15.9	4.7
Cash generated from operations		**76.6**	**99.5**	**136.0**	**190.8**	**472.0**
Tax refund received		-	-	-	-	33.2
Net interests received/-paid		-23.2	-14.6	-31.6	-14.1	-34.1
Net cash from/-used in operating activities		**53.4**	**84.9**	**104.4**	**176.6**	**471.1**
Investing activities						
Purchases of intangible assets	7	-27.2		-40.9		-7.8
Purchases of tangible assets	7	-67.5	-31.7	-146.4	-50.1	-130.3
Payments for decommissioning		-2.5	-	-8.3		-
Acquisition of Faroe Petroleum plc net of cash acquired**		-		-428.7		-
Proceeds from license transactions	12	29.6	-	29.6		-
Acquisition of financial investments	8	-	-186.0	-	-186.0	-201.3
Net cash from/-used in investing activities		**-67.6**	**-217.6**	**-594.7**	**-236.1**	**-339.4**
Financing activities						
Proceeds from borrowings net of issue costs	10	412.0	198.3	458.2	198.3	223.9
Repayment of borrowings	10	-77.6		-97.2	15.0	-31.0
Paid dividend		-		-24.6		-25.8
Payments of lease liabilities		-0.8	-	-1.4		-
Net cash from/-used in financing activities		**333.6**	**198.3**	**335.0**	**213.4**	**167.1**
Net increase/-decrease in cash and cash equivalents		319.4	65.6	-155.3	153.8	298.9
Cash and cash equivalents at beginning of the period		254.4	518.4	729.1	430.2	430.2
Cash and cash equivalents at the end of the period		**573.8**	**584.0**	**573.8**	**584.0**	**729.1**
Of which restricted cash		14.8	2.9	14.8	2.9	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 bond 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 deducted with 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	-	-	19.0	19.0
Currency translation differences	-	-	-	-
Other comprehensive income/-loss	-	-	19.0	19.0
Profit/-loss for the period	-	-	60.9	60.9
Total comprehensive income	**-**	**-**	**80.0**	**80.0**
Issue of share capital	-	-	-	-
Purchase of treasury shares	-	-	-	-
Sale of treasury shares	-	-	-	-
	-	-	-	-
Total equity as of 30 June 2018	**35.0**	**262.7**	**658.6**	**956.2**

(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	-	-	28.9	28.9
Currency translation differences	-	3.7	2.0	5.7
Other comprehensive income/-loss	-	3.7	30.9	34.6
Profit/-loss for the period	-	-	119.1	119.1
Total comprehensive income	**-**	**3.7**	**150.0**	**153.7**
Issue of share capital	-	-	-	-
Purchase of treasury shares	-	-	-	-
Sale of treasury shares	-	-	-	-
Payment of dividend	-	-24.7	-	-24.7
	-	-24.7	-	-24.7
Total equity as of 30 June 2019	**35.0**	**218.7**	**1,093.2**	**1,346.9**

Notes to the consolidated interim financial statements

Note 1 | Basis of preparation and accounting policies

Principal activities and corporate information
DNO ASA (the Company) is engaged in international oil and gas exploration, development and production.

Basis of preparation
The DNO ASA's consolidated (DNO's or the Group's) 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 Group annual accounts).

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 Group annual accounts for 2018.

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

- Implementation of IFRS 16 *Leases.* As described in the Group annual accounts for 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 Group annual accounts for 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 and it is expected to only have 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 developed reserves to proven and probable 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 the Group's annual accounts for 2018.

Note 2 | Segment information

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

Second quarter ending 30 June 2019 **USD million**	**Note**	**Kurdistan**	**North Sea**	**Other**	**Total reporting segments**	**Un-allocated/ eliminated**	**Total Group**
Income statement information							
Revenues	3	192.8	72.8	-	265.7	-	**265.7**
Inter-segment revenues		-	-	-	-	-0.2	**-**
Cost of goods sold	4	-76.4	-56.7	-	-133.1	-0.7	**-133.8**
Gross profit		**116.5**	**16.1**	**-**	**132.6**	**-0.9**	**131.9**
Profit/-loss from operating activities		**114.9**	**-1.3**	**-14.9**	**98.8**	**0.8**	**99.4**
Financial income/-expense (net)	10						**-35.7**
Tax income/-expense	6	0.6	4.3	-	4.9	-0.6	**4.3**
Net profit/-loss							**68.0**
Total assets		**1,086.7**	**1,748.5**	**6.2**	**2,841.4**	**527.3**	**3,368.7**

Second quarter ending 30 June 2018 **USD million**	**Note**	**Kurdistan**	**North Sea**	**Other**	**Total reporting segment**	**Un-allocated/ eliminated**	**Total Group**
Income statement information							
Revenues	3	139.9	-	7.1	147.0	-	**147.0**
Inter-segment revenues		-	0.2	0.1	0.3	-0.3	**-**
Cost of goods sold	4	-71.8	-0.0	-1.8	-73.7	-0.4	**-74.1**
Gross profit		**68.1**	**0.2**	**5.4**	**73.7**	**-0.8**	**72.9**
Profit/-loss from operating activities		**66.2**	**-10.6**	**-0.4**	**55.2**	**-4.0**	**51.2**
Financial income/-expense (net)	10						**-15.4**
Tax income/-expense	6	-	8.1	-1.0	7.0	-0.3	**6.8**
Net profit/-loss							**42.5**
Total assets		**1,045.6**	**59.1**	**17.6**	**1,122.3**	**602.2**	**1,724.5**

Note 2 | Segment information (continued)

First half-year ending 30 June 2019 USD million	Note	Kurdistan	North Sea	Other	Total reporting segment	Un-allocated/ eliminated	Total Group
Income statement information							
Revenues*	3	361.4	108.3	0.0	469.7	-	**469.7**
Inter-segment sales		-	0.3	0.0	0.3	-0.3	**-**
Cost of goods sold	4	-157.0	-92.2	-0.0	-249.2	-1.6	**-250.7**
Gross profit		**204.5**	**16.4**	**0.0**	**220.9**	**-1.9**	**219.0**
Profit/-loss from operating activities		**202.0**	**-40.2**	**-18.6**	**143.2**	**-5.9**	**137.3**
Financial income/-expense (net)	10						**-57.9**
Tax income/-expense	6	0.6	39.7	-	40.3	-0.6	**39.7**
Net profit/-loss							**119.1**
Total assets		**1,086.7**	**1,748.5**	**6.2**	**2,841.4**	**527.3**	**3,368.7**

First half-year ending 30 June 2018 USD million	Note	Kurdistan	North Sea	Other	Total reporting segment	Un-allocated/ eliminated	Total Group
Income statement information							
Revenues	3	277.5	-	11.8	289.3	-	**289.3**
Inter-segment sales		-	0.4	0.1	0.5	-0.5	**-**
Cost of goods sold	4	-143.2	-0.1	-5.2	-148.4	-1.1	**-149.5**
Gross profit		**134.4**	**0.4**	**6.7**	**141.4**	**-1.6**	**139.8**
Profit/-loss from operating activities		**130.7**	**-22.6**	**-19.9**	**88.2**	**-12.0**	**76.2**
Financial income/-expense (net)	10						**-25.8**
Tax income/-expense	6	-	12.2	-1.3	10.9	-0.3	**10.6**
Net profit/-loss							**60.9**
Total assets		**1,045.6**	**59.1**	**17.6**	**1,122.3**	**602.2**	**1,724.5**

Note 3 | Revenues

USD million	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Oil sales	253.6	147.0	450.6	289.3	829.3
Gas sales	9.7	-	15.9	-	-
Natural gas liquids sales	0.9	-	1.6	-	-
Tariff income	1.5	-	1.7	-	-
Total revenues	**265.7**	**147.0**	**469.7**	**289.3**	**829.3**

The full-year 2018 revenues included a recognition of an additional USD 182.8 million (booked in the fourth quarter of 2018) following a change in Kurdistan revenue recognition criteria (see Note 1).

The full-year 2018 Other income of USD 4.8 million during 2018 was related to a recognition of an accounting gain of USD 6.1 million following the sale of DNO Tunisia AS to Panoro Energy AS, a subsidiary of Panoro Energy ASA (Panoro) and an adjustment of USD 1.4 million related to provisional amounts made during the measurement period for the acquisition of Origo Exploration Holding AS booked in the first quarter of 2018.

Note 4 | Cost of goods sold/ inventory

USD million	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Lifting costs	-44.9	-20.5	-94.6	-36.4	-90.4
Tariff and transportation expenses	-7.8	-	-11.9	-	-
Production cost based on produced volumes	**-52.7**	**-20.5**	**-106.6**	**-36.4**	**-90.4**
Movement in overlift/underlift	-4.0	-	1.6	-	-
Production cost based on sold volumes	**-56.7**	**-20.5**	**-104.9**	**-36.4**	**-90.4**
Depreciation, depletion and amortization	-77.1	-53.6	-145.8	-113.1	-260.1
Total cost of goods sold	**-133.8**	**-74.1**	**-250.7**	**-149.5**	**-350.6**

Lifting costs consist of expenses relate 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 30 Jun 2019	2018	At 31 Dec 2018
Spare parts	24.0	6.1	8.3
Total inventory	**24.0**	**6.1**	**8.3**

Total inventory of USD 24.0 million as of 30 June 2019 is related to Kurdistan (USD 9.0 million) and the North Sea segment (USD 15.0 million).

Note 5 | Exploration expenses

USD million	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Exploration expenses (G&G and field surveys)	-11.9	-4.1	-14.3	-7.5	-13.8
Seismic costs	-3.0	-4.5	-10.3	-5.5	-18.0
Exploration cost capitalized in previous years carried to cost	-2.6	-	-3.3	-	-
Exploration costs capitalized this year carried to cost	-	-	-13.0	-4.5	-8.2
Impairment expenses	-	-	-	-	-
Other exploration cost expensed	-0.9	-2.4	-10.3	-20.4	-24.8
Total exploration expenses	**-18.3**	**-11.0**	**-51.2**	**-37.8**	**-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 Norwegian and UK oil and gas activities to exploration, development and production activities respectively.

Exploration expenses of USD 18.3 million in the second quarter of 2019 were mainly related to exploration activities in the North Sea segment including the purchase of seismic.

Note 6 | Income taxes

USD million	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Tax income/-expense					
Change in deferred taxes	-29.1	1.4	-31.9	2.5	3.9
Income tax receivable/-payable	33.4	5.4	71.5	8.1	27.9
Total tax income/-expense	**4.3**	**6.8**	**39.7**	**10.6**	**31.8**

USD million	At 30 Jun 2019	2018	At 31 Dec 2018
Income tax receivable/-payable			
Tax receivables (non-current)	55.4	9.2	-
Tax receivables (current)	62.2	33.9	28.3
Income tax payable	-	-0.7	-0.5
Net tax receivable/-payable	**117.6**	**42.4**	**27.8**
Deferred tax assets/-liabilities			
Deferred tax assets	44.3	6.2	7.0
Deferred tax liabilities	-204.0	-	-
Total deferred tax assets/-liabilities	**-159.7**	**6.2**	**7.0**

The tax income, tax receivable and deferred tax assets/liabilities mainly relate to activity on the NCS subject to the Norwegian Petroleum Taxation Act. The Company's subsidiaries, DNO Norge AS and DNO North Sea (Norge) AS, are 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. In addition, deferred tax asset has been recognized in the UK in relation to temporary differences and ring fenced tax losses that are available indefinitely for offset against future taxable profits. 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 Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Additions of Other intangible assets	27.2	0.1	40.9	0.1	7.9
Additions of Other intangible assets through business combination*	-	-	282.1	-	-
Other intangible assets reclassified to Assets held for sale*	-	-	-3.3	-	-
Additions of PP&E	68.2	31.5	147.3	50.0	149.3
Additions of PP&E through business combination*	149.5	-	710.1	-	-
PP&E assets reclassified to Assets held for sale*	-	-	-157.0	-	-
Additions of RoU assets	-	-	12.9	-	-
Additions of RoU assets through business combination*	-	-	2.0	-	-
Impairment oil and gas assets	-	-0.4	-	-1.9	-1.9

USD million	At 30 Jun 2019	2018	At 31 Dec 2018
Other intangible assets	355.8	27.7	32.8
PP&E	1,334.4	804.0	758.2
RoU assets	13.3	-	-

* 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 related to office rent. 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 year. See also Note 1.

In the second quarter of 2019, no impairment charges were recognized. During the first half of 2018, the total impairment charge of USD 1.9 million was related to the SL18 exploration license in Somaliland (USD 0.4 million) and the Sfax Offshore Exploration Permit in Tunisia (USD 1.5 million).

Impairments

Impairment tests of individual cash-generating units are performed when impairment triggers are identified. During the first half of 2019, no impairment charges were recognized.

USD million	First half-year ending 30 June 2019 Impairment charge (-)/ reversal (+)	Recoverable/ carrying amount	Full-Year ending 31 December 2018 Impairment charge (-)/ reversal (+)	Recoverable/ carrying amount
SL 18, Somaliland	-	-	-0.4	-
Sfax Offshore Exploration Permit, Tunisia	-	-	-1.5	-
Total	**-**	**-**	**-1.9**	**-**

The table shows the recoverable/carrying amount for the cash generating units which have been impaired in 2018 and 2019. Of the total impairment charge of USD 1.9 million in 2018, USD 1.5 million was recognized to inventories.

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		First Half-Year		Full-Year
USD million	**Q2 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Beginning of the period	31.3	20.0	230.8	17.4	17.4
Additions	-	186.7	226.3	186.7	201.3
Fair value changes through other comprehensive income (FVTOCI)	-0.4	16.5	28.9	19.0	12.1
Total financial investments end of the period	**30.8**	**223.1**	**30.8**	**223.1**	**230.8**
Non-current portion	30.8	223.1	30.8	223.1	230.8
Current portion	-	-	-	-	-

Financial investments include the following:

	At 30 Jun		At 31 Dec
USD million	**2019**	**2018**	**2018**
Listed securities:			
RAK Petroleum plc	25.6	20.1	17.9
Faroe Petroleum plc	-	203.0	209.2
Panoro Energy ASA	5.2	-	3.7
Total financial investments	**30.8**	**223.1**	**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).

The Company has a total of 2,641,465 shares in Oslo-listed Panoro Energy ASA, representing 4.63 percent of the outstanding shares.

Note 9 | Trade and other short-term receivables

	At 30 Jun		At 31 Dec
USD million	**2019**	**2018**	**2018**
Trade debtors	266.2	-	182.8
Underlift	21.6	8.6	1.1
Other short-term receivables	104.1	21.7	25.9
Total trade and other short-term receivables	**391.9**	**30.4**	**209.8**

The underlift receivable of USD 21.6 million as of 30 June 2019 relates to the North Sea segment and will be realized at 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 segment.

The trade debtors relate mainly to crude oil deliveries to the export market from the Tawke license in Kurdistan.

Note 10 | Interest-bearing liabilities

Interest-bearing liabilities

USD million	Ticker	Facility currency	Facility amount	Interest	Maturity	At 30 Jun 2019	At 30 Jun 2018	At 31 Dec 2018
Non-current								
Bond loan (ISIN NO0010740392)	DNO01	USD	140.0	8.75%	18/06/20	140.0	200.0	400.0
Bond loan (ISIN NO0010823347)	DNO02	USD	400.0	8.75%	31/05/23	400.0	400.0	200.0
Bond loan (ISIN NO0010852643)	-	USD	400.0	8.375 %	29/05/24	400.0	-	-
Bond loan (ISIN NO0010811268)	FAPE01	USD	68.2	8.00%	28/04/23	68.2	-	-
Borrowing issue costs related to bonds						-22.9	-28.9	-24.3
Exploration financing facilities		NOK	1,700.0	see below	see below	38.0	8.6	-
Total non-current interest-bearing liabilities						**1,023.2**	**579.7**	**575.7**
Current								
Exploration financing facilities		NOK	1,700.0	see below	see below	57.5	32.2	18.4
Total current interest-bearing liabilities						**57.5**	**32.2**	**18.4**
Total interest-bearing liabilities						**1,080.7**	**611.9**	**594.1**

Security and pledges

USD million	At 30 Jun 2019	At 30 Jun 2018	At 31 Dec 2018
Exploration tax refund	117.6	43.1	28.3
Restricted cash	-	0.9	0.6
Total book value of assets pledged	**117.6**	**43.9**	**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	Non-cash changes Currency	Non-cash changes Acquisition	At 30 Jun 2019
Bond loans	600.0	308.2	-	-	100.0	1,008.2
Borrowing issue costs	-24.3	-5.5	6.9	-	-	-22.9
Exploration financing facilities (non-current)	-	37.4	-	0.6	-	38.0
Exploration financing facilities (current)	18.4	20.8	-	0.4	17.7	57.5
Total	**594.1**	**360.9**	**6.9**	**1.0**	**117.7**	**1,080.7**

USD million	At 1 Jan 2018	Cash flows	Non-cash changes Amortization	Non-cash changes Currency	Non-cash changes Acquisition	At 30 Jun 2018
Bond loans	400.0	200.0	-	-	-	600.0
Borrowing issue costs	-27.2	-10.5	8.8	-	-	-28.9
Exploration financing facility (non-current)	-	8.8	-	-0.2	-	8.6
Exploration financing facility (current)	17.6	15.0	-	-0.4	-	32.2
Total	**390.4**	**213.3**	**8.8**	**-0.6**	**-**	**611.9**

Details regarding bonds issued by DNO ASA or its subsidiaries can be found in the table above. Facility amount is shown net of bonds held by DNO ASA or its subsidiaries.

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. DNO ASA has during the second quarter acquired USD 17.6 million of FAPE01 bonds at a price range of 107.25 to 107.50 percent of par plus accrued interest thus bringing the total of FAPE01 bonds held by DNO ASA or its subsidiary DNO North Sea plc to USD 31.8 million.

Note 10 | Interest-bearing liabilities (continued)

The Group has available revolving exploration facilities in an aggregate amount of NOK 1.7 billion (equivalent to USD 199.6 million as of 30 June 2019). Utilization requests need to be delivered for each proposed loan. The facilities are secured against the Norwegian tax refunds and are repaid when the refunds have been received which is approximately eleven months after the end of the financial year. The interest rate equals three months NIBOR plus a margin of 1.30 or 1.55 percent. Utilizations can be made until 31 December 2019 (NOK 700 million) and 31 December 2020 (NOK 1.0 billion). Amount utilized as of 30 June 2019 is disclosed in the table above.

The Group has a reserve-based lending (RBL) facility in relation to its Norway and UK licenses with a total facility amount of USD 245 million which is available for both debt and issuance of letters of credit. As of 30 June 2019, the facility is undrawn and USD 86.3 million was utilized in respect of letters of credit. 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 3.0 to 3.5 percent. The facility will amortize over the loan life with a final maturity date of 31 December 2025.

The Group has also available a USD 200 million short-term bank credit facility which expires on 23 January 2020.

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

	At 30 Jun		At 31 Dec
USD million	**2019**	**2018**	**2018**
Non-current			
Asset retirement obligations	455.9	32.6	49.4
Other long-term provisions and charges	19.1	16.2	18.7
Lease liabilites	10.5	-	-
Total non-current provisions for other liabilities and charges and lease liabilities	**485.4**	**48.8**	**68.1**
Current			
Other provisions and charges	28.9	18.6	7.4
Current lease liabilites	3.2	-	-
Total current provisions for other liabilities and charges and lease liabilities	**32.1**	**18.6**	**7.4**
Total provisions for other liabilities and charges and lease liabilities	**517.5**	**67.5**	**75.4**

The increase in asset retirement obligations compared to 2018 is mainly due to the acquisition of Faroe Petroleum plc (see Note 12).

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, it based on the management`s judgement, is reasonably certain that an extension will be exercised.

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

	At 30 Jun		At 31 Dec
USD million	**2019**	**2018**	**2018**
Within one year	3.9	7.2	4.0
Two to five years	10.4	13.8	11.1
After five years	1.2	3.1	2.3
Total undiscounted lease liabilities end of the period	**15.5**	**24.1**	**17.3**

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 10 million (gross, undiscounted) as of 30 June 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, 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.

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 now owns 100 percent of the entire issued share capital of Faroe.

The Company has 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	282.1
Property, plant and equipment	560.6
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	**1,215.2**
Deferred tax liabilities*	143.2
Interest-bearing liabilities (non-current)	100.0
Lease liabilities	2.0
Provisions for other liabilities and charges (non-current)	394.1
Trade and other payables	180.8
Income tax payable	0.5
Current interest-bearing liabilities	17.7
Provisions for other liabilities and charges	15.8
Total liabilities	**854.1**
Total identifiable net assets at fair value	361.1
Consideration	812.0
Goodwill	**450.9**

* 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.

For comparison purposes, assuming that the acquisition had taken place effective 1 January 2018, it is estimated that full-year revenues would have increased by USD 291 million while net profit (after tax) would have increased by USD 0.4 million.

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 2019 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	149.6
Tax receivables (non-current)	-22.6
Trade and other receivables	2.2
Cash and cash equivalents	29.6
Total assets	**158.9**
Deferred tax liabilities*	95.4
Provisions for other liabilities and charges (non-current)	14.0
Total liabilities	**109.4**
Total identifiable net assets at fair value	49.5
Fair value of acquired assets	156.6
Goodwill	**107.1**

* 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.

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.

For comparison purposes, assuming that the acquisition had taken place effective 1 January 2019, it is estimated that first half-year 2019 revenues would have increased by USD 44 million while net profit (after tax) would have increased by USD 5 million.

Note 13 | Events after the reporting period

No significant events have occurred between the end of the reporting period and the date that the financial statements were authorised for issue.

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). DNO 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		First Half-Year		Full-Year
USD million	**Q2 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Revenues	265.7	147.0	469.7	289.3	829.3
Lifting costs	-44.9	-20.5	-94.6	-36.4	-90.4
Tariffs and transportation	-7.8	-	-11.9	-	-
Movement in overlift/underlift	-4.0	-	1.6	-	-
Exploration expenses	-18.3	-11.0	-51.2	-37.8	-64.7
Administrative expenses	2.3	-5.7	-13.1	-15.6	-36.7
Other operating income/-expenses	-16.3	-4.6	-17.4	-8.3	1.4
EBITDA	**176.6**	**105.2**	**283.2**	**191.3**	**638.8**

Netback

USD million	**Q2 2019**	**Q2 2018**	**2019**	**2018**	**2018**
EBITDA	176.6	105.2	283.2	191.3	638.8
Change in revenue recognition criteria, Kurdistan	-	-	-	-	-182.8
Taxes received/-paid	-	-	-	-	33.2
Netback	**176.6**	**105.2**	**283.2**	**191.3**	**489.1**

	Q2 2019	**Q2 2018**	**2019**	**2018**	**2018**
Netback (USD million)	176.6	105.2	283.2	191.3	489.1
Company Working Interest production (MMboe)	9.4	6.8	18.3	13.9	29.9
Netback (USD/boe)	**18.8**	**15.5**	**15.5**	**13.8**	**16.4**

Lifting costs

	Q2 2019	**Q2 2018**	**2019**	**2018**	**2018**
Lifting costs (USD million)	-44.9	-20.5	-94.6	-36.4	-90.4
Company Working Interest production (MMboe)	9.4	6.8	18.3	13.9	29.9
Lifting costs (USD/boe)	**4.8**	**3.0**	**5.2**	**2.6**	**3.0**

Acquisition and development costs

USD million	**Q2 2019**	**Q2 2018**	**2019**	**2018**	**2018**
Purchases of intangible assets	-27.2	-	-40.9	-	-7.8
Purchases of tangible assets	-67.5	-31.7	-146.4	-50.1	-130.3
Acquisition and development costs*	**-94.7**	**-31.7**	**-187.3**	**-50.1**	**-138.0**

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

Alternative performance measures

Operational spend

USD million	Quarters Q2 2019	Q2 2018	First Half-Year 2019	2018	Full-Year 2018
Lifting costs	-44.9	-20.5	-94.6	-36.4	-90.4
Exploration expenses	-18.3	-11.0	-51.2	-37.8	-64.7
Acquisition and development costs	-94.7	-31.7	-187.3	-50.1	-138.0
Operational spend	**-157.9**	**-63.1**	**-333.1**	**-124.3**	**-293.2**

Equity ratio

USD	Q2 2019	Q2 2018	2019	2018	2018
Equity	1,346.9	956.2	1,346.9	956.2	1,217.8
Total assets	3,368.7	1,724.5	3,368.7	1,724.5	2,004.3
Equity ratio	**40.0%**	**55.4%**	**40.0%**	**55.4%**	**60.8%**

Free cash flow

USD million	Q2 2019	Q2 2018	2019	2018	2018
Cash generated from operations	76.6	99.5	136.0	191.9	472.0
Acquisition and development costs	-94.7	-31.7	-187.3	-50.1	-138.0
Payments for decommissioning	-2.5	-	-8.3	-	-
Free cash flow	**-20.6**	**67.8**	**-59.6**	**141.8**	**334.0**

Marketable securities

USD million	Q2 2019	Q2 2018	2019	2018	2018
Financial investments	30.8	223.1	30.8	223.1	230.8
Treasury shares*	63.5	64.6	63.5	64.6	50.5
Marketable securities	**94.3**	**287.8**	**94.3**	**287.8**	**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	Q2 2019	Q2 2018	2019	2018	2018
Cash and cash equivalents	573.8	584.0	573.8	584.0	729.1
Bond loan (Note 10)	1,008.2	600.0	1,008.2	600.0	600.0
Net cash/-debt	**-434.4**	**-16.0**	**-434.4**	**-16.0**	**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.

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

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