DEA Deutsche Erdoel AG
Group Management Report
and
Consolidated Financial Statements

Fiscal Year
1 January - 31 December 2018

Management Report of the DEA AG Group as at 31 December 2018

1. Group and business structure

The DEA AG Group (DEA) is an international independent oil and gas group with full life-cycle capabilities across exploration, development and production. DEA's primary mission is the safe, environmentally-conscious and efficient production of oil, natural gas and natural gas liquids. DEA's core production and development assets are located in Germany, Norway, Denmark, Egypt, Algeria and Mexico.

DEA is both an operator and an active non-operating partner in international joint ventures. DEA covers the entire value chain from exploration to development and production of hydrocarbons. In addition to its operations, DEA Deutsche Erdoel AG oversees the control and financing of the activities of its subsidiaries. For purposes of internal management control within the DEA AG Group, production, EBITDAX and liquidity are the key metrics used. Reporting to stakeholders is carried out by the following regions: Germany/Denmark, Norway, North Africa (comprising Egypt and Algeria), Mexico and Other.

DEA Deutsche Erdoel AG (DEA AG), headquartered in Hamburg, is the parent company of the DEA AG Group, comprising a total of 18 enterprises. DEA Deutsche Erdoel AG is a wholly-owned subsidiary of L1E Acquisitions GmbH, Hamburg, which, via L1 Energy Capital Holdings S.A., Luxembourg, is a wholly-owned subsidiary of LetterOne Holdings S.A., Luxembourg. A domination and profit and loss transfer agreement is in place between DEA Deutsche Erdoel AG and L1E Acquisitions GmbH.

As of 2 March 2018, DEA AG signed a share purchase agreement for the sale of the complete storage business, comprising 4 subsidiaries. The sale was completed on 28 December 2018 with effective date 31 December 2018.

With effect from 2018, the DEA AG Group has had an additional geographical region, Mexico, which covers all its Mexican activities. As of 6 March 2018, DEA AG acquired via its Mexican subsidiary a 50 % share in the Ogarrio field in Mexico and became operator of this licence. As of 4 December 2018, DEA signed a share purchase agreement for the acquisition of Sierra Oil & Gas, a leading Mexican independent oil and gas company. The transaction is still subject to certain conditions precedent and is expected to be closed in the first half of 2019.

The DEA AG Group will prepare consolidated financial statements as well as a group management report as at 31 December 2018 and will arrange for these to be disclosed in the German Government Gazette (*Bundesanzeiger*).

2. Strategy

Grow production and execute key projects

DEA plans to successfully complete development projects such as Dvalin, Njord, Ærfugl, Snorre and Disouq, so as to increase production to over 230 kboed by 2022 by safely and efficiently optimising production from current assets and engaging in near-field exploration programmes. In addition, DEA intends to undertake acquisitions. For example, DEA recently expanded its operational footprint in Mexico by taking over operatorship of the producing field Ogarrio and successfully bidding for additional exploration acreage in Mexico's shallow water bid round 3.1, securing operatorship of the offshore blocks 16, 17 and 30. In addition, DEA signed a share purchase agreement for the acquisition of Sierra Oil & Gas. DEA may also consider acquisitions and projects in new regions such as Brazil.

The DEA AG Group has a diverse portfolio of producing Northwestern European assets located in OECD member countries with AAA credit ratings that are supported by established fiscal and regulatory regimes. DEA believes its position in Northwestern Europe is underpinned by a long-standing business history in Germany and Norway. The group is committed to maintaining and strengthening its position in this region. DEA believes that its focus on low-risk regions such as Northwestern Europe reduces its exposure to certain operational and geopolitical risks. Additionally, DEA believes that, by focusing on this area, it can benefit from significant synergies. DEA aims to further expand its activities in this region through optimisation of production, future developments and near-field exploration activities supplemented by strategic asset acquisitions. At the same time, DEA plans to grow its production in North Africa through the development of its West Nile Delta, Disouq and Gulf of Suez projects in Egypt.

Increase value through balanced organic and inorganic resource additions

Regular portfolio management and enhancement are integral aspects of DEA's exploration, development and production strategy, through which the group seeks to realise value at an appropriate point in the life cycle of an asset. DEA continually reviews macroeconomic, technical and competitive data with regard to its exploration portfolio. Exploration is important to its operations and supports its plan to increase future production. To complement DEA's organic growth strategy, the group will also consider selective strategic acquisitions of companies and/or interests in licences in its core and new regions, such as its recent operational expansion into Mexico. As a result, DEA continues to monitor new opportunities for exploration and production internationally.

Focus on capital efficiency

DEA aims to maintain a conservative financial profile and strong balance sheet with strong liquidity. DEA's exploration and development activities are expected to be funded from a combination of production cash flows and proceeds from debt issuances and, potentially, through the proceeds of any portfolio management activities, such as farm-downs or sales of assets - for example, the recently completed sales of its gas storages and Polarled infrastructure. DEA's financial policy is to maintain what the company considers to be appropriate leverage levels. DEA's target ratio of net debt to EBITDAX is 2.0x during mid-cycle conditions, with the possibility of temporary increases to up to 2.5x in the event of a major acquisition. DEA intends to maintain a conservative approach to acquisitions, considering only those potential future acquisitions that satisfy this policy.

Continue to deliver high Quality, Health, Safety and Environment (QHSE) standards and sustainability of operations

DEA aims to capture the value opportunities available to an E&P company that operates in a sustainable and efficient manner with a high focus on lowering its environmental impact and ensuring safe operations.

DEA pursues a "zero faults" strategy when setting its HSEQ targets, continually analyses its processes and derives measures for further development from this. DEA applies the BAT (Best Available Technology) concept to minimise HSE risks.

3. Economic fundamentals and climate

Economic environment

According to current estimates by the International Monetary Fund, global economic output in 2018 increased by approx. 3.7 %, which is slightly above the previous year's growth rate of approx. 3.6 %. This is essentially owing to improving US business activity. However, downside risks to global growth have risen in the past six months as economic activity in advanced economies has decreased and growth projections in the euro area and the United Kingdom have been revised downwards. Core inflation remains very different across the advanced economies. According to estimates by the European Central Bank, Gross Domestic Product in the Eurozone is currently expected to rise by 2.2 %, compared with 2.3 % in 2017.

Oil prices

Average oil prices decreased during 2018 from USD 69 per bbl in January to USD 58 per bbl in December. Prices increased to USD 81 per bbl during the year up to October, due to the agreement by OPEC and several Non-OPEC countries to extend their output reduction deal and forecasts of increasing global crude oil demand as well as supply fears resulting from the increasing tensions between the USA and Iran. However, prices declined thereafter due to expectations of crude oil oversupply after the USA surprisingly granted several sanction waivers to important customers of Iranian oil, increasing US stockpiles and reports of increasing OPEC production.

Our oil sales are primarily priced against the Brent oil benchmark. The average oil price for Brent increased by 31 % from USD 55 per bbl in 2017 to USD 72 per bbl in the year ending 31 December 2018.

USD/barrel	Jan. – Dec. 2018	Jan. – Dec. 2017
Average Brent price for the period[1]	71.69	54.75

[1] Source: Bloomberg

Gas prices

The NBP gas price in UK increased during 2018 from USD 7.16 per mscf in January to USD 8.35 per mscf in December. Gas prices were influenced by increasing oil prices owing to the market links between the two commodities at all levels of the industry. Gas prices were also supported by increasing Asian LNG demand, particularly in China, and by ongoing strength in coal and carbon prices, making gas more competitive.

Our gas sales are based on the NBP and the Dutch TTF. Average NBP prices increased by 35 % to USD 7.91 per mscf in 2018 compared with USD 5.84 per mscf in 2017. The Dutch TTF index, which is the basis for the majority of our German gas sales, fluctuated in a similar manner to the NBP. Average TTF gas prices increased by 35 % to USD 7.71 per mscf in 2018, compared with USD 5.71 per mscf in 2017.

USD/mscf	Jan. – Dec. 2018	Jan. – Dec. 2017
Average UK NBP price for the period	7.91	5.84
Average TTF price for the period	7.71	5.71

Foreign currency translation

The USD weakened against the EUR during the course of 2018. The USD traded at 1.18/€ on average during the year (2017: USD 1.13/€). At the end of 2018, the EUR was trading at USD 1.15/€ (31 December 2017: USD 1.20/€).

After the depreciation in connection with the official deregulation in 2016, the Egyptian Pound traded largely unchanged against the USD at around 18 EGP/USD.

4. Profitability and business performance

Production

Natural gas (million scf/day)	Jan. – Dec. 2018	Jan. – Dec. 2017
Germany/Denmark	122	137
Norway	149	154
North Africa	160	169
Mexico	7	-
	438	**460**

Oil (kbbl OE/day)	Jan. – Dec. 2018	Jan. – Dec. 2017
Germany/Denmark	12	14
Norway	27	29
North Africa	8	7
Mexico	2	-
	49	**50**

Total production (kbbl OE/day)	Jan. – Dec. 2018	Jan. – Dec. 2017
Germany/Denmark	32	36
Norway	52	54
North Africa	34	35
Mexico	3	-
	121	**125**

Production is shown per day and on a working interest basis.
Scf – standard cubic feet

In the period under review, the Group's daily production averaged 121 kboe/day, of which gas was 438 million scf/day and oil 49 thousand bbl of oil per day. In 2017, production amounted to 460 million scf/day of gas and 50 thousand bbl of oil/day, totalling 125 kboe/day. Year-on-year, this represents a decrease of 3 %, due to the natural production decline in the Egyptian West Nile Delta project and in our mature fields in Germany and Norway. This was only partially offset by the new production in Reggane Nord field in Algeria and the newly acquired Ogarrio field in Mexico.

Natural gas production was down by 5 % year-on-year. In Germany, gas production was 11 % lower compared with the previous year owing to natural decline. Gas production in Norway was nearly stable.

In North Africa, gas production decreased by 5 % compared with the previous year, owing to the production decline at West Nile Delta and Disouq in Egypt, partially offset by the production at the Algerian Reggane Nord field.

In terms of oil production, we recorded a 2 % decrease in 2018 compared with 2017 owing to lower production in Germany and Norway. In Germany, the natural decline in our mature fields led to a decrease in production of 9 %. In Norway, production was down by 6 %. In contrast, oil production in the Gulf of Suez in Egypt slightly increased and compensated, together with production from the Ogarrio field in Mexico, partially for the decline.

Results of operations

Consolidated income statement of the DEA AG Group

€ m	Jan. – Dec. 2018	Jan. – Dec. 2017[1]
Sales and other operating revenues	1,892	1,427
Cost of sales	-759	-728
Gross profit	**1,133**	**699**
Exploration costs	-111	-122
General and administration expenses	-125	-123
Net impairment of assets	-168	-100
Net impairment of operating receivables	1	-
Operating Result	**730**	**354**
Financial income	109	87
Financial expenses	-89	-260
Net impairment of financial receivables	9	-
Result from continuing operations before taxes	**759**	**181**
Income taxes	-478	-174
Result from continuing operations	**281**	**7**
Result from discontinued operations	53	14
Net result	**334**	**21**

[1] Due to the reporting of discontinued operations, the comparative prior figures have been adjusted

	Jan. – Dec. 2018	Jan. – Dec. 2017
Average realised oil price including oil hedge result (in USD/bbl)	60.97	47.92
Average realised oil price excluding oil hedge result (in USD/bbl)	65.26	48.23
Germany/Denmark	64.60	45.37
Norway	66.11	49.58
North Africa	62.12	47.68
Mexico	64.12	-
Average realised gas price (in USD/mscf)	6.00	4.71
Germany/Denmark	5.84	4.94
Norway	7.86	5.97
North Africa	3.80	2.98
Mexico	4.71	-

Sales and other operating revenues increased by € 465 million or 33 %, to € 1,892 million in 2018 compared with € 1,427 million in 2017, mainly driven by higher commodity prices. Additionally, other operating revenues increased significantly owing to payments under an insurance claim. This was partially offset by a decrease in sales volumes of 5 %.

Oil sales increased by € 129 million, or 18 %, to € 859 million in 2018 compared with € 730 million in 2017, as oil prices in USD increased by 35 %. This was partially offset by a decrease of 4 % in sales volumes and adverse fx effects due to the weaker USD. In addition, we had lower results from oil commodity hedges in Germany, resulting in a decline in revenues of € 46 million compared with 2017.

Gas sales increased by € 72 million (+11 %) to € 729 million in 2018 compared with € 657 million in 2017, mainly owing to an increase in average realised gas prices (in USD) of 27 %; this was partially offset by sales volumes that were 5 % lower and adverse effects from the weaker USD.

In the period under review, oil sales resulted in 45 % of total revenue (2017: 51 %), whereas gas sales contributed 39 % (2017: 46 %), with the remaining balance representing other revenues. Other operating revenues in the reporting period mainly comprise payments under an insurance claim.

Cost of sales increased year-on-year by € 31 million, or 4 %, to € 759 million in 2018, compared with € 728 million in 2017. We reduced our unit of production costs thanks to ongoing cost reduction measures and positive non-recurring effects. In addition, transport costs and tariffs declined. The gain from the sale of Norwegian Polarled infrastructure assets had a positive impact on the cost of sales. In contrast, royalties increased in Germany in parallel with higher commodity prices and in Mexico due to the start of production at Ogarrio. In addition, scheduled depletion/depreciation/amortisation increased due to the start of production in Mexico and Algeria. Moreover, in the previous year we reversed impairments on receivables in Egypt owing to lump-sum payments and offsetting of receivables and liabilities.

Exploration costs decreased by € 11 million, or 9 %, to € 111 million in 2018 compared with € 122 million in 2017 owing to lower dry well costs and reimbursements of prior year costs. In 2018, exploration costs included dry well costs for 6 dry wells in Norway, Germany and Egypt. In addition, exploration costs included expense on the acquisition of seismic data, licence fees and changes in provisions for outstanding work programmes.

Exploration costs (€ m)	Jan. – Dec. 2018	Jan. – Dec. 2017
Germany/Denmark	19	1
Norway	65	108
North Africa	16	24
Mexico	5	-
Other	6	-11
	111	**122**

General and administration expenses increased by € 2 million, or 2 %, to € 125 million in 2018 compared with € 123 million in 2017. In 2018, the deconsolidation of a subsidiary after the strike-off of the company from the companies register led to a negative one-off effect. In addition, pension expenses in Norway increased after a positive one-off effect in the previous year. Moreover, income from asset disposals decreased year-on-year. This was partially offset by lower additions to restructuring provisions compared with the previous year.

Net impairment of assets increased by € 68 million to € 168 million in 2018, compared with € 100 million in 2017. In 2018, impairments resulted mainly from two producing assets in North Africa and one producing asset in Norway. In 2017, impairments resulted mainly from the intended sale of transport assets in Norway as well as two producing assets in North Africa. The reversal of an impairment made in previous years relates mainly to a producing field in North Africa.

Under **net impairment of operating receivables,** impairments were completely offset by the reversal of impairments.

The **operating result** of the DEA AG Group amounted to € 730 million. In 2017, the result was € 354 million.

Financial income increased year-on-year by € 22 million, or 25 %, to € 109 million in 2018 compared with € 87 million in 2017, owing to the fact that in 2018 we had net foreign currency exchange gains instead of losses. In addition, interest income increased.

Financial expenses decreased by € 171 million (-66 %) to € 89 million in 2018 compared with € 260 million in 2017. This is mainly owing to the net foreign currency exchange losses in the previous year, whereas in 2018 we had net foreign exchange gains. In addition, we had lower net losses from financial derivatives year-on-year. Gross interest expenses increased because of higher interest expenses for the RBL facility owing to slightly higher utilisation and the higher USD Libor rate. In parallel, a higher portion of interest was capitalised in line with the ongoing development projects.

Net impairment of financial receivables mainly comprises a reversal of impairments due to a decrease in both the underlying receivables and the discount rate.

The **result from continuing operations before taxes** amounted to € 759 million in 2018 and to € 181 million in 2017. In the reporting period, DEA had total tax expenses of € 478 million. Owing to the fact that certain one-off payments are partially tax-exempt, the tax rate in 2018 is lower compared with the previous year and amounts to 63 %.

The **result from continuing operations** amounted to € 281 million.

The **result from discontinued operations** contains the result of the storage business, which was sold with effect from 31 December 2018.

The **net result** came to € 334 million, considerably better than the value for 2017.

All in all, the DEA AG Group continues to operate in an environment of ongoing volatility and pressure on oil and gas prices. To counterbalance this, we are consistently seeking production efficiencies by leveraging our technical expertise and effectively deploying production technology and reservoir management to achieve increased up-time and recovery and to realise cost savings across our operations. The aim of such efforts is to steadily increase operational efficiencies and to reduce our exploration, development and production costs. In 2018, this led to improved net income.

EBITDAX

EBITDAX is the factor used for internal management control purposes within the DEA AG Group. As a key indicator obtained from the income statement, it is made up of earnings before interest, taxes, depletion/depreciation/amortisation and exploration expenditure for the last 12 months; in addition, adjustments are made for realised and unrealised gains/losses arising from derivatives and exchange rate fluctuations as well as non-recurring effects.

In 2018, EBITDAX amounted to € 1,043 million, up by € 149 million compared with 2017. Revenues from oil and gas sales increased, mainly owing to the higher commodity prices, partially offset by lower sales volumes. The other operating revenues resulting from a payment under an insurance claim are a non-recurring effect and therefore excluded from EBITDAX. Production costs in EBITDAX exclude depreciation and amortisation. EBITDAX relevant production costs declined owing to ongoing cost reduction measures and lower transport costs and tariffs, which was partially offset by higher royalties. Moreover, in the previous year we reversed impairments on receivables in Egypt owing to lump-sum payments and offsetting of receivables and liabilities, which had a positive effect on EBITDAX.

5. Net asset position

Balance sheet of the DEA AG Group

Assets (€ m)	31-12-2018	31-12-2017
Intangible assets/property, plant and equipment/ investment property	4,177	3,542
Financial receivables/financial investments	1,919	2,025
Other receivables and other assets	56	81
Deferred tax assets	51	116
Non-current assets	**6,203**	**5,764**
Inventories	83	83
Financial receivables	29	22
Trade accounts receivable	264	279
Other accounts receivable, other assets and income tax assets	110	80
Cash and cash equivalents	305	116
Current assets	**791**	**580**
Assets	**6,994**	**6,344**

Equity and liabilities (€ m)	31-12-2018	31-12-2017
Equity	**1,840**	**1,818**
Provisions	657	728
Debt to banks	1,441	1,334
Financial debt	1,041	1,013
Other liabilities/income tax liabilities	30	41
Deferred tax liabilities	739	526
Non-current liabilities	**3,908**	**3,642**
Provisions	185	208
Debt to banks	6	0
Financial debt	396	116
Trade accounts payable	298	304
Other liabilities/income tax liabilities	361	256
Current liabilities	**1,246**	**884**
Equity and liabilities	**6,994**	**6,344**

Liquidity

As of 31 December 2018, our cash and cash equivalents amounted to € 305 million. In addition, undrawn credit lines were available. In total, cash and immediately-available liquidity under credit lines amounted to approx. € 850 million. Our principal sources of liquidity are operating cash flows from our producing assets, debt financing through drawings under the RBL, and other external borrowings via related parties and shareholder loans. Our liquidity is used to cover working capital, capital expenditure, debt service requirements and other liquidity requirements that may arise from time to time, including repayments of outstanding debt, acquisitions and other investment opportunities, funding for exploration and development projects and other payments in the ordinary course of business. A firm liquidity risk management programme is in place to ensure that the DEA AG Group is in a position to meet its payment obligations at all times.

Effective as of 2 April 2015, DEA Deutsche Erdoel AG and various subsidiaries became parties to an existing loan agreement for up to USD 2.3 billion between L1E Funding GmbH and a syndicate of banks (reserve-based lending or RBL facility). Under this loan agreement, DEA can borrow for Group funding purposes as long as the credit facility is sufficiently collateralised by oil and gas assets.

In October 2016 DEA Finance SA, a related party to DEA Deutsche Erdoel AG, issued Senior unsecured Notes with a principal amount of € 400 million and maturity in 2022. DEA AG and its major subsidiaries became guarantors of the notes. The proceeds of the notes were onlent to DEA Norge AS with the same maturity.

Additionally, DEA has a working capital facility for intra-month cash management purposes for USD 120 million, that was undrawn at the end of the year.

Development of net assets

Non-current assets amount to 89 % of total assets, and stand at € 6,203 million, up by € 439 million on 31 December 2017. The significant capital expenditure and acquisitions were partially offset by depletion/depreciation/amortisation, impairments and asset disposals. Non-current financial receivables comprise mainly the financial receivable to L1E Funding GmbH in connection with the assumption of the RBL facility in 2015. In total, this receivable decreased by € 105 million mainly owing to prepayments, partially compensated by accrued interest and fx effects.

Current assets increased compared with 31 December 2017. This resulted mainly from higher cash and cash equivalents due to larger payments at the end of December. In addition, other receivables and other assets increased owing to higher assets from the valuation of commodity derivatives, increased prepayments and higher VAT receivables in Mexico. This was partially offset by lower trade accounts receivable and decreased assets from over-/underlift.

The **equity capital ratio** of the DEA AG Group amounted to 26 % as at the balance sheet date (previous year: 29 %). As at 31 December 2018, equity amounted to € 1,840 million.

A substantial proportion of **non-current provisions and liabilities**, at € 3,908 million, is accounted for by debt to banks resulting from the RBL credit facility. The amount drawn under the facility increased by USD 50 million, but in Euro-terms the liability increased in total by € 107 million owing to foreign exchange rate effects. Other non-current financial debt remained stable at € 1 billion, comprising the onlent proceeds from the issuance of the notes as well as loans from the shareholder L1E Acquisitions GmbH. In addition, € 657 million is accounted for by pension and decommissioning provisions, as well as other provisions. Provisions for decommissioning decreased by € 97 million, owing mainly to higher interest rates year-on-year. Pension provisions increased owing to the application of the revised mortality tables in Germany that are based on higher life expectancies. The increase in deferred tax liabilities is the result of higher temporary differences between IFRS and tax accounts.

Current provisions and liabilities increased compared with 31 December 2017 by € 362 million. Current provisions decreased slightly to € 185 million at the end of 2018. Lower provisions for decommissioning and for outstanding work programmes were partially offset by slightly higher personnel provisions. Current financial liabilities are related to the profit transfer agreement in favour of the shareholder, which increased significantly owing to the better result. The increase in other liabilities results mainly from higher tax liabilities in Norway.

6. Financial position

	Jan. – Dec. 2018	Jan. – Dec. 2017[1]
Cash flow from operating activities	1,033	893
Cash flow from investment activities	-772	-899
Cash flow from financing activities	-92	13
Free cash flow	315	59

[1] Due to the reporting of discontinued operations, the comparative prior figures have been adjusted

Cash flow from operating activities

Cash inflow from operating activities (continuing operations) increased by € 140 million to € 1,033 million in 2018 from € 893 million in 2017. The increase is driven mainly by the higher results from operations before depletion/depreciation/amortisation and deferred taxes, owing to better operational results as well as non-recurring one-off effects from an insurance contract. In addition, the changes in the working capital had a positive impact on the cash flow from operating activities, driven mainly by lower accounts receivable, but the changes in net working capital were lower year-on-year. In the previous year, we had already received a prepayment under the insurance contract.

Cash flow from investment activities

Cash outflow from investment activities (continuing operations) amounted to € 772 million in 2018, compared with € 899 million in 2017. The decrease in cash outflow from investment activities was driven mainly by higher cash inflow from asset disposals, divestments and repayments of financial receivables, which offset the increase in organic investment and acquisitions.

Investments (€ m)	Jan. – Dec. 2018	Jan. – Dec. 2017[1]
Capital expenditure (net of acquisitions)		
Germany/Denmark	50	48
Norway	533	370
North Africa	345	409
Mexico	18	-
Other	2	2
	948	829
Acquisitions	182	65
Total	1,130	894

[1] Due to the reporting of discontinued operations, the comparative prior figures have been adjusted

Our expenditure on tangible and intangible assets (excluding discontinued operations) increased year-on-year by 14 %, owing to the ongoing high capital expenditure on our ongoing development projects such as Dvalin and Njord in Norway, as well as the project in the Egyptian West Nile Delta, plus new Norwegian developments such as Ærfugl and Nova. The capital expenditure in Mexico relates to the payments of signature bonuses for exploration licences. In addition to spending on development projects, key capex investments were made in existing producing fields in Germany, Norway and Egypt. In contrast, capex in Algeria declined owing to the start of production at our Reggane Nord project. In total, our capital expenditure (excluding acquisitions) reached € 948 million.

Cash flow from financing activities

Cash flow from financing activities (continuing operations) amounted to € -92 million in 2018, compared with a cash flow of € 13 million in 2017. Cash flow from financing activities in the reporting period reflects payments under the profit and loss transfer agreement to L1E Acquisitions GmbH, partially offset by additional drawings under the RBL.

Free cash flow

The free cash flow from continuing operations, which comprises the cash flow from operating activities and the cash flow from investment activities but excludes cash outflows for acquisitions, amounted to € 315 million in 2018, up by € 256 million compared with € 59 million in 2017. The free cash flow 2018 is net of cash inflows earmarked for acquisitions that were made as a repayment of financial receivables from related parties. The significant increase relates to insurance payments and higher cash inflows from divestments and repayments of financial receivables.

7. Employees

The average number of employees of the DEA AG Group decreased by 101, from 1,126 (average 1 January – 31 December 2017), to 1,025 (average 1 January – 31 December 2018) full-time equivalents (FTEs). The main drivers for the reduction are the various measures for cost reduction and efficiency improvement at all DEA sites. The average number of employees at the German companies decreased by approx. 9 %. In Norway the number of employees increased by 9 %. The number of employees in Egypt on 31 December 2018 had declined by 7 FTE. With the start of our operations in Mexico, we increased the workforce and employed 22 FTE by the end of 2018.

On 31 December 2018, DEA Deutsche Erdoel AG had 8 apprentices and trainees; as at 31 December 2017 there were 12. As a supplementary strategy, within the scope of a training sponsorship programme DEA supports 5 trainees employed in small to medium-scale enterprises.

DEA conducts active international staff rotation programmes. We have 112 employees internationally (11 %) who do not have the nationality of the countries in which they work. This leads to diversity and a better understanding amongst our employees of foreign cultures in general, and of specific aspects pertaining to the different locations in which we operate.

With effect from 1 April 2018, DEA Deutsche Erdoel AG and IG Bergbau, Chemie, Energie (the German trade union for employees in the mining, chemical and energy industries) entered into a new Company Collective Agreement with a minimum term of 11 months. An essential element of the Collective Agreement was an increase in salaries by 2.9 %.

Through our employer-funded company pension scheme, we make a contribution to our employees' retirement provision and support them in the event of invalidity or bereavement. Our company pension scheme provides for a personal pension to be paid to each employee of DEA Deutsche Erdoel AG once a qualifying period has elapsed. The amount of this company pension depends on years of service and remuneration paid. To supplement the employer-funded pension scheme, our employees also have the option of providing for their retirement themselves by means of a remuneration conversion, thus further securing their standard of living after retirement. At DEA Deutsche Erdoel AG, employees have the choice of investing parts of their gross remuneration in pension insurance funds, pension funds, direct life insurance and direct commitments. Our employees also benefit from pension plans in a number of our foreign companies.

Declaration of corporate governance in accordance with § 289f HGB

For the second term of compliance with the [German] Act for equal treatment of women and men in leadership positions in the private sector and the civil service (*Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst*), i.e. up to 30 June 2022, the Supervisory Board of DEA AG adopted a resolution to establish a target quota of 33 % for the share of female representation on the Supervisory Board of DEA AG and a target quota for the share of female representation on the Management Board of DEA AG of one woman, which corresponded to 25 % of the current number of members of the Management Board at the time of the resolution.

The Board of Management defined a target quota of 10 % for the first managerial level below the Board of Management and a target quota of 20 % for the second managerial level for the second term of compliance up to 30 June 2022.

8. Risk management

Risk management system

DEA Deutsche Erdoel AG has developed an integrated risk management model based on the international principles of Enterprise Risk Management (ERM) and, specifically, the COSO framework (sponsored by the Committee of Sponsoring Organizations of the Treadway Commission). Overall responsibility for the group-wide risk management system sits with the Board of Management of DEA Deutsche Erdoel AG. Our Risk Committee is in charge of monitoring and refining the risk management system. It is composed of the full Board of Management of DEA Deutsche Erdoel AG, the managing directors of the operating subsidiaries and the heads of the following departments of DEA Deutsche Erdoel AG which are accountable for the entire group: Treasury, Controlling, Accounting/Tax, Audit, QHSSE and Commercial Development & Infrastructure. The Treasury Department bears responsibility for the control, steering and coordination of the risk management system. This department regularly reports on the Group’s risk situation to both the Risk Committee and the Audit Committee of the Supervisory Board of DEA Deutsche Erdoel AG.

It is our business policy to make optimum use of opportunities and contain risks at the same time. All risks and opportunities are monitored and controlled by means of a risk management system in place throughout the Group. It is supported by a documented risk management system and gives appropriate consideration to the risk aspect in all decisions and business processes at DEA Deutsche Erdoel AG through ongoing early identification and standardised recording, assessment, control and monitoring. We gain an overview of our opportunities and risks at least three times per year by performing a bottom-up analysis. The executive and supervisory bodies are updated on risk exposure through regular reporting. The term “risk” is defined in such a way as to ensure that the long-term strategic objectives are attained and to produce an adequate depiction of the entire risk portfolio. The risks and key indicators for risk measurement are aligned with the control parameters of the DEA AG Group. We analyse the material individual risks to the Group using a matrix in which the risks’ probability of occurrence and potential net damage are represented. We can deduce from this whether there is any need for action and the scope of such action. Actions in place are as well reported and evaluated in this process as are possible future actions to mitigate the risk. We assess risks on the basis of how they affect our EBITDAX and/or how they impact on our liquidity.

Commodity price risks and opportunities

As an upstream enterprise, we are exposed to the risks but also stand to benefit from the opportunities arising from the level of oil and gas prices on international markets. These are constantly analysed, quantified and reported on a regular basis. As part of our medium-term planning, we have also calculated the sensitivities of commodity prices. A change in the oil price of USD -10/bbl would have an impact of approx. € -115 million on our EBITDAX or approx. € -89 million on our free cash flow in 2019. A change in the gas price of USD -0.5/mscf would result in a change of approx. € -24 million to our EBITDAX in 2019 and of approx. € -19 million to our free cash flow. Rising oil and gas prices would lead to corresponding opportunities for the DEA AG Group in its EBITDAX and free cash flow.

The Risk Committee meets regularly to discuss the policies to be applied in the face of all risks, especially commodity price risks. These essentially consist of risks arising from operations as well as from financing processes. Commodity-price swaps and fixed price marketing agreements are in place to hedge price risks. The term of such transactions is based on the term of the underlying transaction and is therefore predominantly short to medium-term. All hedging transactions serve the exclusive purpose of covering the risk from operational and financial transactions as well as underlying transactions accounted for or expected with a high degree of probability. We intend to continue hedging oil and gas prices in the future in order to stabilise the RBL borrowing base. The extent of the amounts to be hedged depends on economic exposure and prevailing oil and gas prices. Owing to the current level of oil and gas prices, commodity-price swaps have been concluded for the calendar years 2019 – 2023. For the calendar years 2019 and 2020, approx. 23 % and 20% of oil production, respectively, is hedged by commodity-price swaps. For gas price risks in 2019, approx. 13 % of gas production is hedged by fixed price agreements against price fluctuations. This is in line with the target defined in our hedge policy and covers 50 % of economic exposure after taxes. Given the favourable long end of the forward curve, we have continued to hedge all the way into 2022 for oil and 2023 for gas.

Risks and opportunities from exchange rate fluctuations

As a group with international operations, we are also exposed to the risks and stand to benefit from the opportunities arising from movements in exchange rates on international markets, especially changes in USD/EUR, USD/NOK and NOK/GBP. These risks are managed in the DEA AG Group by means of systematic risk management procedures and by broadly matching the currency structure of our assets and liabilities, using short-term currency swaps, amongst other solutions. According to our current medium-term planning, an appreciation of the USD/€ exchange rate of USD 0.15/€ would lead to a decrease of approx. € 40 million in EBITDAX and of approx. € 30 million in free cash flow. Conversely, decreasing exchange rate ratios would lead to opportunities in EBITDAX and free cash flow for the DEA AG Group.

Risks specific to the E&P industry

As we are an E&P group operating internationally, our operations are subject to all risks common in our industry (e.g. blow outs, oil spills). To protect our core business against losses and liabilities to third parties, we maintain insurance that we believe is consistent with customary industry practice in the jurisdictions in which we do business.

DEA also faces risks that involve above all possible inaccurate assessments of geological structures and the resultant dry wells drilled. We contain such risks through state-of-the-art technology and systematic quality assurance.

Reserve estimates may undergo positive or negative changes in the course of time and exert an influence on current depreciation and amortisation, as well as the value of the company's assets. In general, estimates of economically recoverable oil and gas reserves are based on a number of factors and assumptions made as of the date on which the reserve estimates are determined, such as geological and engineering estimates, historical production from the fields, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. Our policy regarding internal controls over the recording of reserves is structured to objectively and accurately estimate our oil and gas reserve quantities and values in compliance with the 2007 SPE/AAPG/WPC/SPEE PRMS. Our Petroleum Reservoir Simulation Department maintains oversight and compliance responsibility for our internal reserve estimate process and provides appropriate data to our independent reserves auditors for the annual estimation of our year-end reserves.

The timely execution of our large development projects within the planned cost budget receives high attention in the Risk Committee to enable possible countermeasures to be taken.

Financial risks

The development of oil and gas prices influences the RBL credit facility. If prices fall over a defined period of time below a certain price deck used by the banks for the latest calculation of the available facility amount, a recalculation of the facility amount is triggered which could lead to a (partial) short-term repayment of the drawn facility amount, if not offset by other measures such as the inclusion of new reserves. In the event of potentially necessary partial repayments of the outstanding loan, DEA has other financing sources that can be used.

The DEA AG Group is subject to restrictive debt covenants. In the reporting period, DEA was in compliance with its obligations under all financing arrangements.

We closely monitor liquidity risk through cash flow forecasts and sensitivity analyses. We manage our credit risk by assessing the creditworthiness of potential counterparties before entering into transactions and through ongoing creditworthiness evaluations with regard to ongoing transactions.

Political risks

In the course of its foreign operations, DEA is exposed to the political risks prevailing in the relevant countries. Our investments in North Africa are secured by German federal government guarantees. In addition, our risk management activities also include monitoring very closely the security situation in the countries in which we ourselves or our subsidiaries are engaged. The prevailing security situation in Libya still prevents any operational activities in that country. We will continue to monitor developments very closely and will react at short notice and take preventive measures to protect our employees and their families.

The DEA AG Group's risk assessment

Our assessment of the general situation in the risk environment is the result of a consolidated analysis of all material individual risks. The focus was primarily on the significant market risks stemming from fluctuations in commodity prices. From today's perspective, there are no risks threatening the continued existence of the DEA AG Group as a going concern.

9. Environmental protection and safety

Quality, health, safety and environmental excellence are imperative to our business. We actively manage the safety of all personnel working across our operations, by means including the application of health and safety standards, the implementation of security measures at our facilities and internal and external audits of health and safety standards. Among the performance measures we track are the recognised industry metrics, lost time injury (LTI) and lost time injury frequency (LTIF). We monitor our injury rates and currently benchmark them on a regional basis against the varying lost time injury criteria across the countries in which we operate. Overall, both our LTI and LTIF were zero in 2018.

In addition, we introduced in 2017 a new key performance indicator for DEA's corporate process safety. The Loss of primary containment (LOPC) will be monitored for four different categories of possible consequences. In 2018, we had two process safety events where the thresholds for major consequences of a LOPC were crossed.

We carefully manage our impact on the environment and strive to uphold the highest international environmental, health and safety standards. We undertake a wide range of construction-related and operational measures for the conservation of soil and water resources. These include the shielding of local environments by means of special catchment tanks and monitoring facilities. Additionally, one of the critical objects of our environmental policy is the avoidance of water pollution. To achieve this objective, we define a number of water pollution control measures during the planning phase, prior to the undertaking of any development activity.

We operate in jurisdictions with stringent regulatory regimes, including Germany and Norway. To ensure compliance with relevant legislation and regulations, we routinely monitor our activities and constantly adapt our operations to incorporate new innovations and safety measures.

We spent € 28 million on environmental protection in the period under review, and our investments in environmental protection amounted to € 67 million.

10. Research and development

Our Company's activities in the exploration and development of hydrocarbon reservoirs are typical for our industry. To support these activities, we have our own laboratories in our Reservoir Management Department for production engineering and geosciences, for example. The focus of our research activities quite naturally is on the ongoing improvement of our methods for the exploration, development and production of hydrocarbon deposits.

The personnel of the Special Projects and Research Department comprises 3 employees. For execution and efficient handling of R&D projects, we continue to rely on the proactive support of project officers from the relevant functional departments. Our expenditure on development in 2018 came to a total of € 3 million. We succeeded in maintaining our participation in key R&D projects and programmes. This was achieved both through in-kind services, i.e. the performance of cost-equivalent in-house services, and through increased use of shared research, such as in *Deutsche Wissenschaftliche Gesellschaft für Erdöl, Erdgas und Kohle (DGMK)* [German Society for Petroleum and Coal Science and Technology] or joint industry projects (JIP).

The focus in the period under review was on our participation in application-oriented development projects together with the DGMK. By ensuring timely implementation, these projects lead to improved and more efficient production processes and to minimised exploration risks. Via the research fund of our industry association BVEG, we also support projects to do with basic research.

11. Comparison with previous outlook and 2019 guidance

In the previous management report, we gave guidance for 2018, based on the medium-term planning from the 4th quarter of 2017. During the course of the year, we gave quarterly updates to the initial guidance. According to the requirements of DRS 20, the actuals have to be compared with the original guidance for 2018.

In the 4th quarter of 2018, the DEA AG Group's new medium-term planning (MTP) for the following five years was prepared and adopted. In January 2019, the MTP was updated. Our guidance for 2019, which excludes any M&A activities, is based on this MTP update.
The following reference criteria are used:

- "slight" represents a change of 1 – 10 %
- "considerable" applies to changes of 11 % or higher.

In 2019, we expect a slight increase in production and assume a considerable decrease in oil prices and a slight decrease in gas prices. We continue to focus on optimisation of production from and further development of our existing assets in order to be well positioned during the ongoing volatility in the E&P industry. We are also working on ensuring that all of our key infrastructure maintains high reliability levels in order to achieve consistent delivery of target production levels.

Underlying assumptions
On average during the year, our key commodities such as Brent oil, as well as European NBP and TTF gas prices were considerably above the underlying assumptions of our guidance issued in the previous year. Regarding the exchange rate between the US dollar and the EUR, the USD was slightly weaker in 2018 on average compared with the underlying assumptions in the guidance.

Our guidance for 2019 is based on forwards for commodity prices and the exchange rate as follows:

- Brent prices in the range of USD 57 – 63 per bbl and NBP prices in the range of USD 7.0 – 7.5 per mscf for 2019
- the USD/EUR exchange rate in the range of 1.10 – 1.20.

Production guidance is based on our latest production profiles for each of the fields.

Production

Our production for the full calendar year was slightly below the midpoint of the previous year's guidance and nearly at the level of the revised guidance from the 3rd quarter of 2018. The underperformance is owing to the decline rate in producing fields in North Africa compared with what we originally expected. In addition, production in Mexico was affected slightly by the accessibility of the Ogarrio field. These effects were taken into account in our 2019 planning.

For 2019, we expect our production to be in the range of 123 – 133 kbbl OE/d, as production from the additional fields of Giza/Fayoum and Raven in the Egyptian West Nile Delta will more than offset the decline in production from our mature fields elsewhere.

EBITDAX

In the calendar year 2018, EBITDAX was 16 % above the previous year's figure, which is considerably higher than the mid-point of the original guidance and exactly at the level of the revised guidance of Q3/2018.

For 2019, we expect our EBITDAX to be 10 % - 20 % lower than the result of 2018.

Capex

Our investment expenditure during 2018 was 14 % above the 2017 level, which is in the middle of the range of the original guidance and at the lower end of the revised guidance from Q3/2018.

For 2019, we expect investment expenditure (excluding acquisitions) to be approx. 5 % – 15 % above the 2018 level, owing to the ongoing development projects in Norway such as Dvalin, Njord, Nova and Ærfugl. The finalisation of the development of the West Nile Delta field Raven in Egypt will also require some expenditure. In addition, we will continue to invest in our existing production projects to offset natural decline.

Liquidity

Our capex for 2019 will be funded largely by operating cash flow as well as partial utilisation of existing credit facilities and shareholder equity for funding of the Sierra acquisition in Mexico. We believe we are adequately funded to conduct our operations.

Hamburg, 8 February 2019

The Board of Management

Moræus Hanssen Avdeev Warzecha

Additional information regarding reserves (unaudited)

DEA Deutsche Erdoel AG provides updates on developments in the Group's reserves and resources once a year. Reserve estimates are derived from management estimates, and our reserves are certified almost in their entirety by RPS Group Plc., independent reserves engineers.

The volumes of reserves are classified in accordance with the Petroleum Resources Management System (PRMS) of the Society of Petroleum Engineers (SPE) as follows:

1P reserves (proved reserves) are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations. If deterministic methods are used, the term "reasonable certainty" is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least 90 % probability that the quantities actually recovered will equal or exceed the estimate.

2P reserves (proved plus probable reserves) are those reserves, which analysis of geoscience and engineering data indicates are less likely to be recovered than 1P reserves. It is equally likely that actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. In this context, when probabilistic methods are used, there should be at least a 50 % probability that the actual quantities recovered will equal or exceed the 2P reserves estimate.

As at 31 December 2018, the DEA AG Group had 2P reserves of 692 million barrels of oil equivalent, nearly stable compared with 2P reserves in 2017. The production of the year could nearly be compensated by reserve additions from the acquisition of Ogarrio in Mexico, organic additions resulting from the approval of development projects in Norway such as Nova and from additional reserves in producing fields like Mittelplate and Völkersen in Germany as well as Skarv and Snohvit in Norway, partially offset by reduced expected recovery for the West Nile Delta fields in Egypt. Approximately half of our 2P reserves are already developed. In addition, our 2P reserves are diversified across roughly 50 individual projects.

1P Reserves

Million boe	31-12-2018	31-12-2017
Germany/Denmark	89.2	91.5
Norway	263.2	253.9
North Africa	117.8	162.1
Mexico	15.5	-
Other	-	-
	485.7	**507.5**

2P Reserves[1]

Million boe	31-12-2018	31-12-2017
Germany/Denmark	119.7	127.4
Norway	354.5	343.2
North Africa	184.7	227.7
Mexico	33.1	-
Other	-	-
	692.0	**698.3**

[1] 2P reserves (proved plus probable reserves) are inclusive of 1P reserves (proved reserves)

DEA Deutsche Erdoel AG
Consolidated Financial Statements
Fiscal Year
1 January - 31 December 2018

DEA Deutsche Erdoel AG - Consolidated Income Statement

€m	(Notes)	Jan. - Dec. 2018	Jan. - Dec. [1] 2017
Sales and other operating revenues	(2)	1,892	1,427
Cost of sales	(3)	-759	-728
Gross profit		1,133	699
Exploration costs	(4)	-111	-122
General and administration expenses		-125	-123
Net impairment of assets	(9)	-168	-100
Net impairment of operating receivables	(18)	1	-
Operating result		730	354
Financial income	(6)	109	87
Financial expenses	(6)	-89	-260
Net impairment of financial receivables	(18)	9	-
Result from continuing operations before taxes	(7)	759	181
Income taxes	(8)	-478	-174
Result from continuing operations		281	7
Result from discontinued operations	(1)	53	14
Net result		334	21
Thereof attributable to:			
Shareholders of the parent company		330	18
Non-controlling interests		4	3

1) Due to the reporting of discontinued operations, the comparative prior figures have been adjusted.

DEA Deutsche Erdoel AG - Consolidated Statement of Comprehensive Income

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Net result	334	21
Items that may be reclassified to profit or loss		
Currency translation adjustments	6	-26
Fair valuation of financial instruments in hedge relationship	66	-9
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans	-22	2
Other comprehensive income (after taxes)	**50**	**-33**
Total comprehensive income	**384**	**-12**
Thereof attributable to:		
Shareholders of the parent company	380	-15
Non-controlling interests	4	3

DEA Deutsche Erdoel AG - Consolidated Balance Sheet

Assets (€m)	(Notes)	31-12-2018	31-12-2017
Non-current assets			
Intangible assets	(9)	855	588
Property, plant and equipment	(9)	3,320	2,952
Investment property		2	2
Financial investments		3	4
Financial receivables	(10)	1,916	2,021
Other receivables and other assets	(11)	56	81
Deferred tax assets	(8)	51	116
		6,203	5,764
Current assets			
Inventories	(12)	83	83
Financial receivables	(10)	29	22
Trade accounts receivable	(11)	264	279
Other receivables and other assets	(11)	110	69
Income tax assets	(8)	0	11
Cash and cash equivalents	(13)	305	116
		791	580
		6,994	6,344

Equity and Liabilities (€m)	(Notes)	31-12-2018	31-12-2017
Equity	(14)		
Shareholder's equity		1,840	1,813
Non-controlling interests		-	5
		1,840	1,818
Non-current liabilities			
Provisions	(15)	657	728
Debt to banks	(16)	1,441	1,334
Financial debt	(16)	1,041	1,013
Income tax liabilities	(8)	26	26
Other liabilities	(17)	4	15
Deferred tax liabilities	(8)	739	526
		3,908	3,642
Current liabilities			
Provisions	(15)	185	208
Debt to banks	(16)	6	0
Financial debt	(16)	396	116
Trade accounts payable	(17)	298	304
Income tax liabilities	(8)	124	24
Other liabilities	(17)	237	232
		1,246	884
		6,994	6,344

DEA Deutsche Erdoel AG - Consolidated Cash Flow Statement

€m	(16)	**Jan. - Dec. 2018**	**Jan. - Dec. [1] 2017**
Result from continuing operations		281	7
Depreciation/impairment losses/reversal of impairment losses		486	389
Changes in provisions		-2	23
Changes in deferred taxes		287	103
Gain/losses from disposal of assets		-30	20
Other non-cash income/expenses		28	-28
Changes in working capital		23	110
Changes in other balance sheet items		-40	269
Cash flow from operation activities - continuing operations		**1,033**	**893**
Cash flow from operating activities - discontinued operations		31	20
Cash flow from operating activities		**1,064**	**913**
Cash outflows for additions to intangible assets, property, plant and equipment and investment property		-948	-829
Cash inflows from disposal of fixed assets		76	15
Cash outflows for acquisitions		-182	-65
Cash inflows from (cash outflows for) divestures		63	-
Cash inflows from (cash outflows for) financial assets		219	-20
Cash flow from investment activities - continuing operations		**-772**	**-899**
Cash flow from investment activities - discontinued operations		-9	-9
Cash flow from investment activities		**-781**	**-908**
Profit transfer to parent company		-130	-9
Repayments of debt to banks		-325	-282
Proceeds from debt to banks		363	304
Cash flow from financing activities - continuing operations		**-92**	**13**
Cash flow from financing activities - discontinued operations		-3	0
Cash flow from financing activities		**-95**	**13**
Net change in cash and cash equivalents		**188**	**18**
Effects of foreign exchange rates changes and other changes in value		1	-3
Cash and cash equivalents at beginning of reporting period		116	101
Cash and cash equivalents at end of reporting period		**305**	**116**
Less: Cash and cash equivalents of discontinued operations at end of reporting period		-	0
Cash and cash equivalents of continuing operations at end of reporting period		**305**	**116**
Supplementary information on cash flows from operating activities - continuing operations			
Income tax paid (less refunds)		8	43
Interest paid		98	90
Interest received		53	3
Dividends received		0	0

1) Due to the reporting of discontinued operations, the comparative prior figures have been adjusted.

DEA Deutsche Erdoel AG - Consolidated Statement of Changes in Equity

€m	Subscribed capital	Capital reserve	Retained earnings	Currency translation adjustments	Fair valuation of financial instruments	Shareholder's equity	Non-controlling interests	Total
As at 01-01-2017	344	980	657	-63	-18	1,900	4	1,904
Fair value of derivative financial instruments with no impact on profit or loss					-9	-9		-9
Currency translation adjustments			1	-27		-26		-26
Remeasurement of defined benefit plans			2			2		2
Other comprehensive income			3	-27	-9	-33		-33
Net result			18			18	3	21
Total comprehensive income			21	-27	-9	-15	3	-12
Profit and loss transfer/ distribution			-72			-72	-2	-74
Other changes								
As at 31-12-2017	344	980	606	-90	-27	1,813	5	1,818
As at 01-01-2018	344	980	606	-90	-27	1,813	5	1,818
Adjustments on adoption of IFRS 9 (net of tax)			-3			-3		-3
As at 01-01-2018 (restated)	344	980	603	-90	-27	1,810	5	1,815
Fair value of derivative financial instruments with no impact on profit or loss					66	66		66
Currency translation adjustments			0	6		6		6
Remeasurement of defined benefit plans			-22			-22		-22
Other comprehensive income			-22	6	66	50		50
Net result			330			330	4	334
Total comprehensive income			308	6	66	380	4	384
Profit and loss transfer/ distribution			-350			-350		-350
Other changes			0	0		0	-9	-9
As at 31-12-2018	344	980	561	-84	39	1,840	-	1,840

About this report

DEA Deutsche Erdoel AG is a German limited company and is headquartered at Überseering 40 in 22297 Hamburg, Germany. It is registered at the Hamburg local court under HRB 6882. The nature of the operations and principal activities of DEA Deutsche Erdoel AG are described in the management report. The presented consolidated financial statements as at 31 December 2018 were approved for publication by the Board of Management of DEA Deutsche Erdoel AG on 8 February 2019. In accordance with the resolution adopted at the annual general meeting, PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft audited the consolidated financial statements and the consolidated management report of DEA Deutsche Erdoel AG and issued its unqualified audit opinion. The consolidated financial statements are available from DEA Deutsche Erdoel AG, Überseering 40, 22297 Hamburg and at www.dea-group.com. The consolidated financial statements are filed electronically with the operator of the German Government Gazette and promulgated therein after their filing.

Basis of preparation

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) applicable in the EU, as well as in accordance with the supplementary accounting regulations applicable pursuant to Section 315e, Para. 1 of the German Commercial Code (HGB). All figures for the previous year were determined in conformity with the same principles unless new accounting methods have been used prospectively for the reporting period.

The financial statements are prepared in euros (€). The amounts, including figures for previous years , are generally reported in millions of euros (€m). If necessary, amounts are disclosed in thousands of euros (€k). This rounding effect does not produce any loss of information. The income statement is prepared in accordance with the cost-of-sales method. Various items of the Income Statement and the Balance Sheet are combined to improve the transparency of presentation. These items are shown and explained separately in the Notes.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain other financial assets and financial liabilities, which have been measured at fair value.

Summary of significant accounting policies

Scope of consolidation

The consolidated financial statements include the accounts of DEA Deutsche Erdoel AG and its subsidiaries over which the company has control. DEA AG controls an investee if it has power over the investee. In addition, DEA AG is exposed to, or has rights to, variable returns from its involvement with the investee and DEA AG has the ability to use its power over the investee to affect the amount of DEA AG's return. A subsidiary is de-consolidated from the date that control ceases. There are 16 consolidated companies (previous year: 20), 6 of them abroad (previous year: 4). Participation in 2 foreign subsidiaries (previous year: 3) of minor importance to the DEA AG Group are reported as financial investments measured at fair value in accordance with IFRS 9. In total, these subsidiaries account for less than 1 % of the consolidated revenue and income as well as of consolidated debt. In the reporting period, 4 domestic and one foreign subsidiaries were deconsolidated (see note 1) and 3 foreign subsidiaries, one of them previously reported as financial investment, were consolidated for the first time. Moreover, 2 subsidiaries have been merged on their parent company.

Consolidation principles

The financial statements of the domestic and foreign companies included in the Consolidated Financial Statements of DEA Deutsche Erdoel AG are drawn up in conformity with uniform accounting and valuation methods. Expenses and earnings as well as accounts receivable and payable between the consolidated subsidiaries are eliminated. Intercompany gains or losses are eliminated, unless they are negligible. Capital consolidation is performed by offsetting the carrying amounts of subsidiaries against their underlying equity. Depreciation charged in the companies' individual statements on shares in, and loans to, consolidated subsidiaries is reversed.

Business combinations

Cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-controlling interest in a subsidiary represents the portion of the subsidiary not owned by DEA Deutsche Erdoel AG. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or until their disposal, respectively.

Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. There are joint arrangements at DEA AG Group in the course of development and production activities. They are classified as joint operations since the arrangements transfer the rights and obligations relating to the assets and liabilities to the investors. The Group's shares in joint operations are accounted for by recognising its respective share in assets and liabilities as well as its income and expenses.

Currency translation

In the companies' individual statements, foreign currencies transactions are translated at exchange rates prevailing at the date of the transaction. Monetary foreign currency items are measured at the current exchange rate at each balance sheet date. Exchange gains or losses incurred by the balance sheet date are recognised in the income statement.

The financial statements of Group companies with functional currencies different from the Group's presentation currency (Euro) are translated using the current rate method. All balance sheet items are translated at the current exchange rates prevailing at the balance sheet date. Differences from previous-year translation are recognised in other comprehensive income without impact on profit or loss. Income statement items are translated generally at annual average rates. The use of average rates for the income statement creates additional differences compared with the application of current exchange rates for balance sheet items which are also recognised in other comprehensive income.

The following exchange rates were applied in translating foreign currencies to euros:

1 € =	**Rate on balance sheet date**		**Average rate**	
	31-12-2018	31-12-2017	Jan. - Dec. 2018	Jan. - Dec. 2017
1 Pound sterling	1.12	1.13	1.13	1.14
100 Norwegian kroner	10.05	10.16	10.42	10.72
100 Polish zloty	23.25	23.94	23.48	23.49
1 Mexican peso	0.044	-	0.044	-

Realisation of income

Revenues are recognised when a performance obligation has been satisfied by transferring a promised good or service to a customer. The transfer criteria is fulfilled when the customer obtains control. They are measured at the transaction price that is allocated to the respective performance obligation.

At DEA AG Group revenues primarily consist of oil and gas sales. Oil and gas revenues are recognised at the time of delivery to the contractual delivery point. This is generally the case, if oil passes the vessel's rail or, in case of oil and gas supply via pipeline, when passing agreed delivery points. Revenues derived from services are of minor significance for the DEA AG Group.

Income taxes

Tax positions under respective local tax laws and tax authorities' views can be complex and subject to different interpretations by tax payers and local tax authorities. Different interpretations of tax laws may result in additional tax payments for previous years and are included in management considerations. In the DEA AG Group, despite the existence of a fiscal unit, actual and deferred taxes are recognised on the basis of a tax allocation contract.

Under the liability method, deferred tax assets and liabilities are recognised for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognised if sufficient future taxable profit is available, including knowledge about income from forecast operating earnings, the reversal of existing taxable temporary differences and established tax planning opportunities. As of each period-end, the DEA AG Group evaluates the recoverability of deferred tax assets on the basis of projected future taxable profits. According to the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the DEA AG Group believes it is probable the company will realise the benefits of these deductible differences. As future developments are uncertain, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Estimates are revised in the period in which there is sufficient evidence to revise the assumption.

Intangible assets

Intangible assets include capitalised exploration expenditure, other intangible assets such as cost recovery rights, licence rights in the production phase, commercial and technical software and goodwills. They are reported at amortised costs.

The exploration phase comprises the period from the receipt of exploration rights until their expiry or until technical feasibility of a field development and economic viability have been demonstrated. The exploration expenditure capitalised during this phase includes, for example, concession acquisition costs, licences and exploration rights and exploration wells. Exploration wells are accounted for at their historic cost of acquisition or production according to the successful efforts method; i.e. expenses incurred on exploration wells are generally capitalised only if they were successful, in the sense that they led in particular to the discovery of oil and gas deposits. Once the reserves are proved and commercial viability is established and the development is highly probable, the exploration wells are reclassified into property, plant and equipment and intangible exploration rights are reclassified into other intangible assets. During the exploration phase, the exploration expenditure capitalised is not subject to scheduled amortisation/depreciation. With the start of production, it is amortised/depreciated according to the unit-of-production method.

Other intangible assets have a finite useful life and are therefore subject to systematic linear or production-related depreciation. The useful life of concessions and other licence rights corresponds to the contractual term or comprises the period until the end of economic production. Software for commercial or technical applications is depreciated under the straight-line method over three years. The useful economic life and amortisation methods are subject to annual review.

Goodwill is not subject to systematic amortisation. It is subject to an impairment test on an annual basis or whenever there are indications of a diminution in value (impairment test). Goodwill is part of cash-generating units. The goodwill impairment test is performed at the level of a cash-generating unit or a group of cash-generating units. This is the lowest level at which goodwill is monitored for internal management purposes.

Property, plant and equipment

Property, plant and equipment comprise land and buildings, oil and gas assets, other plant, machinery and equipment as well as fixtures and fittings and office equipment. They are valued at amortised acquisition or production cost. Borrowing costs that can be directly allocated to the acquisition or production of an asset are capitalised as part of acquisition or production costs if a considerable period is necessary to convert the asset into its intended state for use or sale ("qualified asset"). The cost of property, plant and equipment includes the estimated cost of de-installation or demolition and removal and of the reconditioning of the site under public or private law obligations, to the extent related provisions are set up. Maintenance and repair costs are stated as expenses.

Oil and gas assets are generally depreciated using the unit-of-production method. Basically, in the case of capitalised wells the depreciation is based on the current production of the period in relation to proved developed producing reserves and in the case of acquisition costs and production facilities/support equipment the current production of the period is set in relation to total proved reserves.

Other property, plant and equipment, with the exception of land and similar rights, is depreciated using the straight-line method. The typical useful lives of the DEA AG Group's non-production-related property, plant and equipment are as follows:

	Years
Buildings	24 - 50
Technical plant and machinery	5 - 15
Factory and office equipment	3 - 20

Impairment test

An impairment loss is recognised for intangible assets as well as for property, plant and equipment and investment properties if the recoverable amount of the asset is less than its carrying amount. Exploration assets are required to be tested for impairment as soon as the technical feasibility and profitability of a resource can be proven. The presence of facts and circumstances indicating an impairment also gives rise to an impairment test. If the asset is part of a cash-generating unit (the smallest identifiable group of assets generating cash flows, which are largely independent of the cash inflows of other assets or other groups of assets), then an impairment is derived on the basis of the recoverable amount of the cash-generating unit. In the event that the carrying amount of a cash-generating unit to which a goodwill was allocated exceeds the recoverable amount, a resulting impairment loss is initially applied to the allocated goodwill. Any further impairment loss required will be taken into account through a pro-rata reduction in the remaining carrying amounts of the cash-generating unit. A reversal of an impairment loss up to the value of amortised cost is made if the reasons for an earlier impairment no longer exist. In this case, the increased book value resulting from a reversal must not exceed the amortised cost of acquisition or production. Impairment losses are reported net of reversals of impairment losses. Impairment losses on goodwill are not reversed.

Within the scope of the impairment test, the recoverable amount of the cash-generating unit is determined. The recoverable amount is defined as the higher of fair value less cost of disposal or value in use. The fair value represents the best possible estimate for the amount for which an independent third party would acquire the cash-generating unit on the balance sheet date; the cost of disposal is deducted. Value in use reflects the present value of the future cash flows which are expected to be generated with the cash-generating unit. If either of these amounts exceeds the carrying amount, it is not always necessary to determine both amounts. These values are generally determined on the basis of discounted cash flow calculations which, in turn, are generally based on current corporate planning. The cash flow forecasts pertain to the life-of-field-period for the individual concession/licence or groups of concessions/licences. The calculations are based on historical experience as well as expectations of future market trends. The principal assumptions underlying the determination by management of the recoverable amount are the forecasts for market prices of oil and natural gas, the estimated reserves, the production forecast as well as the discount rates. The discount rates applied are based on weighted average capital costs taking into consideration specific country risks. The calculation was not related to the actual capital structure of the company but was derived by peer group.

Financial assets

From 1 January 2018 onwards, financial assets are classified in the following measurement categories:

- Financial assets to be measured at fair value through profit or loss (FVPL)
- Financial assets to be measured at amortised costs

Financial assets are classified as at amortised costs only if the asset is held within a business model whose objective is to collect the contractual cash flows and if the contractual term give rise to cash flows that are solely payments of principal and interest.

Financial assets are recognised in the balance sheet if a company is a party to a contract for the asset in question. Market-conform purchases or sales of financial assets are recognised or derecognised on the day of trading. Financial assets are derecognised when the contractual rights to cash flows from the asset expire or the entity transfers the financial asset. The latter applies when all the essential risks and rewards of ownership of the asset are transferred, or the entity no longer has control of the asset.

Except for trade accounts receivables from sales revenues, at initial recognition, financial assets are measured at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition of the financial asset. Trade accounts receivable from sales revenues are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components.

After initial recognition, financial assets are measured depending on their classification either at amortised cost using the effective interest method or at fair value through profit or loss.

For financial assets measured at amortised costs expected credit losses are recognised. The assessment of credit losses is carried out on a forward looking basis. Impairment losses are presented in separate line items in the income statement either as impairment losses on operating receivables or as impairment losses on financial receivables. Reversals of impairment losses are credited against the same line item.

Inventories

Inventories are carried at cost of acquisition or production or at the lower net realisable value. Production costs reflect the full costs directly related to production and are determined on the basis of the normal capacity. To the extent that the net realisable value of previously impaired inventories has increased, the resulting reversal is recognised in the same expense item in which the original impairment was recorded.

Provisions

Provisions are set up for all legal or factual obligations to third parties as at the balance sheet date which are based on past events and will probably lead to an outflow of resources in the future and the extent of which can be reliably estimated. Possible obligations to third parties or existing obligations where an outflow of resources is improbable or the extent thereof cannot be reliably determined, are not to be recognised as provisions. They have to be disclosed as contingent liabilities in the notes unless the possibility of an outflow of resources with economic benefits is remote.

Provisions are carried at their foreseeable settlement amount and not netted against any recovery claims. The settlement amount comprises cost increases to be taken into account as of the balance sheet date. In the case of non-current provisions, the amounts are discounted to the present value, applying the country-specific or currency-specific market interest rate applicable as of the respective balance sheet date. Provisions based on a large number of similar events are reported at their expected value. Releases of provisions are written back against the expense item against which the provision was originally set up.

Decommissioning provisions cover the updated commitments for the plugging of wells, the de-installation of onshore and offshore production facilities and the reconditioning of operations and drilling sites. Their extent is based on the anticipated full costs, taking into account the empirical data and the cost benchmarks determined by the Association of German Crude Oil and Natural Gas Producers, with comparable assumptions available for foreign activities. Should any changes in interest rates or estimates in terms of the time or the level of payouts lead to changes in this provision, then the carrying amount of the associated asset will be adjusted accordingly. If the reduction is higher than the book value, the excess amount must be recorded with direct impact on income.

Provisions for pensions are recognised for defined benefit plans. This relates to commitments by the company to cover vested entitlements of employees in active service and current benefits to active and former employees or their dependents. These commitments relate in particular to old-age pension payments. The specific commitments are based on benefits that vary throughout the industry; however, as a rule they are measured according to employees' length of service and remuneration.

The company pension plan consists both of defined-benefit and contribution-based benefit plans. Provisions for defined-benefit plans are based on the actuarial projected benefit obligation, measured using the projected unit credit method. This benefit/years of service method takes into account not only the pension benefits and benefit entitlements known as of the balance sheet date, but also anticipated future increases in salaries and pension benefits. The calculation is based on actuarial reports, taking into account appropriate biometric parameters (for Germany, in particular the “Richttafeln 2018G" [previous year: "Richttafeln 2005G"] by Klaus Heubeck; for Norway, the mortality table “K2013”). The provision is reduced by the fair value of the plan assets set up to cover the pension commitments. The service cost, i.e. the increase in the obligation resulting from the work performed by employees in the period under review, is disclosed in operating result and the interest expenses/income are reported in financial expenses.

Results of the remeasurement of defined-benefit plans are fully recognised in the fiscal year in which they occur. They are reported outside profit or loss in the consolidated statement of comprehensive income and immediately assigned to retained earnings. Therefore, they remain outside profit or loss in subsequent periods as well.

In the case of contribution-based benefit plans, the company does not incur any further obligations beyond making contribution payments to special-purpose funds. The contribution payments are recorded as expenses.

Financial liabilities

From 1 January 2018 onwards, financial liabilities are classified in the following measurement categories:

- Financial liabilities to be measured at fair value through profit or loss (FVPL)
- Financial liabilities to be measured at amortised costs

At initial recognition, financial liabilities are measured at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition of the financial liabilities.

After initial recognition, financial liabilities are measured depending on their classification either at amortised cost using the effective interest method or at fair value through profit and loss.

Derivative financial instruments

Derivative financial instruments are reported as other assets or other liabilities. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured to their fair values at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivate is designated as a hedging instrument, and if so, the nature of the item being hedged.

At inception of the hedge relationship, the group documents its risk management objective and strategy for undertaking its hedge transactions as well as the economic relationship between hedging instrument and hedged items including whether changes in the cash flows of the hedging instrument are expected to offset changes in the cash flow of hedged items.

The group has designated derivatives as hedging instruments within the scope of cash flow hedges. Cash flow hedges are used to hedge the risk of variability in cash flows related to highly probable forecast transactions. The effective portion of changes in the fair value of derivates that are designated as cash flow hedges is recognised as other comprehensive income within equity. The gains or losses relating to the ineffective portion are recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss. When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gains or losses in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gains or losses are immediately reclassified to profit or loss.

Changes in the fair values of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

Agreements concluded for the purpose of receiving or supplying non-financial items in accordance with the company’s expected buying, selling or utilisation demand and held for this purpose (own-use contracts) are accounted for not as financial derivatives but as pending transactions. If the agreements contain embedded derivatives, then the derivatives will be accounted for separately from the underlying agreement if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the underlying agreement.

Discontinued operations

Discontinued operations are reported when a component of an entity that either has been disposed of, or is classified as "held for sale" represents a separate major line of business or geographical area of operations. In the consolidated income statement, the result from discontinued operations is reported separately from the result from continuing operations. In the consolidated cash flow statement, the cash flows from discontinued operations are presented separately from cash flows of continuing operations. Previous periods are, in each case, presented on a comparable basis. The disclosures in the notes, except for note (1), that refer to the consolidated income statement and the consolidated cash flow statement relate to continuing operations. In order to present the financial effects of discontinued operations, income and expenses as well as receivables and liabilities arising from intragroup transactions are eliminated. Non-current assets classified as "held for sale" are measured at the lower of their carrying amount and fair value less costs to sell, unless these assets are not part of the measurement scope as defined in IFRS 5. Depreciation and amortisation ceases from the date of classification as "held for sale".

Important estimates and assumptions

Preparation of the consolidated financial statements on the basis of IFRS requires management to make estimates and assumptions that affect the amounts reported for assets, liabilities, income and expenses as well as disclosed contingent liabilities and fair values. The assumptions and estimates mainly concern the following areas:

Oil and gas reserves

Oil and natural gas reserves are applied to determine the recoverable amount in the framework of the impairment test as well as for the production-related depreciation and amortisation using the unit-of-production method. Reserves are estimated by the Group's own qualified engineers and geoscientists applying standardised valuation methods, and are classified in line with international industry standards. This process is subject to defined principles. Furthermore, the estimates are audited by an independent consultant (RPS Group) on an annual basis.

Impairment tests

Key assumptions within impairment tests for intangible assets and property, plant and equipment relate to estimated reserves, forecasts for market prices of crude oil and natural gas, production forecasts and discount rates.

Impairment on financial assets

The loss allowances for financial assets are based on assumptions about probability of default and expected credit losses. The inputs to the impairment calculation are based on the group's past history, existing market conditions as well as forward looking estimates.

Derivative financial instruments

In accounting for derivative financial instruments, assumptions have to be made as to whether the principles of hedge accounting apply. In addition, for certain contracts a decision is required as to whether they are to be recognised as derivatives or treated as pending transactions like what are known as own-use contracts.

Provisions

Decommissioning provisions mainly require estimates and assumptions with regard to terms, exchange rates, costs to be considered and discount rates. Future actual cash outflows can differ, owing to changes in relation to these items.

With regard to pension provisions, the discount rate is one of the very important estimators. The discount factor for pension obligations is determined on the basis of yields on high quality, fixed-rate corporate bonds on the financial markets as of the balance sheet date.

All assumptions and estimates are based on conditions and evaluations made as at the balance sheet date. In addition, with regard to expected future business trends, the future development (considered realistic at the current time) of the economic environment in the industries and the regions in which the DEA AG Group operates is taken into account. If the actual trend deviates from the assumed development of conditions, then the assumptions and, if necessary, the carrying amounts of the assets and liabilities concerned will be adjusted accordingly. As of the date of preparation of the consolidated financial statements, it is not expected that there will be a material change in the assumptions and estimates.

Changes in accounting policies

The International Accounting Standards Board (IASB) and the IFRS IC have adopted new International Financial Reporting Standards (IFRS), an Interpretation and amendments to existing Standards, which became effective for the DEA AG Group as of 1 January 2018.

IFRS 15 (2014) "Revenue from Contracts with Customers" was issued in 2014 and replaces the previous regulations of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. In April 2016, some clarifications were published. The new standard introduces uniform criteria for the timing of revenue recognition. According to IFRS 15, sales revenue is recognised when control of the agreed-upon goods or services and the benefits obtainable from them are transferred to the customer. The transfer of the essential risks and rewards of ownership of the goods is no longer the deciding factor. Sales revenue is measured as the amount the entity expects to receive in exchange for goods and services. The new model for the determination of revenue recognition is based on five steps, with the contract with the customer and the individual performance obligations within the contract to be identified first. The transaction price is then determined and allocated to the performance obligations in the contract. Finally, sales are recognised for each performance obligation in the amount of the allocated portion of the transaction price as soon as the agreed-upon good or service has been provided or the customer receives control over it. Principles are set out for determining whether the goods or services have been provided over time or at one point in time.

The application of IFRS 15 had no impact on the DEA consolidated financial statements except for additional disclosure requirements.

IFRS 9 (2014) "Financial Instruments" was issued in 2014 and replaces the previous regulations of IAS 39. IFRS 9 contains new requirements for the classification and measurement of financial instruments, fundamental changes regarding the accounting treatment of financial asset impairments, and a reformed approach to hedge accounting. IFRS 9 retains "amortised cost" and "fair value" as the criteria for measuring financial instruments. Whether financial assets are measured at amortised cost or fair value will depend on two factors: the entity's business model for managing the portfolio to which the financial asset belongs and contractual cash flow characteristics of the financial asset. According to IFRS 9, the recognition of financial asset impairments is based on expected losses. The general approach adopts a three-stage model to assess the provisions for risks. The model requires different degrees of impairment based on the credit default risk of the counterparties. For certain financial instruments, such as trade accounts receivable, operational simplifications for recognising impairment losses apply. IFRS 9 regulations on hedge accounting aim for a closer alignment of hedge accounting with the entity's risk management strategy and additionally include changes in the requirements for measuring effectiveness that will mainly be based on the hedge ratio. The hedge ratio needs to be adjusted (so-called "rebalancing") on a prospective basis if it no longer meets the hedge effectiveness requirements under an unchanged risk management strategy.

Measurement categories

On the date of initial application, 1 January 2018, the financial instruments were as follows, with any reclassification noted:

€m	Measurement category Original (IAS 39)	New (IFRS 9)	Carrying amount Original (IAS 39)	New (IFRS 9)
Financial investments	available for sale	FVPL [1)]	4	4
Financial receivables	loans and receivables (amortised cost)	amortised cost	2,043	2,043
Trade accounts receivable	loans and receivables (amortised cost)	amortised cost	279	279
Other accounts receivable and other assets				
Derivatives (hedge accounting not applied)	FVPL [1)]	FVPL [1)]	1	1
Other accounts receivable and other assets in the scope of IFRS 9/IFRS 7	loans and receivables (amortised cost)	amortised cost	16	16
Cash and cash equivalents	loans and receivables (amortised cost)	amortised cost	116	116
Debt to banks	amortised cost	amortised cost	1,334	1,334
Financial liabilities	amortised cost	amortised cost	1,129	1,129
Trade accounts payable	amortised cost	amortised cost	304	304
Other liabilities				
Derivatives (hedge accounting applied)	in hedge relationship (measured at FV)	in hedge relationship (measured at FV)	39	39
Other liabilities in the scope of IFRS 9/IFRS7	amortised cost	amortised cost	179	179

1) FVPL = Financial assets measured at fair value through profit or loss

Financial investments were reclassified from available for sale to assets at fair value through profit or loss. They do not meet the criteria to be classified as at amortised cost in accordance with IFRS 9, because their cash flows do not represent solely payments of principal and interest. Following the reclassification with transition to IFRS 9, there are no valuation differences and therefore no changes in the carrying amounts as well as no changes in equity.

Impairment

The application of the new impairment rules for financial assets resulted in an impairment amounting to €8m. After taking account of deferred tax income of €5m the total impact on the opening retained earnings amounts to €3m.

€m	Financial receivables	Trade accounts receivable	Other receivables	Total
Closing impairment losses as of 31 December 2017 (according to IAS 39)	-	31	-	31
Amounts restated through opening retained earnings	17	-9	0	8
Opening impairment losses as of 1 January 2018 (according to IFRS 9)	17	22	0	39

As from the reporting period, impairments and reversals of impairments are stated separately as "net impairment of operating receivables" and "net impairment of financial receivables" in separate line items in the income statement, as applicable. Previous periods have not been restated.

Hedging

Following the initial application of IFRS 9, the hedge documentation and the assessment of effectiveness have been amended. Furthermore, more detailed information on risk management strategies, effectiveness and effects of hedge accounting on balance sheet and income statement are presented in the notes.

Further changes in accounting standards

The following interpretation and amendments to existing standards have no impact on the DEA consolidated financial statements:

- Annual improvements to IFRS Standards 2014 - 2016 (2016)
- Amendments to IFRS 2 (2016) "Classification and Measurement of Shared-based Payment Transactions"
- Amendments to IFRS 4 (2016) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
- IFRS Interpretation 22 (2016) "Foreign Currency Transactions and Advance Consideration"
- Amendments to IAS 40 (2016) "Transfer of Investment Property"

New accounting policies

The IASB and the IFRS IC have adopted further standards, an interpretation and amendments to standards, which are not yet mandatory in the European Union (EU) for fiscal years which begin on 1 January 2018. EU endorsement is still pending in some cases.

IFRS 16 (2016) "Leases" replaces the previous regulations of IAS 17, IFRIC 4, SIC 15 and SIC 27. The new standard introduces a single lessee accounting model. It requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. As for the lessor, the new standard substantially continues the lessor accounting requirements of IAS 17. IFRS 16 (2016) is applicable for the first time for fiscal years that begin on or after 1 January 2019. The DEA AG Group will apply the modified retrospective transition method and will not restate figures for the previous year. All of the group's lease agreements have been reviewed over the last year in line of the new lease accounting rules in IFRS 16. Judgements primarily made regarding the assessment whether the criteria of a lease agreement are fulfilled and with respect to the assessment of the term of the lease agreement. On the initial adoption of IFRS 16 as of 1 January 2019, approximately €70m will be capitalised as right of use assets from leases and lease liabilities will be recognised in the same amount. In the income statement, the lease expenses, typically on a straight-line basis, are replaced by depreciation of the capitalised assets and interest expenses on the lease liabilities. In the cash flow statement, the reduction of the lease liability will be recognised in the cash flow from financing activities, whereas interest payments will be recorded in the cash flow from operating activities. For short-term leases and leases of low-value assets, the lease instalments will be recognised as lease expenses in the income statement. In the cash flow statement, the lease payments are shown in the cash flow from operating activities.

The following changes in standards and interpretations are not expected to have any material effect on the DEA AG Group's consolidated financial statements:

Standards and Interpretations	IASB Effective Date
IFRS Interpretation 23 (2017) "Uncertainty over Income Tax Treatments"	1 January 2019
Amendments to IFRS 9 (2017) "Prepayments Features with Negative Compensation"	1 January 2019
Amendments to IAS 28 (2017) "Long-term Interests in Associates and Joint Ventures"	1 January 2019
Annual Improvements to IFRS Standards 2015 - 2017 (2017)	1 January 2019
Amendments to IAS 19 (2018) "Plan Amendment, Curtailment or Settlement"	1 January 2019
Amendments to Reference to the Conceptional Framework in IFRS Standards (2018)	1 January 2020
Amendments to IFRS 3 (2018) "Business Combinations"	1 January 2020
Amendments to IAS 1 and IAS 8 (2018) "Definition of Material"	1 January 2020
IFRS 17 (2017) "Insurance Contracts"	1 January 2021

Selected key financial data by region (voluntary disclosure)

The DEA AG Group operates within several geographical areas. The following representation at country level is in accordance with internal management reporting and does not represent segment information as defined by IFRS 8.

	January - December 2018					
€m/kboed	Germany/ Denmark	Norway	North Africa [1]	Mexico	Other [2]	Total
Production (kboed) [3]	32	52	34	3	-	121
Revenues	402	928	220	53	-	1,603
Depletion, depreciation, amortisation	-47	-130	-114	-24	-3	-318
Net impairment of assets	-	-9	-159	-	-	-168
EBITDAX	231	697	157	18	-60	1,043
Exploration cost	-19	-65	-16	-5	-6	-111
Capital expenditure (without acquisitions)	50	533	345	18	2	948

1) Comprising Egypt and Algeria
2) Incl. rest of the world, central functions and investment property
3) On working interest basis

	January - December 2017					
€m/kboed	Germany/ Denmark	Norway	North Africa [1]	Mexico	Other [2]	Total
Production (kboed) [3]	36	54	35	-	-	125
Revenues	420	802	200	-	-	1,422
Depletion, depreciation, amortisation	-48	-134	-104	-	-3	-289
Net impairment of assets	0	-63	-37	-	-	-100
EBITDAX	236	538	187	-	-67	894
Exploration cost	-1	-108	-24	-	11	-122
Capital expenditure (without acquisitions)	48	370	409	-	2	829

1) Comprising Egypt and Algeria
2) Incl. rest of the world, central functions and investment property
3) On working interest basis

(1) Acquisitions, disposals and discontinued operations

Acquisitions

As of 6 March 2018, the DEA AG acquired via its Mexican subsidiary a 50 % share in the Ogarrio field in Mexico and became operator in this licence. As of 4 December 2018, DEA signed a share purchase agreement for the acquisition of Sierra Oil & Gas, a leading Mexican independent oil and gas company. The transaction is still subject to certain conditions precedent and expected to be closed in the first half of 2019.

Disposals and discontinued operations

As of 2 March 2018, DEA AG has signed a contract for the sale of the complete storage business. The sale was completed on 28 December 2018 with effective date 31 December 2018.

The storage business, which represents a separate line of business and comprises 4 subsidiaries, was classified as a discontinued operation as of signature date. With the classification of discontinued operations, a measurement at the agreed purchase price was carried out. It was not necessary to account for an impairment loss. The disposal of the companies led to a gain on deconsolidation in the amount of €58m.

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Sales and other operating revenues	35	31
Cost of sales	-12	0
Financial result	3	-5
Result before taxes	26	26
Income taxes		
from ordinary activities	-8	-12
on proceeds from disposal	-23	-
Result after taxes [1)]	**-5**	**14**
Gain on deconsolidation (after deduction of disposal costs)	58	-
Total result from discontinued operations	**53**	**14**

1) Thereof attributable to non-controlling interests €4m.

The cumulative other comprehensive income of discontinued operations, which was not to be reclassified, amounts to €0m.

In connection with the disposal of the storage business the following assets and liabilities were derecognised:

€m	
Non-current assets	85
Current assets	50
thereof cash and cash equivalents	42
Non-current liabilities	63
Current liabilities	21

In connection with the sale, a purchase price of €106m was paid to DEA AG. After deduction of disposal costs and disposed cash and cash equivalents the net inflow from divestures amounts to €63m. The net inflow is shown as cash flow from continuing operations.

In addition, the foreign subsidiary DEA UK Upstream was deconsolidated due to liquidation. The cumulative currency exchange losses relating to that foreign operation of €10m were reclassified from equity to profit or loss.

(2) Sales and other operating revenues

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Oil		
Germany/Denmark	187	197
Norway	554	479
North Africa	78	54
Mexico	40	-
	859	730
Gas		
Germany/Denmark	215	222
Norway	364	313
North Africa	138	122
Mexico	12	-
	729	657
Others		
Germany/Denmark	0	1
Norway	10	10
North Africa	4	24
Mexico	1	-
	15	35
Sales revenues	1,603	1,422
Other operating revenues	289	5
	1,892	1,427

The oil revenues comprise losses from commodity derivatives amounting to €50m (previous year: €5m).

(3) Cost of sales

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Cost of operations		
Production costs	265	311
Royalties	99	79
Change in over-/underlift position	8	0
Tariffs, transport and lease expenses	97	114
Depletion, depreciation, amortisation	314	284
Other	-38	-74
	745	714
Development costs	14	14
	759	728

Other cost of operations for the reporting period include net gains from the disposal of fixed assets of €38m. In the previous year, other cost of operations comprised net impairment gains on operating receivables of €75m and restructuring costs of €1m. As of this year, net impairments of operating receivables are disclosed as a separate line item in the income statement.

(4) Exploration

Exploration costs in the income statement comprise, among other things, expenses related to seismology, geology, geophysics, unsuccessful exploration wells, additions and reversals of provisions and allocable administrative expenses. Impairment losses and reversals are not included in the exploration costs.

Provisions comprise commitments from exploration (mainly working programmes) amounting to €101m (previous year: €87m).

The cash flow from operating activities attributable to exploration amounts to €16m (previous year: €69m). In addition, the cash flow from investment activities by the exploration division amounts to €-48m (previous year: €-34m).

(5) Staff costs

Total staff costs are included in the following items in the income statement:

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Cost of sales	83	77
Exploration costs	21	19
General and administration expenses	50	49
	154	145

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Wages and salaries	124	119
Social security and other benefits	15	15
Expenses relating to post-employment benefits	15	11
	154	1145

In the fiscal year, the average size of the DEA AG Group's workforce (excluding discontinued operations) converted to employee equivalents was 967 (previous year: 1,064), of whom 808 (previous year: 892) were in Germany. Full-time employees are included in the employee equivalents at 100 %. Part-time employees or employees with agreements subject to time limits are recorded only to the extent of their part-time quota or their employment time in relation to the annual time worked. In addition, the number of apprentices employed as at 31 December 2018 (headcount) was 8 (previous year: 12).

(6) Financial income and financial expenses

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Interest income from third parties	2	4
Interest income from affiliated companies	94	83
Foreign currency exchange gains, net	13	-
Income from investments	0	0
Other financial income	0	0
Financial income	**109**	**87**
Interest expenses to third parties	77	63
Interest expenses to affiliated companies	50	49
Less capitalised borrowing costs	-76	-45
Foreign currency exchange losses, net	-	145
Losses from financial derivatives, net	0	10
Other financial expenses	10	10
	61	232
Interest from additions to		
Provisions for pensions and similar obligations less plan assets (net pension obligations)	3	2
Abandonment provisions	24	26
Other provisions	1	0
	28	28
Financial expenses	**89**	**260**

(7) EBITDAX

EBITDAX is used for the purpose of internal management control and is derived from the result from continuing operations before taxes adjusted by the following items:

a) Interest income and expenses shown as financial income and expenses in the income statement, but adjusted for interest effects regarding pension provisions and pension plan assets which are shown separately in the line "pension items".
b) Income and expenses attributable to exploration, but excluding depletion/depreciation/ amortisation and impairment losses and reversal of impairment losses, interest income and expenses, currency effects and pension items for exploration, since these are adjusted in separate line items.
c) Depletion, depreciation, amortisation and impairment losses less reversal of impairment losses of assets as shown in the income statement.
d) Acquisition, disposal and restructuring costs and further extraordinary items. This represents all fees, costs and expenses, stamp duty, registration and other taxes incurred by the company in connection with an acquisition or a disposal and material items of an unusual or non-recurring nature (e.g. resulting from restructuring activities).
e) Realised and unrealised foreign exchange gains and losses (including hedging results).
f) Gains over book value or losses on book value arising from the disposal of any fixed assets (other than the sale of trading stock).
g) Income from pension plan assets, interest expenses, service costs or other charges attributable to a post-employment benefit scheme.

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Result from continuing operations before taxes	759	181
a) Interest and other financing costs	-10	16
b) Exploration costs	111	120
c) Depletion, depreciation, amortisation and net impairment losses of assets	486	389
d) Acquisition, disposal and restructuring costs and extraordinary items as well as income from investments	-269	12
e) Realised and unrealised gains/losses from foreign currency valuation and financial derivatives	-12	155
f) (Gain)/loss attributable to the disposal of fixed assets	-39	8
g) Pension items	17	13
EBITDAX	1,043	894

(8) Income taxes

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Current income taxes		
Germany/Denmark	45	36
Norway	142	11
North Africa	4	24
Mexico	0	-
Other	0	0
	191	71
Deferred taxes		
arising from deductible temporary differences	255	71
resulting from taxable loss carry-forwards	32	32
	287	103
	478	174

Current income taxes relating to expenses from other periods, amount to €2m (previous year: €6m).

The average consolidated income tax rate on earnings generated by companies liable to German taxation generally amounts to 30.56 % (previous year: 30.55 %). It results from the applicable corporation tax rate of 15.0 % and the solidarity surcharge of 5.5 % as well as the average trade income tax rate of the DEA AG Group. By way of derogation from this, for German companies that have activities in countries with which no double taxation agreement exists, a tax rate of 15.83 % (without trade income tax) is applied. Current taxes of foreign subsidiaries are based on local tax laws and applicable tax rates in the individual foreign countries. Deferred tax assets and liabilities in Germany and abroad are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Taxes on income are derived from the expected tax expenses as follows:

€m	Jan. - Dec. 2018	Jan. - Dec. 2017
Result from continuing operations before taxes	759	181
Expected tax expenses 30.56 % (previous year: 30.55 %)	232	55
Changes in expected tax expenses due to:		
Tax rates differences	239	90
Taxes relating to a different accounting period	2	6
Tax effects on		
other tax-free earnings and earnings from foreign operations	-5	8
expenses not deductible for tax purposes	1	1
different trade income tax assessment bases and tax rates	-38	-3
changes in tax loss carry-forwards	8	-1
tax provision	12	12
Other	27	8
Changes in deferred taxes due to tax rate changes	0	-2
Effective tax expenses	478	174
Effective tax rate in %	63	96

Income tax assets and liabilities:

	31-12-2018		31-12-2017	
€m	Assets	Liabilities	Assets	Liabilities
Germany/Denmark	-	23	0	24
Norway	-	120	11	-
North Africa	-	2	-	20
Mexico	0	0	-	-
Other	0	5	-	6
	0	150	11	50
Non-current	-	26	-	26
Current	0	124	11	24

Income tax liabilities consist primarily of income taxes for the respective current year and prior-year periods that have not been definitively audited by the tax authorities.

The deferred tax assets and liabilities (gross) are allocable to the following balance sheet items:

€m	31-12-2018		31-12-2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Non-current assets	24	946	85	751
Current assets	1	16	3	16
Tax-related special items	-	7	-	7
Non-current liabilities				
Pension provisions	52	-	49	-
Other non-current provisions/ liabilities	196	18	200	43
Other current provisions/liabilities	15	0	29	1
	288	987	366	818
Loss carry-forwards	11	-	42	-
Gross	299	987	408	818
Netting	-248	-248	-292	-292
Net amount	51	739	116	526

Deferred tax assets and liabilities for each company are netted. Deferred taxes on loss carry-forwards are netted against deferred tax liabilities.

Deferred tax assets as a rule comprise capitalised tax credit claims resulting from the expected utilisation of loss carry-forwards in subsequent years. The realisation of these loss carry-forwards is ensured to an adequate level of certainty. The amount of loss-carry-forwards not covered by deferred tax claims totals €106m (previous year: €51m).

In the year under review, deferred taxes of €-16m (previous year: €5m) were netted against equity with no effect on profit or loss. They result from the valuation of derivative financial instruments with no effect on profit or loss, amounting to €-29m (previous year: €4m), from the remeasurement of defined benefit plans amounting to €8m (previous year: €1m) as well as from IFRS 9 restatement €5m (previous year: €-m).

Effects resulting from currency translation of deferred tax items in foreign financial statements amounting to €14m (previous year: €39m) were recognised with no impact on profit or loss.

Of the total amount of deferred tax assets and deferred tax liabilities, €16m (previous year: €37m) and €16m (previous year: €20m) are expected to be realised within twelve months.

(9) Intangible assets and property, plant and equipment

Intangible assets

€m	Exploration	Other intangible assets	Goodwill	Total
At cost of acquisition and production				
1 January 2018	697	310	113	1,120
Additions	30	300	-	330
Transfers	-74	43	-	-31
Currency translation adjustments	-3	-1	-1	-5
Disposals	-7	-10	-	-17
31 December 2018	643	642	112	1,397
Accumulated amortisation and impairment losses				
1 January 2018	-387	-145	-	-532
Amortisation	-	-27	-	-27
Transfers	4	-	-	4
Currency translation adjustments	2	0	-	2
Disposals	1	10	-	11
Impairment losses	-	-	-	-
Reversal of impairment losses	-	-	-	-
31 December 2018	-380	-162	-	-542
Carrying amount 31 December 2018	263	480	112	855
At cost of acquisition and production				
1 January 2017	862	259	122	1,243
Additions	42	64	-	106
Transfers	-66	47	-	-19
Currency translation adjustments	-38	-7	-9	-54
Disposals	-103	-53	-	-156
31 December 2017	697	310	113	1,120
Accumulated amortisation and impairment losses				
1 January 2017	-485	-191	-	-676
Amortisation	-	-7	-	-7
Transfers	-	-	-	-
Currency translation adjustments	16	1	-	17
Disposals	82	52	-	134
Impairment losses	-1	-	-	-1
Reversal of impairment losses	1	-	-	1
31 December 2017	-387	-145	-	-532
Carrying amount 31 December 2017	310	165	113	588

Property, plant and equipment

€m	Land and buildings	Oil and gas assets	Other plant, machinery and equipment	Fixtures and fittings and office equipment	Total
At cost of acquisition and production					
1 January 2018	102	8,439	93	55	8,689
Changes in scope of consolidation	-13	-4	-100	-1	-118
Additions	0	963	9	3	975
Transfers	1	30	0	0	31
Currency translation adjustments	0	-68	-	0	-68
Disposals	0	-224	-1	-3	-228
31 December 2018	90	9,136	1	54	9,281
Accumulated depreciation and impairment losses					
1 January 2018	-72	-5,542	-80	-43	-5,737
Changes in scope of consolidation	11	3	79	1	94
Depreciation	-3	-284	0	-4	-291
Transfers	0	-4	-	0	-4
Currency translation adjustments	0	43	-	0	43
Disposals	0	99	0	3	102
Impairment losses	-	-178	-	-	-178
Reversal of impairment losses	-	10	-	-	10
31 December 2018	-64	-5,853	-1	-43	-5,961
Carrying amount 31 December 2018	26	3,283	0	11	3,320
At cost of acquisition and production					
1 January 2017	102	7,985	92	57	8,236
Additions	1	914	9	2	926
Transfers	0	20	0	0	20
Currency translation adjustments	0	-418	-	-1	-419
Disposals	-1	-62	-8	-3	-74
31 December 2017	102	8,439	93	55	8,689
Accumulated depreciation and impairment losses					
1 January 2017	-70	-5,517	-79	-43	-5,709
Depreciation	-3	-275	-1	-4	-283
Transfers	0	0	0	0	0
Currency translation adjustments	0	312	-	1	313
Disposals	1	38	0	3	42
Impairment losses	-	-125	-	-	-125
Reversal of impairment losses	-	25	-	-	25
31 December 2017	-72	-5,542	-80	-43	-5,737
Carrying amount 31 December 2017	30	2,897	13	12	2,952

Capitalised borrowing costs

In connection with the acquisition and production of qualified assets, in the year under review borrowing costs amounting to €76m (previous year: €45m) were capitalised as part of acquisition and production costs. In the year under review the financing cost rate applied in this context was between 3.7 % and 4.3 % (previous year: between 3.1 % and 3.5 %) as well as between 6.7 % and 7.3 % (previous year: between 6.4 % and 6.7 %) for qualified assets of DEA Norge AS.

Impairment losses and reversal of impairment losses

For the impairment tests conducted, the recoverable amount was determined on the basis of the fair value less costs of disposal. The assumptions regarding oil and gas prices are based on forward prices for the first 3 years. From the 4th year a transition to a consensus price is applied. The consensus price is inflated by 2 % p. a. for the following years. The interest rates used for discounting future cash flows after tax range between 7.0 % and 9.5 % (previous year: 6.5 - 9.5 %).

The net impairment of assets in the reporting period relates primarily to cash generating units in the following countries:

€m	Impairment	Reversal of impairment	Recoverable amount
Cash generating units in Egypt	141	10	1,219
Cash generating units in Algeria	28	-	251
Cash generating units in Norway	9	-	-1
	178	10	

The impairments had to be carried out because of lower profitability of assets. The reversals of impairment losses mainly arose from higher profitability.

The goodwill is allocated to the producing licences in Norway. For the impairment test an interest rate of 7.0 % (previous year: 7.0 %) was applied. As in the previous year, there was no need for impairment.

(10) Financial receivables

€m	31-12-2018 non-current	31-12-2018 current	31-12-2017 Non-current	31-12-2017 current
Loans to related companies and participations	1,916	29	2,021	22
Other loans	0	-	0	-
	1,916	29	2,021	22

The non-current loans to related companies and participations mainly relate to a loan which was granted in 2015 by DEA Deutsche Erdoel AG to L1E Funding GmbH in return for a debt assumption (see note 16). The loan was originally an USD loan that was converted into Euro in the reporting period. It carries floating interest rates (LIBOR plus margin or EURIBOR plus margin after conversion, respectively).

(11) Trade accounts receivable/other receivables and other assets

€m	31-12-2018 non-current	31-12-2018 current	31-12-2017 non-current	31-12-2017 current
Trade accounts receivable				
Trade accounts receivable from sales revenues	-	218	-	255
Other trade accounts receivable	-	46	-	22
Other receivables and other assets				
Derivatives	46	10	0	1
Receivables from other taxes	-	31	-	3
Prepayments	-	27	-	5
Prepaid expense	2	12	5	11
Receivables from finance lease	-	-	61	6
Receivables from working interest reductions	8	12	15	12
Receivables from production underlift	-	6	-	17
Miscellaneous other assets	-	12	-	14
	56	110	81	69
	56	374	81	348

The carrying amounts of the financial assets largely correspond to their fair values.

(12) Inventories

€m	31-12-2018	31-12-2017
Raw materials, supplies and merchandise	82	82
Finished goods	1	1
	83	83

In the year under review, net impairment losses amounting to €0m (previous year: €1m) had to been taken into account.

(13) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits with original maturities of up to three months. Bank deposits in the amount of €40m are restricted in connection with the acquisition of assets in Mexico where completion of the transaction is still pending (previous year: €-m).

(14) Equity

The subscribed capital and capital reserves relate to DEA Deutsche Erdoel AG. The subscribed capital is divided up into 13,440,000 shares with full voting rights. The shares in the company are completely held by L1E Acquisitions GmbH. A domination and profit and loss transfer agreement exists with L1E Acquisitions GmbH as controlling enterprise.

Non-controlling interests in previous years relate to Speicher Breitbrunn/Eggstätt DEA & Storengy GbR.

(15) Provisions

The following discount rates are applied to determine the present value of non-current provisions:

	31-12-2018	31-12-2017
Decommissioning provisions	3.25 - 7.25 %	2.50 - 6.25 %
Provisions for anniversaries	1.39 %	1.25 %
Provisions for early retirement benefits/ severance payments/performance plan	0.22/0.25 and 1.00 %	0.00/0.25 and 0.60 %
Other provisions		
with terms of 5 – 10 years	3.25 %	2.25 %
with terms of 1 – 4 years	2.25 and 3.50 %	1.25 and 2.00 %

€m	Decommissioning provisions	Other provisions	Pension Provisions	Total
As at 01-01-2018	571	208	157	936
Changes in the scope of consolidation	-44	-1	-11	-56
Addition	14	30	15	59
Release	-84	-8	-	-92
Interest component	26	1	3	30
Other changes	-2	0	31	29
Amounts used	-7	-48	-9	-64
As at 31-12-2018	474	182	186	842
Non-current	446	25	186	657
Current	28	157	-	185
	474	182	186	842

€m	Decommissioning provisions	Other provisions	Pension Provisions	Total
As at 01-01-2017	458	212	155	825
Addition	139	66	16	221
Release	-36	-18	-6	-60
Interest component	34	0	3	37
Other changes	-22	-3	-3	-28
Amounts used	-2	-49	-8	-59
As at 31-12-2017	571	208	157	936
Non-current	539	32	157	728
Current	32	176	-	208
	571	208	157	936

Decommissioning provisions

The addition was essentially owing to quantity effects and the acquisition of a new concession. With regard to reversal of provisions, mainly higher discount rates year-on-year and life extensions have taken effect. The change in discount rates had a total impact on the provision amounting to €-53m (previous year: €123m). The expected settlement date of the provision depends on the ratio of produced reserves to expected reserves and varies within a range of less than one year up to approx. 30 years.

Pension provisions

The company pension plan consists of defined-benefit and defined-contribution schemes. Defined-benefit schemes exist in Germany and Norway.

DEA Deutsche Erdoel AG has transferred assets to WillisTowers Watson Treuhand e. V. within the framework of Contractual Trust Arrangements (CTA) and to Willis Towers Watson Pensionsfonds AG for insolvency insurance of parts of the company pension plan. Willis Towers Watson Pensionsfonds AG falls under the scope of the Act on Supervision of Insurance Undertakings and Oversight by the Federal Financial Supervisory Agency (BaFin). Insofar as a regulatory deficit occurs in the pension fund, supplementary payment shall be requested from the employer. Independently of the aforementioned rules, the liability of the employer shall remain in place. The bodies of Willis Towers Watson Treuhand e. V. and Willis Towers Watson Pensionsfonds AG are responsible for ensuring that the funds under management are used in compliance with the contract and thus fulfil the requirements for recognition as plan assets.

Within the scope of the Contractual Trust Arrangement (CTA), €8m (previous year: €8m) were transferred to Willis Towers Watson Treuhand e. V. in the year under review.

The amount of the provision for defined-benefit pension schemes was determined by actuarial methods on the basis of the following underlying assumptions.

	31-12-2018		31-12-2017	
	Germany	Norway	Germany	Norway
Discount rate	1.75 %	2.80 %	1.75 %	2.40 %
Salary growth rate	2.35 %	2.75 %	2.35 %	2.25 %
Pension growth	1.00 and 1.60 %	0 - 2.50 %	1.00 and 1.60 %	0 - 2.25 %

As of 31 December 2018, the mortality tables "Richttafeln 2018G" (previous year: "Richttafeln 2005G") were used for the pension schemes in Germany.

Composition of plan assets (fair value) €m	31-12-2018 Germany	thereof active market	Norway	thereof active market	31-12-2017 Germany	thereof active market	Norway	thereof active market
Equity instruments	119	119	-	-	118	118	-	-
Interest-bearing instruments	262	262	-	-	285	285	-	-
Assets held by insurance company	-	-	17	-	-	-	15	-
Alternative investments	-	-	-	-	13	13	-	-
Other	2	2	-	-	3	3	-	-
	383	383	17	-	419	419	15	-

Pension assets are continuously monitored and managed from a risk and return perspective. The allocation of funds to different asset-classes is based on detailed analysis of the plan assets and pension obligations as well as their interactions. In 2018 a comprehensive Asset-Liability-Management-Study (ALM-Study) was conducted. As target values, several key asset indicators are considered relative to the amount of pension obligations in various scenarios. Thereby, particularly sensitivities of the obligation and pension assets to changes in market interest rates are taken into account. By comparing different asset allocations, those portfolios are identified that achieve the best target value within a given risk budget. On the basis of these efficient portfolios, the strategic asset allocation is derived. Based on the results of the ALM-Study, the asset allocation was further refined by the addition of several new asset classes. The new strategic asset allocation was implemented in Q4/2018.

The focus of the strategic investment policy continues to be on European government and corporate bonds with strong creditworthiness (investment grade ratings). The portfolio also includes higher yielding asset classes such as high-yield corporate bonds and emerging-market bonds. Compared to bonds, global equities have a lower portfolio weight. The investment in equities is intended to earn a risk premium in excess of bonds over the long term.

€m	Present value of defined benefit obligations	Fair value of plan assets	Total
As at 01-01-2018	**592**	**-435**	**157**
Current service cost	15	-	15
Interest expense/(income)	10	-7	3
	25	**-7**	**18**
Remeasurements			
Return on plan assets, excluding amounts already recognised in interest income	-	20	20
Gains/losses from changes in financial assumptions	-2	-	-2
Gains/losses from changes in demographical assumptions	6	-	6
Experience gains/losses	7	-	7
	7	**20**	**27**
Effect of exchange rate differences	0	0	0
Contribution to the funded plans:			
Employer	-	-8	-8
Employee	0	0	0
Benefit payments	-30	29	-1
Changes in the scope of consolidation	-12	1	-11
As at 31-12-2018	**586**	**-400**	**186**
As at 01-01-2017	**600**	**-445**	**155**
Current service cost	16	-	16
Past service cost	-6	-	-6
Interest expense/(income)	10	-7	3
	20	**-7**	**13**
Remeasurements			
Return on plan assets, excluding amounts already recognised in interest income	-	-15	-15
Gains/losses from changes in financial assumptions	2	-	2
Experience gains/losses	11	-	11
	13	**-15**	**-2**
Effect of exchange rate differences	-2	1	-1
Contribution to the funded plans:			
Employer	-	-8	-8
Employee	0	0	0
Benefit payments	-39	39	0
As at 31-12-2017	**592**	**-435**	**157**

The present value of the defined benefit obligations less plan assets measured at fair value results in the net defined benefit obligation arising from funded and unfunded plans and is recognised as provisions for pensions and similar obligations in the balance sheet. Of the present value of defined benefit obligations €558m (previous year: €562m) refer to benefit obligations in Germany and €28m (previous year: €30m) to benefit obligations in Norway.

Domestic company pensions are subject to an obligation to review for adjustment every three years pursuant to the Act on the Improvement of Company Pensions (Sec 16 of the German Company Pension Act (BetrAVG)). Additionally, some commitments grant annual adjustments of pensions, which may exceed the legally mandated adjustment obligation.

The weighted average duration of the pension obligations is 16 years in Germany (previous year: 16 years) and 15 or 27 years in Norway (previous year: 15 or 27 years).

An increase or decrease in the discount rate and in salary and pension growth would have the following impact on the defined benefit obligations:

	Change in actuarial assumptions	Impact on defined benefit obligations 31-12-2018		31-12-2017	
€m		in Germany	in Norway	in Germany	in Norway
Discount rate	Increase by 0.5 percentage points	-41	-4	-42	-4
	Reduction by 0.5 percentage points	48	4	48	4
Salary growth	Increase by 0.5 percentage points	5	1	6	1
	Reduction by 0.5 percentage points	-5	-1	-6	-1
Pension growth	Increase by 0.5 percentage points	27	2	28	2
	Reduction by 0.5 percentage points	-25	-2	-26	-2
Life expectancy	Increase by 1 year	28	1	26	1

The sensitivity analyses are based on a change in one assumption, with all other assumptions remaining unchanged. Actual developments will probably be different from this. The methods for calculating the aforementioned sensitivities and for calculating the pension provisions are in agreement.

The dependence of pension provisions on market interest rates is limited by an opposite effect. The background to this is that the commitments stemming from company pension plans are primarily covered by funds, and plan assets mostly exhibit a negative correlation with the market yields of fixed-interest securities. Consequently, declines in market interest rates are typically reflected in an increase in plan assets, and vice-versa.

For defined-contribution plans, expenses of €0m (previous year: €1m) were incurred in the year under review.

In the financial year 2019 contributions into the CTA will be processed in a magnitude that achieve a constant funding level. The amount to be contributed will depend on i.a. plan-asset performance and interest rate developments.

(16) Debt to banks and financial debt

€m	31-12-2018		31-12-2017	
	non-current	current	non-current	current
Debt to banks	1,441	6	1,334	0
Financial debt to related companies	1,041	396	1,013	116
	2,482	402	2,347	116

With effect from 2 April 2015, DEA Deutsche Erdoel AG assumed the rights and obligations of a senior secured reserve-based lending facility (RBL facility), which had been concluded between L1E Funding GmbH and a banking syndicate as of 30 December 2014. The RBL is a revolving USD2,300m credit facility with a term ending in December 2021. The amount available under the facility is recalculated on an annual basis or if certain triggering events occur and is mainly based on the reserves of the underlying licences. The RBL does not require repayment in the initial four years, after which commitments under the RBL will start reducing as scheduled.

In the year under review a net amount of USD200m was drawn by DEA Deutsche Erdoel AG. Meanwhile, DEA Norge AS repaid an amount of USD150m. As of 31 December 2018 a loan amount of USD1,650m or €1,441m (previous year: USD1,600m or €1,334m) is utilised by DEA Deutsche Erdoel AG and DEA Norge AS. The floating interest rate was Libor plus a margin. As in the entire prior-year period, the margin amounted to 2.5 % until 29 December 2018. As from 30 December 2018 the margin has increased to 2.75 % according to contract.

The RBL facility is secured by a pledge over the shares of certain group companies and by a charge over some of the bank accounts of the pledged companies and over all existing hedging transactions within the DEA AG Group. Regarding the unrealised market values of our derivatives we refer to note 18. The pledged amount of the shares is represented by the accounting value of net assets of the respective group companies.

The financial debt to related companies breaks down as follows:

	31-12-2018				31-12-2017			
	Carrying amount [1)] €m	Currency	Term	Interest rate	Carrying amount [1)] €m	Currency	Term	Interest rate
Shareholder loan from 25 February 2015	472	EUR	2024	LIBOR plus margin	460	EUR	2024	LIBOR plus margin
Revolving shareholder loan [2)]	175	USD	2024	LIBOR plus margin	161	USD	2024	LIBOR plus margin
Total shareholder loans	647				621			
Loan from DEA Finance SA [3)]	400	EUR	2022	7.55 %	398	EUR	2022	7.55 %
Liability from net profit transfer	390	EUR	-	-	110	EUR	-	-

1) Including accrued interest
2) Credit facility of USD400m, thereof not utilised USD214m
3) The financing fees (€8m) have been capitalised as a reduction of the loan amount and are being amortised over the term of the loan applying the effective interest method.

In October 2016 DEA Finance SA issued Senior unsecured Notes with a principal amount of €400m and a term until 2022. The proceeds of the notes were onlent to DEA Norge AS with the same maturity.

The carrying amounts are close to their fair values.

Liabilities arising from financing activities reconcile to the cash flows in the cash flow statement as follows:

€m	01-01-2018	Cash flows from repayments/ proceeds	Foreign currency valuation	Changes in accrued interest	Other changes	31-12-2018
Debt to banks	1,334	39	68	6	-	1,447
Financial debt	1,129	-130	7	20	411	1,437

€m	01-01-2017	Cash flows from repayments/ proceeds	Foreign currency valuation	Changes in accrued interest	Other changes	31-12-2017
Debt to banks	1,497	22	-182	-3	-	1,334
Financial debt	1,034	-9	-22	18	108	1,129

(17) Trade accounts payable/other liabilities

€m	31-12-2018		31-12-2017	
	non-current	current	non-current	current
Trade accounts payable	-	298	-	304
Other liabilities				
Derivatives	-	-	9	30
Liabilities arising from other taxes	-	7	-	5
Prepayments				
Contract liabilities	4	3	6	-
Other prepayments	-	-	-	8
Liabilities from production overlift	-	2	-	5
Accrued future overlifts oil	-	19	-	21
Liabilities from acquisitions/ divestures	-	195	-	-
Accrued insurance reimbursement	-	-	-	150
Other miscellaneous liabilities	-	11	-	13
	4	237	15	232
	4	535	15	536

Trade accounts payable and financial instruments reported under other liabilities generally have short residual terms of maturity. The carrying amounts accounted for therefore are close to their fair values. The derivatives are recorded at fair value.

(18) Reporting on financial instruments

Financial assets measured at fair value

The following overview represents the financial instruments to be recognised at fair value and the essential parameters on which the measurement is based. The individual levels are defined according to IFRS 13 as follows:

Level 1: Measurement at (unadjusted) prices quoted for identical assets or liabilities on active markets.

Level 2: Measurement based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Measurement on the basis of unobservable inputs.

Fair value hierarchy	31-12-2018			
€m	Total	Level 1	Level 2	Level 3
Financial investments	3			3
Derivative financial assets	56		56	
Derivative financial liabilities	-		-	

Fair value hierarchy	31-12-2017			
€m	Total	Level 1	Level 2	Level 3
Financial investments	4			4
Derivative financial assets	1		1	
Derivative financial liabilities	39		39	

Fair values of derivative financial assets and liabilities are determined using customary market valuation methods taking into account the market data available on the measurement date as well as the default risk. For financial investments costs are an appropriate estimate of fair value.

No transfers between the levels occurred during the period under review or during the previous year.

The following overview shows the development of level 3 financial instruments to be recognised at fair value:

Development of level 3 financial instruments € m	As of 01-01-2018	Changes recognised in profit or loss	Transfer	Changes with a cash effect	As of 31-12-2018
Financial investments	4		-2	1	3

Development of level 3 financial instruments €m	As of 01-01-2017	Changes recognised in profit or loss	Transfer	Changes with a cash effect	As of 31-12-2017
Financial investments	1			3	4

Netting agreements

In the year under review, trade accounts payable amounting to €23m (previous year: €20m) were netted with trade accounts receivable amounting to €24m (previous year: €22m) on the basis of an unconditional netting agreement.

Valuation categories

As from 1 January 2018, financial assets and liabilities have been assigned to the following valuation categories according to IFRS 9:

	31-12-2018				
€m	Amortised costs	FVPL	FV (in hedge relationship)	Beyond the scope of IFRS 9/IFRS 7	Total
Financial investments	-	3	-	-	3
Financial receivables	1,945	-	-	-	1,945
Trade accounts receivable	264	-	-	-	264
Other accounts receivable and other assets					
Derivatives	-	-	56	-	56
Other	17	-	-	93	110
Cash and cash equivalents	305	-	-	-	305
Debt to banks	1,447	-	-	-	1,447
Financial liabilities	1,437	-	-	-	1,437
Trade accounts payable	298	-	-	-	298
Other liabilities					
Derivatives	-	-	-	-	-
Other	220	-	-	21	241

In the previous year, according to IAS 39, financial assets and liabilities had been classified as follows:

	31-12-2017							
€m	Available for sale	Held for trading	Loans and receivables	Valued at amortised cost	In hedge relationship	Finance lease	Beyond the scope of IFRS 7	Total
Financial investments	4	-	-	-	-	-	-	4
Financial receivables	-	-	2,043	-	-	-	-	2,043
Trade accounts receivable	-	-	279	-	-	-	-	279
Other accounts receivable and other assets	-	1	16	-	-	67	66	150
Cash and cash equivalents	-	-	116	-	-	-	-	116
Debt to banks	-	-	-	1,334	-	-	-	1,334
Financial liabilities	-	-	-	1,129	-	-	-	1,129
Trade accounts payable	-	-	-	304	-	-	-	304
Other liabilities	-	-	-	179	39	-	29	247

Financial risks and sensitivity analysis

As an E&P enterprise operating on an international scale, the DEA AG Group is exposed to credit, liquidity, interest rate and market risks (price and currency risks) within the ordinary course of its business. Our subsidiaries are subject to a strict risk management regime. The scope of action, responsibilities and controls is enshrined in binding, internal corporate instructions. Financial derivatives are used exclusively to hedge the risk related to underlying operations, not for speculative purposes.

Market risks

Market risks result in particular from changes in oil and gas commodity prices, changes in USD/EUR and USD/NOK exchange rates and corresponding unexpected negative changes regarding planned incoming and outgoing payments. In addition, currency risks arising from financial transactions between companies in the DEA AG Group may result if the functional currencies of the two partners do not match.

Risk management strategy for commodity risks

Commodity price risks are mitigated in the DEA AG Group using systematic risk management methods. The principles are defined in DEA's commodity hedge policy.

All hedging transactions serve the exclusive purpose of covering the risk from operational transactions as well as underlying transactions accounted for or expected with a high degree of probability. According to our hedging policy, we intend to continue hedging oil and gas prices in the future in order to stabilise the RBL borrowing base and thus give the management time to adapt the strategy to a low price scenario. The extent of the amounts to be hedged depends on economic exposure and prevailing oil and gas prices. The maximum hedge volume is set to 50 % of the economic exposure after tax.

Physical forward sales are used in the gas sector to stabilise parts of the gas revenues until 2023. In addition, financial derivatives are used to hedge oil price risks arising from payments received for future oil revenues. As of 31 December 2018, parts of our oil sales are hedged until 2022. The German oil production currently serves as a hedge item for achieving the hedging target. The price of the hedged item is defined via a price formula in the sales contract. The instruments used are Brent dated oil swaps for which a liquid market exists. Furthermore, a regression analysis shows a high correlation between Brent dated oil and the price formula. This is also the basis to determine the hedge ratio in order to achieve the highest level of hedge efficiency.

Derivative financial instruments

Derivative financial instruments are measured at fair value. In interpreting positive or negative fair values, it has to be considered that they are offset by underlying transactions with compensating risks. All derivative financial instruments are reported as assets or liabilities. Measurement of the fair values of financial derivatives is performed by using current market price quotations within a trading system developed externally for the commodity markets. On this basis commodity price swaps are valued by means of internal computations of the relevant swap curves and subsequent discounting as at the balance sheet date. Credit Value Adjustments (CVA) and Adjustments for Own Credit Risk (DVA) are applied to all derivatives. The CVA adjustment depends on the expected positive risk exposure and on the creditworthiness of the counterparty. DVA is determined by the expected negative exposure and the credit quality of the DEA AG. The exposure calculation implied all derivatives and is based on a Monte Carlo approach by using market values and market-based default probabilities.

Effects of hedge accounting on financial positions and performance:

Crude oil swaps €m	31-12-2018/ Jan. - Dec. 2018	31-12-2017/ Jan. - Dec. 2017
Carrying amount		
Other assets	56	-
Other liabilities	-	39
Nominal amount	692	347
Maturity date	1/2019 - 12/2022	1/2018 - 12/2019
Amounts recognised in profit or loss or other comprehensive income		
Change in fair value of hedging instrument recognised in OCI	-45	17
Reclassified from OCI to profit or loss (revenues)	-50	-5

In the previous year, non-financial gas forward sales contracts were recognised at fair values in the amount of €1m. They had been classified as "held for trading". The nominal volume amounted to €12m.

Hedge ineffectiveness is determined at inception of the hedge relationship and through periodic prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and hedging instrument. At DEA AG Group sources of ineffectiveness result from CVA/DVA adjustments and from a change in the correlation of the hedged item and the hedging instrument.

Hedge ineffectiveness as of 31 December 2018 is calculated as follows:

€m	31-12-2018
Change in fair value of the hedging instrument	56
Change in fair value of the hedged item	-57
Hedge ineffectiveness	1

Hedge ineffectiveness to be recognised in profit or loss amounts to €0m.

Sensitivity analysis for financial instruments in the scope of IFRS 7

To quantify the risk relating to market price fluctuations and financial instruments deployed, we use the sensitivity method. In quantifying market prices using the sensitivity method, a statement is made concerning the impact on earnings of a percentage-based change in market prices. The sensitivity figures shown below in accordance with the regulations of IFRS 7 refer only to financial instruments recognised in the balance sheet. Therefore, the reporting of the risk position of the DEA AG Group is incomplete.

The following table presents changes in the market values of concluded commodity hedge instruments that would have resulted from a 10 % increase or decline in the oil price. The underlying transactions are not taken into account. The calculation of oil price sensitivities is based on Brent quotations. Moreover, changes to the market values of loan liabilities in USD (in the previous year: also loan assets) as well as USD receivables arising from Egyptian activities that would have occurred both in the event of an increase and a decline by 10 % in the USD forward curve in relation to the EUR or NOK, respectively, are presented. The presentation of market value changes is in each case shown after taxes. The corporate tax rate of 30.56 % (previous year: 30.55 %) is applied.

	January - December 2018		January - December 2017	
€m	Changes impacting on profit and loss	Impacts on other comprehensive income	Changes impacting on profit and loss	Impacts on other comprehensive income
Increase in USD by 10 %	-86		58	
Decrease in USD by 10 %	107		-69	
Increase in oil price by 10 %		-58		-28
Decrease in oil price by 10 %		52		25

Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to financial loss. DEA AG Group is exposed to credit risk from its operating activities (primarily trade accounts receivable) and from its financing activities, including deposits with banks and financial institutions, favourable derivative financial instruments (positive fair value) and other financial receivables.

Risk management

Credit risk is managed on a group basis. To manage credit risk, the DEA AG Group has group-wide procedures in place covering the application for credit approvals, granting and renewal of counterparty limits, proactive monitoring of exposures against these limits and requirements triggering secured payment terms. As part of these processes, the credit exposures with all counterparties are regularly monitored and assessed on a timely basis. For banks and financial institutions, only independently rated parties with an investment grade rating are accepted.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with set limits. There are no significant concentrations of credit risk, whether through exposure to individual customers or regions. Country specific payment risks are within limits stipulated by the management and closely monitored.

A default event occurs if management has one or more reasons to believe that a customer will not repay his liability towards DEA AG Group, mainly due to financial difficulty of the customer. A delay of payments in the cause of regular business practices does not alone indicate a customer default. An assessment of the overall situation is required on a case-by-case basis.

The maximum risk of default corresponds to the carrying amounts (less loss allowance) of the financial assets. For some trade accounts receivable the group obtains security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of agreement.

Financial assets are written off when there is no reasonable expectation of recovery of contractual cash flows. The loss from financial assets that are written off is not material for both, the year under review and the previous year.

Impairment of financial assets

In order to determine the impairment losses of financial assets, DEA AG Group is using the general three-stage approach or the simplified approach according to IFRS 9, as applicable. For all financial assets, for which the simplified approach does not apply, it is assessed, at each reporting date, whether the credit risk on a financial instrument has increased significantly since initial recognition.

The following financial assets are subject to the expected credit loss model:

- Trade accounts receivables
- Other receivables
- Financial receivables and deposit with banks

For all trade accounts receivables, DEA AG Group applies the simplified approach. Accordingly, the loss allowance is measured at an amount equal to the lifetime expected credit losses. For trade accounts receivables the contractual payment term is usually 30 days. Deviating from this general rule terms of up to 2 years are considered for the calculation of expected credit losses due to different regional payment practice.

The loss allowance for other receivables, financial receivables and deposits with banks is measured at an amount equal to 12-month expected credit loss.

The loss allowance as of 1 January 2018 (first-time adoption of IFRS 9) and as of 31 December 2018 was determined as follows:

€m	Financial receivables	Trade accounts receivable	Other receivables	Total
As at 31-12-2017 (according to IAS 39)	-	31		31
Amounts restated through opening retained earnings	17	-9	0	8
As at 01-01-2018 (according to IFRS 9)	17	22	0	39
Impairment losses	1	19	1	21
Reversal of impairment losses	-10	-21	0	-31
Currency translation adjustments	-	-	-	-
As at 31-12-2018	8	20	1	29

The identified impairment loss regarding deposits with banks was immaterial and therefore not recognised.

In the prior year, the impairment of trade accounts receivables was assessed based on the incurred loss model according to IAS 39. The impairments were mainly related to overdue receivables and were based on staggered impairment rates.

€m	Trade accounts receivable	Other receivables	Total
As at 01-01-2017	106	-	106
Impairment (+)/reversal of impairment (-) in the year under review	-75	-	-75
Disposals	-	-	-
Currency translation adjustments	-	-	-
As at 31-12-2017	31	-	31

Liquidity risk

Our liquidity risk management ensures that the required liquidity to meet financial obligations is available at all times and that the liquidity position of the DEA AG Group is optimised. Centralised financial planning for the DEA AG Group is the basis of the liquidity risk management. Financial planning for the respective currencies is effected for the following twelve months on a monthly basis and for the following two months on a daily basis.

We monitor our liquidity risk by reviewing our cash flow requirements on a regular basis taking into consideration our funding sources, existing bank facilities and cash flow generation from our producing asset base. Specifically, we ensure that we have sufficient liquidity to meet our operational funding requirements and debt servicing. As part of the liquidity risk management, we also carry out sensitivity analyses and monitor compliance with the financial covenants defined in the RBL facility. In particular, the ratio of net debt to EBITDAX should not exceed a factor of 3 : 1. The calculation is based on definitions determined in the agreement. In the event of non-compliance with the financial covenants - if not cured through additional equity ("equity cure") - the lenders are allowed to declare that the loan is immediately due and payable. The financial covenants were complied with at all times during the reporting period.

Financial liabilities within the scope of application of IFRS 7 in the next several years are expected to result in the following amortisation payments:

€m	Carrying amounts 31-12-2018	Amortisation payments 1st succeeding year	2nd - 5th succeeding year	from 6th succeeding year
Debt to banks	1,447	6	1,441	
Other financial debt	1,437	396	400	647
Miscellaneous financial liabilities	518	518		

€m	Carrying amounts 31-12-2017	Amortisation payments 1st succeeding year	2nd - 5th succeeding year	from 6th succeeding year
Debt to banks	1,334	0	1,334	
Other financial debt	1,129	116	400	621
Commodity derivative financial liabilities	39	30	9	
Miscellaneous financial liabilities	333	333		

Interest rate risk

As of 31 December 2018, the DEA AG Group has financial debt and financial receivables that bear floating interest rates. An increase/decrease in the floating rate element by 50 basis points would result in a change in our interest result (after tax) in 2019 of €+2m or €-4m, respectively.

(19) Capital management

The capital management system of DEA Deutsche Erdoel AG is determined by the DEA AG Group's strategic objectives and focuses on increasing the value of the business over the long term. To achieve this goal, the DEA AG Group endeavours to constantly improve its existing operations, to safeguard its market position and to optimise its portfolio via value-creating acquisitions and divestments.

One of the strategic objectives of the DEA AG Group is the optimisation of the capital structure with a two-tier capital base. The reserves-based lending facility provides immediate drawdown options at lower costs, whereas the unsecured capital from the Bond proceeds provides non-amortising longer-term debt. In addition, the shareholder has provided various subordinated loans to the DEA AG Group (refer to note 16). In this way, DEA increases its financial flexibility and diversifies the investor base.

(20) Contingent and financial liabilities

DEA AG Group is subject to statutory liability with regard to participations in various joint ownerships.

In the course of their regular business activities, DEA AG Group companies are involved in legal disputes. Irrespective of the outcome of such legal disputes, we do not expect any significant negative effects on the economic and financial position of the DEA AG Group.

As of 31 December 2018, commitments based on rental, lease and similar commitments relate to operating leases, primarily for offices and for transport and production vessels. Minimum operating lease payments under non-cancellable operating leases are due as follows:

€m	31-12-2018	31-12-2017
Due within 1 year	22	16
Due within 1 – 5 years	62	65
Due after more than 5 years	13	26
	97	107

The DEA AG Group has commitments from firm contracts for property, plant and equipment and from field development projects amounting to €238m (previous year: €626m) and exploration commitments in the context of concession agreements amounting to €75m (previous year: €106m).

(21) Related party disclosures

The DEA AG Group is controlled by L1E Acquisitions GmbH (incorporated in Germany) which owns 100 % of the shares in DEA Deutsche Erdoel AG. The Group’s ultimate parent is LetterOne Holdings S.A. (incorporated in Luxembourg). Related companies are all companies in which LetterOne Holdings S.A. or their controlling shareholders have at least a significant holding.

€m	LetterOne Group affiliated companies 31-12-2018/ Jan. - Dec. 2018	31-12-2017/ Jan. - Dec. 2017
Financial receivables	1,944	2,043
Trade accounts receivable	0	3
Financial debt	1,047	1,019
Liabilities from net profit transfer	390	110
Trade accounts payable	5	9
General and administrative expenses	2	9
Interest income	94	83
Interest expenses	50	49
Other financial expenses	4	4

All transactions are subject to market terms and conditions.

Related persons are the members of the Board of Management and Supervisory Board of DEA Deutsche Erdoel AG and of the parent company. No business relations exist with members of the Board of Management and of the Supervisory Board or individuals close to them.

In accordance with the by-laws, the members of the Supervisory Board of DEA Deutsche Erdoel AG received an amount of €250k for 2018 (previous year: €250k). Each Supervisory Board member receives fixed remuneration to an unchanged amount of €20k per calendar year for his or her activities. The Chairman receives twice this amount, and his Deputy one-and-a-half times the annual fixed remuneration. In addition, expenses incurred are refunded. Some employee representatives on the Supervisory Board have labour contracts with individual Group companies. Remuneration occurs in accordance with relevant contractual conditions.

Remuneration paid to members of the Board of Management consists of a fixed and a performance-related variable component as current remuneration components. The remuneration paid to the Board of Management of DEA Deutsche Erdoel AG for the fiscal year amounted to €4m (previous year: €3m), including variable remuneration of €1m (previous year: €1m). In addition, the fixed remuneration component for members of the Board of Management includes non-cash and other perquisites essentially comprising the values to be recognised subject to tax directives for the use of company cars and insurance premiums for accident insurance.

Furthermore, (direct) pension commitments have been granted to the members of the Board of Management, entitling them to life-long pensions and benefits for their surviving dependants. The present value of the overall commitment (defined benefit obligation) amounts to €168k as at 31 December 2018 (previous year: €7m). Pension service costs total €-k (previous year: €368k).

The Members of the Board also receive a remuneration component with a long-term incentive effect in the form of a performance cash plan with an overall 5-year performance period and deferred annual cash payments after performance periods of 3, 4 and 5 years. The key performance indicator is a defined increase in the net asset value of the DEA AG Group (calculated as an annualised "internal rate of return"). The annually-determined net asset value is based primarily on the discounted cash flow method and has to be reviewed by the Personnel Committee and approved by the Supervisory Board. As of 31 December 2018, the fair value of the long-term performance plan amounts to €907k (previous year: €301k). In the reporting period, additions to provisions amounting to €606k (previous year: €199k) were recognised as expenses.

(22) Joint Operations

The following joint operations are structured as separate entities:

Name	Nature of the joint arrangements	Principal place of business	Ownership interest/ voting rights %
SUEZ OIL COMPANY (Suco)	Operating company for the development and production phase	Cairo, Egypt	50.00
DEMINEX EGYPT OIL COMPANY (Deoco)	Operating company for the development and production phase; performed by Suco as a service	Cairo, Egypt	50.00
DISOUQ PETROLEUM COMPANY (DISOUCO)	Operating company for the development and production phase; performed by Suco as a service	Cairo, Egypt	50.00
Groupement Reggane	Operating company for the development and production phase	Algiers, Algeria	19.50

(23) Auditor's fees

DEA AG Group recognised the following fees as expenses for the services rendered by the auditors of the consolidated financial statements, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) and companies belonging to PwC's international network:

€k	Jan. - Dec. 2018	Jan. - Dec. 2017
Audit services	645	664
Tax services	39	139
Other services	697	42

Thereof attributable to PwC Germany:

€k	Jan. - Dec. 2018	Jan. - Dec. 2017
Audit services	266	344
Tax services	34	48
Other services	697	38

The fees for audit services primarily contain the fees for the audit of the consolidated financial statements and for the audits of the financial statements of DEA Deutsche Erdoel AG and its subsidiaries. In particular, the fees for tax services include compensation for consultation in the preparation of tax returns and other national and international tax-related matters. The fees for other services mainly comprise project-specific advisory and assurance services.

(24) Events after the balance sheet date

No events subject to mandatory disclosure occurred after the balance sheet date.

(25) List of holdings of DEA Deutsche Erdoel AG according to Section 313 Para. 2 of the German Commercial Code (HGB)

	Share of capital %
Affiliated companies which are included in the consolidated financial statements	
DEA Cyrenaica GmbH, Hamburg [1)]	100.00
DEA E&P GmbH, Hamburg [1)]	100.00
DEA Global Limited, London/Great Britain	100.00
DEA International GmbH, Hamburg [1)]	100.00
DEA Nederland B.V., Amsterdam/Netherlands	100.00
DEA Nile GmbH, Hamburg [1)]	100.00
DEA Norge AS, Stavanger/Norway	100.00
DEA North Africa/Middle East GmbH, Hamburg [1)]	100.00
DEA Suez GmbH, Hamburg [1)]	100.00
DEA Suriname GmbH, Hamburg [1)]	100.00
DEA Trinidad & Tobago GmbH, Hamburg	100.00
DEA Upstream Polska Sp. z o.o., Warsaw/Poland	100.00
DEA WND GmbH, Hamburg [1)]	100.00
DEM México-Alemania S. de R.L. de C.V., Mexico-City/Mexico	100.00
Deutsche Erdoel México S. de R.L. de C.V., Mexico-City/Mexico	100.00
Affiliated companies which are not included in the consolidated financial statements	
DEA Petróleo e Gás do Brasil Ltda., Rio de Janeiro/Brazil	100.00
DEA Ukraine LLC, Kiev/Ukraine	100.00

1) Application of Section 264 Para. 3 of the German Commercial Code (HGB)

Supervisory Board, Management Board

Supervisory Board

Lord Edmund John Phillip Browne of Madingley, London (Chairman)
Executive Chairman, L1 Energy (UK) LLP

Günther Prien, Hamburg (Deputy Chairman)
Chairman of the Joint Works Council, DEA Deutsche Erdoel AG

Uwe Balasus-Lange, Hamburg (since 1 January 2019)
General Manager OpCo Germany/Denmark, DEA Deutsche Erdoel AG

Daniela Freise, Hamburg
Manager Risk Controlling & Back Office, Treasury, DEA Deutsche Erdoel AG

Mikhail Fridman, London/Moscow
Chairman, LetterOne Holdings S.A.

Andreas J. Goss, Duisburg
Executive Chairman, ThyssenKrupp Steel Europe AG

Franz-Gerd Hörnschemeyer, Hanover
Political Union Secretary, Union of the Mining, Chemical and Energy Industries

German Khan, London/Moscow
Director, LetterOne Holdings S.A.

Dr Jan Konerding, Hamburg
Auditor, Tax Advisor, Lawyer

René Pawel, Hamburg (until 31 December 2018)
Vice President Reservoir Management, DEA Deutsche Erdoel AG

Rajko Pientka, Hamburg
Political Union Secretary, Union of the Mining, Chemical and Energy Industries

Andreas Schöpf, Lachendorf
Chairman of the Works Council Betriebe Wietze, DEA Deutsche Erdoel AG

Alf Henryk Wulf, Stuttgart
Executive Chairman, BWCon Baden-Württemberg: Connected e.V.

Board of Management

Maria Moræus Hanssen (Chairwoman) (since 4 January 2018)
Responsible for: Chairing the Board

Thomas Rappuhn (Chairman) (until 3 January 2018)
Responsible for: Chairing the Board

Dmitry Avdeev
Responsible for: Finance

Dirk Warzecha
Responsible for: Operations

Hamburg, 8 February 2019

The Board of Management

Moræus Hanssen Avdeev Warzecha

Board of Management

Maria Moræus Hanssen (Chairwoman) (since 4 January 2018)
Responsible for: Chairing the Board

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Responsible for: Chairing the Board

Dmitry Avdeev
Responsible for: Finance

Dirk Warzecha
Responsible for: Operations

Hamburg, 8 February 2019

The Board of Management

Moræus Hanssen Avdeev Warzecha

"**INDEPENDENT AUDITOR'S REPORT**

To DEA Deutsche Erdoel AG, Hamburg

Audit Opinions

We have audited the consolidated financial statements of DEA Deutsche Erdoel AG, Hamburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the group management report of DEA Deutsche Erdoel AG for the financial year from January 1 to December 31, 2018. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the above mentioned statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit."

Hamburg, February 13, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Thorsten Dzulko	sgd. ppa. Helge Schäper
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)