DEA Deutsche Erdoel AG
Group Management Report
and
Consolidated Financial Statements

Fiscal Year
1 January - 31 December 2017

Management Report of the DEA AG Group as at 31 December 2017

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. Our primary mission is the secure, environmentally-conscious and sustainable production of oil, natural gas and natural gas liquids. Our core production and development assets are located in Germany, Norway, Denmark, Egypt and Algeria. Additionally, we own large-scale underground natural gas storage facilities in Germany for storage of third-party gas.

DEA is both an operator and an active non-operating partner in international joint ventures. We cover 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) and Other.

DEA Deutsche Erdoel AG (DEA AG), headquartered in Hamburg, is the parent company of the DEA AG Group, comprising a total of 23 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.

The DEA AG Group will prepare consolidated financial statements as well as a group management report as at 31 December 2017 and will arrange for these to be disclosed in the German Government Gazette (*Bundesanzeiger*).

2. Strategy

Grow production and execute key projects

By focusing on portfolio optimisation, utilising our strengths and implementing our strategies, we plan to continue to strengthen and expand our presence in our core operating regions, in particular in Northwestern Europe. Our plans are to increase our daily production volume to over 200 kboed by 2021 by safely and efficiently optimising production from our current assets, successfully completing development projects and engaging in near-field exploration programmes. Additionally, we intend to undertake acquisitions. Recently, we expanded our operational footprint to include Mexico by signing an exploration agreement with Pemex for shallow water Block 2 and by successfully bidding for a 50 % licence share in the producing Ogarrio oil field. We may also consider acquisitions and projects in new regions such as Brazil.

We have 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. We believe our position in Northwestern Europe is underpinned by a longstanding business history in Germany and Norway. We are committed to maintaining and strengthening our position in this region. We believe that our focus on low-risk regions such as Northwestern Europe reduces our exposure to certain operational and geopolitical risks. Additionally, we believe that, by focusing on this area, we can benefit from significant synergies. We aim to further expand our activities in this region through optimisation of production, future developments and near-field exploration activities supplemented by strategic asset acquisitions. At the same time, we plan to grow our production in North Africa through the development of our West Nile Delta and Reggane Nord projects in Egypt and Algeria, respectively.

Increase value through balanced organic and inorganic growth

Regular portfolio management and enhancement are integral aspects of our exploration, development and production strategy, through which we seek to realise value at an appropriate point in the lifecycle of an asset. We continually review macroeconomic, technical and competitive data with regard to our exploration portfolio. Exploration is important to our operations and supports our plan to increase future production. As part of this strategy, and in light of the limited potential of these licences, we are currently withdrawing or have already withdrawn from exploration activities in Poland, Turkmenistan, Trinidad & Tobago, Suriname, Guyana and Ireland, where we have held or currently hold licences. However, to complement our organic growth strategy, we will also consider selective strategic acquisitions of companies and/or interests in licences in our core and non-core operating regions as well as other regions, such as our recent operational expansion into Mexico. As a result, we continue to monitor new opportunities for exploration and production internationally.

Focus on capital efficiency

We aim to maintain a conservative financial profile and strong balance sheet with ample liquidity. Our 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. Our financial policy is to maintain what we consider to be appropriate leverage levels. Our current 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. We intend to maintain a conservative approach to acquisitions, considering potential future acquisitions that satisfy this policy.

We also seek to monetise certain assets through divestiture or farm-downs. This enables us to monetise value early in the life-cycle of an asset and de-risk our interests by reducing our exposure to an asset and associated development and other expenditure.

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

We are committed to sustainable business development. To underscore this commitment, in 2017 we joined the World Bank's "Zero Routine Flaring by 2030" initiative, which requires the oil industry to stop routine flaring during regular production by 2030, requirements we have already achieved. We will continue to focus on maintaining high safety and operational standards, which we believe are essential for doing business in our markets.

We are focused on continuing to strengthen our customer relationships, and aim to become the partner of choice on the basis of our technical and commercial excellence, environmental consciousness and sustainable business development.

3. Economic fundamentals and climate

Economic environment

According to current estimates by the International Monetary Fund, global economic output in 2017 increased by approx. 3.6 %, which is slightly above the previous year's growth rate of approx. 3.2 %. This is essentially owing to an upswing in economic activities in the Eurozone, Asia and Russia. While the baseline outlook is strengthening, growth remains weak in several countries and inflation is below target in many advanced economies. According to estimates by the European Central Bank, Gross Domestic Product in the Eurozone is currently expected to rise by 2.3 %, compared with 1.8 % in 2016.

Oil prices

Oil prices have increased in 2017 from a low of 45 USD/bbl during January to 66 USD/bbl in December. The rally over the year was a result of three factors: the 1.8 million barrels per day supply cut by OPEC and 10 other countries, strong demand growth throughout 2017 by over 1 million barrels per day and geopolitical uncertainties around countries such as Iran and Venezuela.

Our oil sales are primarily priced against the Brent oil benchmark. The average oil price for Brent increased by 21 % from USD 45 per barrel for 2016 to USD 55 per barrel for the year ending 31 December 2017.

USD/barrel	Jan. – Dec. 2017	Jan. – Dec. 2016
Average Brent price for the period[1]	54.75	45.13

[1] Source: Bloomberg

Gas prices

The UK NBP gas price has increased over the course of 2017 from 6.57 USD/mscf in January to 7.94 USD/mscf in December, with significantly lower prices in the course of the summer months. Gas prices were influenced by oil prices owing to the market links between the two commodities at all levels of the industry. Gas prices have also been supported by increasing Asian LNG demand, particularly in China, and by ongoing strength in coal prices, making gas more competitive.

Our gas sales are based on UK NBP and the Dutch TTF. Average UK NBP prices increased by 25 % to 5.84 USD/mscf in 2017 compared with 4.69 USD/mscf in 2016. The Dutch TTF index, which is the basis for the majority of our German gas sales, has fluctuated in a similar manner to UK NBP. Average TTF gas prices increased by 20 % to 5.71 USD/mscf for 2017, compared with 4.76 USD/mscf in 2016.

USD/mscf	Jan. – Dec. 2017	Jan. – Dec. 2016
Average UK NBP price for the period	5.84	4.69
Average TTF price for the period	5.71	4.76

Foreign currency translation

The USD weakened against the € during the course of 2017. The USD traded at 1.13/€ on average for the year (2016: USD 1.11/€). At the end of 2017, it was trading at USD 1.20/€ (31 December 2016: USD 1.05/€).

After the depreciation in connection with the official deregulation in 2016, the Egyptian Pound traded largely unchanged against the USD during 2017 at around 18 EGP per USD.

4. Profitability and business performance

Production

Natural gas (million scf/day)	Jan. – Dec. 2017	Jan. – Dec. 2016
Germany/Denmark	137	148
Norway	154	167
North Africa	169	153
	460	**468**

Oil (kbbl OE/day)	Jan. – Dec. 2017	Jan. – Dec. 2016
Germany/Denmark	14	15
Norway	29	35
North Africa	7	11
	50	**61**

Total production (kbbl OE/day)	Jan. – Dec. 2017	Jan. – Dec. 2016
Germany/Denmark	36	39
Norway	54	63
North Africa	35	36
	125	**138**

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 125 kboe/day, of which gas was 460 million scf/day and oil 50 thousand bbl of oil per day. For 2016, production amounted to 468 million scf/day of gas and 61 thousand bbl of oil/day, totalling 138 kboe/day. Year-on-year this represents a decrease of 9 %, due to the planned temporary decommissioning of the Njord platform in May 2016, temporary shut-ins of some Norwegian wells and natural production decline in our mature fields. This was only partially offset by the production start from the West Nile Delta fields in Egypt.

Natural gas production was down by 2 % year-on-year. Major reasons for this are the cessation of production at Njord as well as temporary shut-ins of wells in the Skarv area. This was partially offset by increased production by Norwegian fields like Gjøa and Knarr. In Germany, gas production was 7 % lower compared with last year owing to natural decline. In North Africa, gas production increased compared with the prior year, owing to the start of production at West Nile Delta and Reggane Nord, partially offset by lower production in Disouq owing to a delay in investment activity.

In terms of oil production, we recorded an 18 % decrease in 2017 compared with 2016 owing to lower production in Norway and Egypt. In Germany we compensated for natural decline and maintained stable production thanks to the continuous drilling. In Norway, the above-mentioned temporary shut-ins affected the oil production as well. Oil production in the Gulf of Suez in Egypt was down owing to the relinquishment of the Ras Fanar licence and natural production decline.

Results of operations

Consolidated income statement of the DEA AG Group

€ m	Jan. – Dec. 2017	Jan. – Dec. 2016
Sales and other operating revenues	1,458	1,483
Cost of sales	-728	-1,101
Gross profit	**730**	**382**
Exploration costs	-122	-119
General and administration expenses	-123	-149
Net impairment of assets	-100	-70
Operating Result	**385**	**44**
Financial income	90	129
Financial expenses	-269	-224
Result from continuing operations before taxes	**206**	**-51**
Income taxes	-185	18
Result from continuing operations	**21**	**-33**
Result from discontinued operations	-	-3
Net result	**21**	**-36**

	Jan. – Dec. 2017	Jan. – Dec. 2016
Average realised oil price including oil hedge result (in USD/bbl)	47.92	42.20
Average realised oil price excluding oil hedge result (in USD/bbl)	48.23	39.79
Germany/Denmark	45.37	38.60
Norway	49.58	41.16
North Africa	47.68	34.17
Average realised gas price (in USD/mscf)	4.71	4.96
Germany/Denmark	4.94	5.25
Norway	5.97	5.89
North Africa	2.98	2.67

Sales and other operating revenues decreased by € 25 million or 2 %, to € 1,458 million for 2017 compared with € 1,483 million in 2016, primarily driven by a decrease in sales volumes of 5 %. This was partially offset by higher commodity prices.

Oil sales decreased by € 70 million, or 9 %, to € 730 million for 2017 compared with € 800 million for 2016, as 19 % lower sales volumes were partially offset by a 21 % increase in oil prices. In addition, we had lower results from oil commodity hedges in Germany and Norway, resulting in a decline of revenues of € 50 million compared with 2016.

Gas sales increased by € 26 million (+4 %) to € 657 million for 2017 compared with € 631 million for 2016, mainly owing to 9 % higher sales volumes with nearly stable prices.

In the period under review, oil sales resulted in 50 % of total revenue (2016: 54 %), whereas gas sales contributed 45 % (2016: 43 %), with the remaining balance representing other revenues.

Cost of sales decreased year-on-year by € 373 million, or 34 %, to € 728 million for 2017, compared with € 1,101 million for 2016. We reduced our unit production costs thanks to ongoing cost reduction measures as well as the depreciation of the Egyptian Pound. In addition, production cost declined in parallel with the production volumes. The same applies to scheduled depletion/depreciation/amortisation, which decreased in line with the lower production. In addition, we reversed impairments on receivables in Egypt owing to lump-sum payments and offsetting of receivables and liabilities. In contrast, we incurred higher costs for tariffs and transport in Norway and price-related production royalties in Germany.

Exploration costs increased by € 3 million, or 3 %, to € 122 million in 2017 compared with € 119 million in 2016 owing to higher dry well costs. In 2017, exploration costs include dry well costs for five dry wells in Norway. In addition, exploration costs include expenses for the acquisition of seismic data, licence fees and changes in provisions for outstanding work programs.

Exploration costs (€ m)	Jan. – Dec. 2017	Jan. – Dec. 2016
Germany/Denmark	1	3
Norway	108	50
North Africa	24	23
Other	-11	43
	122	**119**

General and administration expenses decreased by € 26 million, or 17 %, to € 123 million in 2017 compared with € 149 million for 2016. The decrease results mainly from lower personnel expenses owing to reduced headcount and from higher allocations to operational business areas, partially offset by higher restructuring costs.

Net impairment of assets was increased by € 30 million, or 43 % to € 100 million for 2017, compared with € 70 million for 2016. In 2017, impairments resulted mainly from the intended sale of transportation assets in Norway as well as two producing assets in North Africa. In 2016, impairments mainly affected an underperforming producing field and an exploration licence in Norway. The reversal of an impairment made in previous years relates mainly to a producing field in Norway.

The **operating result** of the DEA AG Group amounted to € 385 million. For the calendar year 2016, the result was € 44 million.

Financial income decreased year-on-year by € 39 million, or 30 %, to € 90 million in 2017 compared with € 129 million in 2016, owing to the fact that in 2017 we had net foreign currency exchange losses instead of gains. In contrast, interest income increased slightly.

Financial expenses increased by € 45 million (+20 %) to € 269 million in 2017 compared with € 224 million in the calendar year 2016. Interest expenses increased owing to higher interest on the proceeds loan in connection with the issuance of senior unsecured notes. Moreover, interest expenses for the RBL facility increased owing to the scheduled increase in the margin and higher USD Libor rate. In addition to the interest expenses, financial expenses also include net foreign currency exchange losses in 2017. This was partially offset by lower net losses from financial derivatives.

The **result from continuing operations before taxes** amounted to € 206 million in 2017 and to € -51 million for 2016. In the reporting period, DEA had total tax expense of € 185 million. Since various expenses are not or only partially tax-deductible, the tax rate is at 90 % for 2017.

The **result from continuing operations** amounted to € 21 million.

The **result from discontinued operations** for 2016 contains adjustments with regard to the sale of our British activities in 2015.

The **net result** came to € 21 million, considerably better than the value for the calendar year 2016.

All in all, the DEA AG Group continues to operate in an environment of ongoing pressure on oil and gas prices. To offset 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 2017, 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 2017, EBITDAX amounted to € 927 million, up by € 151 million compared with 2016. Revenues decreased slightly, owing to the offsetting effects of lower sales volumes and higher commodity prices. Production cost declined in parallel with the production volumes. Moreover, we were able to reverse impairments on receivables in Egypt owing to lump-sum payments and offsetting of receivables and liabilities. In contrast, we incurred higher costs for tariffs and transport in Norway and price-related production royalties in Germany.

5. Net asset position

Balance sheet of the DEA AG Group

Assets (€ m)	31-12-2017	31-12-2016
Intangible assets/ property, plant and equipment/ investment property	3,542	3,097
Financial receivables/financial investments	2,025	2,210
Other receivables and other assets	81	95
Deferred tax assets	116	85
Non-current assets	**5,764**	**5,487**
Inventories	83	90
Financial receivables	22	-
Trade accounts receivable	279	336
Other accounts receivable, other assets and income tax assets	80	157
Cash and cash equivalents	116	101
Current assets	**580**	**684**
Assets	**6,344**	**6,171**

Equity and liabilities (€ m)	31-12-2017	31-12-2016
Equity	**1,818**	**1,904**
Provisions	728	616
Debt to banks	1,334	1,494
Financial debt	1,013	1,018
Other liabilities/income tax liabilities	41	40
Deferred tax liabilities	526	431
Non-current liabilities	**3,642**	**3,599**
Provisions	208	209
Debt to banks	0	3
Financial debt	116	16
Trade accounts payable	304	308
Other liabilities/income tax liabilities	256	132
Current liabilities	**884**	**668**
Equity and liabilities	**6,344**	**6,171**

Liquidity

As of 31 December 2017, our cash and cash equivalents amounted to € 116 million. In addition, undrawn credit lines are available. In total, cash and immediately-available liquidity under credit lines amounted to more than € 800 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 program 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 two working capital facilities for intra-month cash management purposes for USD 50 million and € 60 million, respectively, that were undrawn at the end of the year.

Development of net assets

Non-current assets amount to 91 % of total assets, and stand at € 5,764 million, up by € 277 million on 31 December 2016. The significant capital expenditure was 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 € 186 million owing to accrued interest and adverse fx effects.

Current assets decreased compared with 31 December 2016. This is mainly owing to lower trade accounts receivable and decreased other receivables and assets. Short-term cost recovery rights and assets from over-/underlift decreased in 2017. Derivatives decreased as well, owing to the scheduled maturity of hedging transactions and revaluation effects. In addition, deferred expenses were released after settlement with a partner. The level of cash holdings increased slightly compared with the previous year.

The **equity capital ratio** of the DEA AG Group amounted to 29 % as at the balance sheet date (previous year: 31 %). As at 31 December 2017, equity amounted to € 1,818 million.

A substantial proportion of **non-current provisions and liabilities**, at € 3,642 million, is accounted for by debt to banks resulting from the RBL credit facility. The amount drawn under the facility was increased by USD 25 million, but in Euro-terms the liability decreased owing to foreign exchange rate effects. Other non-current financial debt remained stable at € 1 billion, comprising the on-lent proceeds from the issuance of the notes as well as loans from the shareholder L1E Acquisitions GmbH. In addition, € 728 million is accounted for by pension and decommissioning provisions, as well as other provisions. Provisions for decommissioning increased, owing mainly to lower interest rates year-on-year and to additional shares in the Njord area. Pension provisions remained nearly stable. 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 2016 by € 216 million. Current provisions remained nearly stable year-on-year at € 208 million. Higher provisions for decommissioning were offset by lower provisions for outstanding work programs. Current financial liabilities are related to the profit transfer agreement towards the shareholder. The increase in other liabilities is mainly owing to a contingent payment received.

6. Financial position

	Jan. – Dec. 2017	Jan. – Dec. 2016
Cash flow from operating activities	913	626
Cash flow from investment activities	-908	-558
Cash flow from financing activities	13	-287
Free cash flow	70	68

Cash flow from operating activities

Cash inflow from operating activities increased by € 287 million to € 913 million for 2017 from € 626 million for 2016. The increase is driven mainly by the higher results from operations before depletion/depreciation/amortisation and deferred taxes. 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. Moreover, a prepayment under an insurance contract added to the positive cash flow development.

Cash flow from investment activities

Cash outflow from investment activities amounted to € 908 million for 2017, compared with € 558 million for 2016. The increase in cash outflow from investment activities was driven mainly by higher organic investments and the acquisition of additional shares in the Norwegian Njord area.

Investments (€ m)	Jan. – Dec. 2017	Jan. – Dec. 2016
Capital expenditure (net of acquisitions)		
Germany/Denmark	57	53
Norway	370	158
North Africa	409	444
Other	2	1
	838	656
Acquisitions	65	0
Total	903	656

Our expenditure on tangible and intangible assets increased year-on-year by 28 %, owing to the capex for our current development projects in the Egyptian West Nile Delta, Reggane Nord in Algeria and Dvalin and Njord in Norway. In total, our capital expenditure (excluding acquisitions) reached € 838

million. In addition to the spending on the development projects, key capex investments were made in existing producing fields in Germany and Norway.

Cash flow from financing activities

Cash flow from financing activities amounted to € 13 million in 2017, compared with a cash flow of € -287 million in the twelve months of 2016. Cash flow from financing activities in the reporting period mostly reflects additional drawings under the RBL and payments under the profit and loss transfer agreement to L1E Acquisitions GmbH.

Free cash flow

The free cash flow, which comprises the cash flow from operating activities and the cash flow from investment activities but excludes cash outflows for acquisitions, remained positive and amounted to € 70 million in 2017, up by € 2 million compared with € 68 million for 2016.

7. Employees

The average number of employees of the DEA AG Group decreased by 212, from 1,338 (average 1 January – 31 December 2016), to 1,126 (average 1 January – 31 December 2017) 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. 7 %. In Norway the number of employees decreased by 45 FTE after the merger of the two Norwegian companies. The number of employees in Egypt on 31 December 2017 declined by 70 FTE.

On 31 December 2017, DEA Deutsche Erdoel AG had 13 apprentices and trainees; as at 31 December 2016 there were 17. As a supplementary strategy, within the scope of a training sponsorship program DEA supports 5 trainees employed in small to medium-scale enterprises.

A key factor in achieving success internationally is the quality of staff, both locally and internationally. Despite the restructuring programmes, DEA still sends expatriates to other countries and brings also employees of its foreign companies to work in Hamburg and at other locations. Meanwhile, we have 139 employees internationally who do not have the nationality of the countries in which they work. This represents a share of 13 %. This enables us to achieve a better understanding amongst our employees of foreign cultures in general, and of specific aspects pertaining to the different locations in which we operate.

Effective as of 1 February 2017, DEA Deutsche Erdoel AG and the 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 14 months. An essential element of the Collective Agreement was an increase of salaries by 2.1 %.

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 of 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

In accordance 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*), the Supervisory Board of DEA AG adopted a resolution in 2015 to establish a target quota of 0 % for women on the Company's Supervisory Board and 0 % for women on the Board of Management for the first performance period defined pursuant to this Act, i.e. up to 30 June 2017. As of 30 June 2017, the actual participation for the Supervisory Board of DEA AG was 8 % and therefore exceeded the target. The actual participation for the Board of Management matched the target.

For the second term of compliance, 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 had defined in 2015 a target quota of 5 % for the first managerial level below the Board of Management and a target quota of 16 % for the second managerial level. As of 30 June 2017, the targets were met with actual quotas of 5 % and 18 %, respectively. For the second term of compliance up to 30 June 2022 the targets are set at 10 % for the first managerial level below the Board of Management and 20% for the second managerial level.

8. Risk management

Risk management system

Overall responsibility for the group-wide risk management system sits with the Board of Management of DEA Deutsche Erdoel AG. It establishes the rules and minimum standards and determines how much risk the company is willing to take. 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 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 co-ordination 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 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 of 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 based on 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 mid-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. € -110 million on our EBITDAX or approx. € -91 million on our free cash flow in 2018. A change in the gas price of USD -0.5/mscf would result in a change to our EBITDAX in 2018 of approx. € -28 million and of approx. € -26 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 (payments to be received for future sales revenues from future production) 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 our future cash flows and 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 2018 – 2022. For the calendar years 2018 and 2019, approx. 21 % of the oil production exposed to market price risks is hedged by commodity-price swaps. This is in line with the target defined in our hedge policy and covers 50 % of economic exposure after taxes. Gas price risks for 2018 are hedged at approx. 13 % by fixed price agreements against gas price fluctuations. The gas hedge ratio is currently at approx. 10 % for 2019, approx. 5 % for 2020 and approx. 1 % for 2021 and 2022. We continue to actively hedge our production in line with our hedging policy with a hedge horizon of five calendar years.

Risks and opportunities from exchange rate fluctuations

As an internationally active group, 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 mid-term planning, a change to the USD/€ exchange rate of USD 0.1/€ would lead to a change in EBITDAX of approx. € -44 million and of approx. € -17 million in the free cash flow. Correspondingly, 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 an internationally active E&P group, 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 faces also 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 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. DEA is taking appropriate action to cope with the ongoing low level of prices by deferring investment or portfolio optimisation decisions. Furthermore, an organisational cost reduction study is under way to increase efficiency. 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, 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. In Germany, our LTIF in 2016 was approximately 2 % of the German industry average. Overall, our LTIF was 0.46 per million working hours in 2017. We encountered two LTI in Germany in the calendar year 2017.

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 2017, we had one process safety event where the thresholds for bigger 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 € 22 million on environmental protection in the period under review, with investments in environmental protection amounting to € 63 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 geo-sciences, 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 2017 came to a total of € 1 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 2018 guidance

In the last management report, we gave guidance for 2017, based on the mid-term planning from the 4th quarter of 2016. During the course of the year, we gave quarterly updates of the initial guidance. According to the requirements of DRS 20, the actuals have to be compared to the original guidance for 2017.

In the 4th quarter of 2017, the new mid-term planning (MTP) of the DEA AG Group for the following five years was prepared and adopted. Our guidance for 2018, which excludes any M&A activities, is based on this MTP.
The following reference criteria are used:

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

In total, we expect for 2018 a slight increase in production and a slight increase in commodity prices. We are meeting the current environment in the E&P industry with further measures to optimise production from and the development of our existing assets. We are focused on ensuring that all of our key infrastructure maintains high reliability levels in order to facilitate consistent delivery of target production levels.

Underlying assumptions

On average, the Brent oil price quoted in US dollars developed according to the underlying assumptions of our last year's guidance. On average, the European NBP and TTF gas prices of key importance to our business turned out to be slightly above the underlying assumptions of our last year's guidance. Regarding the exchange rate between the US dollar and the EUR, the actual development was as well in line with underlying assumptions of the guidance.

Our guidance for 2018 is based on forwards and on the consensus of analyst estimates for commodity prices and the exchange rate:

- We assume Brent prices in a range of 52 – 58 USD/bbl and UK NBP prices in a range of 5.7 – 6.3 USD/mscf for 2018
- We assume the USD/EUR exchange rate to be in a range of 1.10 – 1.20.

Production is based on our latest production profiles for the respective fields.

Production

Our total production in the calendar year was in the middle of last year's guidance and at the level of the revised guidance from the 3rd quarter of 2017. The decline in producing fields was offset by the start of production at the development projects in the West Nile Delta and Reggane Nord in Egypt and Algeria, respectively.

For 2018, we assume that our production will be in the range of 125 – 140 kbbl OE/d, as production from the developments that we put on stream in 2017 and new production from the Ogarrio field in Mexico will more than offset the decline in production from our mature fields.

EBITDAX

In the calendar year 2017, EBITDAX was 19 % above the previous year's figure, which is considerably above the mid-point of the original and the revised guidances of Q3/2017.

For 2018, we expect our EBITDAX to be 10 – 20 % lower than in 2017.

Capex

Our investment expenditure during 2017 was 28 % above the 2016 level, which is in the lower range of the original guidance. As measured against the revised guidance from Q3/2017, we achieved our targets.

For 2018, we expect investment expenditure (excluding acquisitions) approx. 10 % – 20 % above the values for 2017, owing to the development projects in Norway such as Dvalin and Njord. Also the development of the Giza/Fayoum/Raven fields in West Nile Delta in Egypt will require substantial expenditure. In addition, we will continue to invest in our existing production projects.

Liquidity

Our capex for 2018 will be funded largely by operating cash flow as well as partial utilisation of existing credit facilities and shareholder equity for partial funding of the acquisition of the Ogarrio licence in Mexico. DEA maintains credit facilities that are not fully drawn, which means we have additional immediately-available liquidity. We believe we are adequately funded to conduct our operations

Hamburg, 6 February 2018

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 indicate 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 2017, DEA AG Group had 2P reserves of 698 million barrels of oil equivalent, representing an increase of approximately 5 % in 2P reserves from 2016, resulting from sanctioning development projects in Norway such as Ærfugl and "Snorre extension project" and from lifetime extension of two licences in the Gulf of Suez in Egypt. Approximately half of our 2P reserves are already developed. With this, we achieved an organic reserves replacement ratio of 169 %. Additionally, our 2P reserves are diversified across over 50 individual projects.

1P Reserves

Million boe	31-12-2017	31-12-2016
Germany/Denmark	91.5	103.7
Norway	253.9	205.8
North Africa	162.1	173.7
Other	-	-
	507.5	**483.2**

2P Reserves[1]

Million boe	31-12-2017	31-12-2016
Germany/Denmark	127.4	131.7
Norway	343.2	300.0
North Africa	227.7	235.1
Other	-	-
	698.3	**666.8**

[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 2017

DEA Deutsche Erdoel AG - Consolidated Income Statement

€m	(Notes)	Jan. - Dec. 2017	Jan. - Dec. 2016
Sales and other operating revenues	(1)	1,458	1,483
Cost of sales	(2)	-728	-1,101
Gross profit		730	382
Exploration costs	(3)	-122	-119
General and administration expenses		-123	-149
Net impairment of assets	(8)	-100	-70
Operating result		385	44
Financial income	(5)	90	129
Financial expenses	(5)	-269	-224
Result from continuing operations before taxes	(6)	206	-51
Income taxes	(7)	-185	18
Result from continuing operations		21	-33
Result from discontinued operations		-	-3
Net result		21	-36
Thereof attributable to:			
Shareholders of the parent company		18	-39
Non-controlling interests		3	3

DEA Deutsche Erdoel AG - Consolidated Statement of Comprehensive Income

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Net result	21	-36
Items that may be reclassified to profit or loss		
Currency translation adjustments	-26	17
Fair valuation of financial assets available for sale	-	-12
Fair valuation of financial instruments in hedge relationship	-9	-48
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plans	2	-17
Other comprehensive income (after taxes)	**-33**	**-60**
Total comprehensive income	**-12**	**-96**
Thereof attributable to:		
Shareholders of the parent company	-15	-99
Non-controlling interests	3	3

DEA Deutsche Erdoel AG - Consolidated Balance Sheet

Assets (€m)	(Notes)	31-12-2017	31-12-2016
Non-current assets			
Intangible assets	(8)	588	567
Property, plant and equipment	(8)	2,952	2,527
Investment property		2	3
Financial investments		4	1
Financial receivables	(9)	2,021	2,209
Other receivables and other assets	(10)	81	95
Deferred tax assets	(7)	116	85
		5,764	5,487
Current assets			
Inventories	(11)	83	90
Financial receivables	(9)	22	0
Trade accounts receivable	(10)	279	336
Other receivables and other assets	(10)	69	156
Income tax assets	(7)	11	1
Cash and cash equivalents	(12)	116	101
		580	684
		6,344	6,171

Equity and Liabilities (€m)	(Notes)	31-12-2017	31-12-2016
Equity	(13)		
Shareholder's equity		1,813	1,900
Non-controlling interests		5	4
		1,818	1,904
Non-current liabilities			
Provisions	(14)	728	616
Debt to banks	(15)	1,334	1,494
Financial debt	(15)	1,013	1,018
Income tax liabilities	(7)	26	26
Other liabilities	(16)	15	14
Deferred tax liabilities	(7)	526	431
		3,642	3,599
Current liabilities			
Provisions	(14)	208	209
Debt to banks	(15)	0	3
Financial debt	(15)	116	16
Trade accounts payable	(16)	304	308
Income tax liabilities	(7)	24	32
Other liabilities	(16)	232	100
		884	668
		6,344	6,171

DEA Deutsche Erdoel AG - Consolidated Cash Flow Statement

€m	(15)	Jan. - Dec. 2017	Jan.- Dec. 2016
Result from continuing operations		21	-33
Depreciation/impairment losses/reversal of impairment losses		390	570
Changes in provisions		16	-10
Changes in deferred taxes		108	-94
Gain/losses from disposal of assets		20	5
Other non-cash income/expenses		-28	14
Changes in working capital		110	46
Changes in other balance sheet items		276	128
Cash flow from operating activities		**913**	**626**
Cash outflows for additions to intangible assets, property, plant and equipment and investment property		-838	-656
Cash inflows from disposal of fixed assets		15	23
Cash outflows for acquisitions		-65	-
Cash inflows from (cash outflows for) divestitures		-	69
Cash inflows from (cash outflows for) financial assets		-20	6
Cash flow from investment activities		**-908**	**-558**
Profit transfer to parent company		-9	-
Distribution to non-controlling interests		0	-3
Repayments of debt to banks		-282	-772
Proceeds from debt to banks		304	203
Repayments of financial liabilities		-	-110
Proceeds from financial liabilities		-	395
Cash flow from financing activities		**13**	**-287**
Net change in cash and cash equivalents		**18**	**-219**
Effects of foreign exchange rate changes and other changes in value		-3	0
Cash and cash equivalents at beginning of reporting period		101	320
Cash and cash equivalents at end of reporting period		**116**	**101**
Supplementary information on cash flows from operating activities			
Income tax paid (less refunds)		44	1
Interest paid		90	60
Interest received		3	6
Dividends received		0	1

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 01-01-2016	344	980	664	-75	41	1,954	4	1,958
Fair value of derivative financial instruments with no impact on profit or loss					-48	-48		-48
Fair value of financial assets available for sale with no impact on profit or loss					-12	-12		-12
Currency translation adjustments			0	16	1	17		17
Remeasurement of defined benefit plans			-17			-17		-17
Other comprehensive income			-17	16	-59	-60		-60
Net result			-39			-39	3	-36
Total comprehensive income			-56	16	-59	-99	3	-96
Profit and loss transfer/ distribution			45			45	-3	42
Other changes			4	-4				
As at 31-12-2016/01-01-2017	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
Fair value of financial assets available for sale with no impact on profit or loss								
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

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 2017 were approved for publication by the Board of Management of DEA Deutsche Erdoel AG on 6 February 2018. In accordance with the resolution adopted at the annual general meeting, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft 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 prior-year figures, 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. 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 20 consolidated companies (previous year: 20), 4 of them abroad (previous year: 4). Participation in 3 foreign subsidiaries (previous year: 3) of minor importance to the DEA AG Group are reported at fair value in accordance with IAS 39. In total, these subsidiaries account for less than 1 % of the consolidated revenue and income as well as of consolidated debt.

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:

€	Rate on balance sheet date		Average rate	
	31-12-2017	31-12-2016	Jan. - Dec. 2017	Jan. - Dec. 2016
1 Pound sterling	1.13	1.17	1.14	1.22
100 Norwegian kroner	10.16	11.01	10.72	10.76
100 Polish zloty	23.94	22.67	23.49	22.92

Realisation of income

Sales revenues are valued at the fair value of counter-performance received or to be received, revenue reductions being considered in the process. Sales revenues are generally recorded when a service has been rendered or goods have been supplied and the associated risks have passed to the customers. No sales revenues worth mentioning are derived from services.

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 prior 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.

With the exception of goodwill, all 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

asset 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
Gas storage	28
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

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.

Financial assets are allocated to the following valuation categories: “loans and receivables”, “available-for-sale financial assets” and “financial assets at fair value through profit or loss” ("held for trading" or “held in hedging relationship”).

Financial assets, with the exception of financial derivatives and available-for-sale financial assets, are valued at amortised cost by applying the effective interest method, if necessary. Any impairments necessary are determined by the actual risk of default. In the presence of appropriate indications, such as the insolvency of a customer or disputed invoices, specific impairments are made. Receivables are generally corrected via an allowance account. Impairments are reversed if payments are received or the default risk is reduced accordingly. The reversal is recognised in the same expense item in which the original impairment loss was recorded.

Available-for-sale financial assets are recognised initially and in the following periods at fair value as long as such can be determined reliably. Unrealised gains and losses are stated as other comprehensive income without impact on profit or loss. If there are objective and material indications of a reduction in the value of an asset, an impairment loss is recognised in profit or loss.

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 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

Financial liabilities are allocated to the following categories: “liabilities valued at amortised cost of acquisition” and “financial liabilities at fair value through profit or loss” (“held for trading” or “designated as hedging instruments”).

Financial liabilities recognised for the first time are stated at fair value. For subsequent periods, liabilities, with the exception of financial derivatives, are valued at amortised cost of acquisition by applying the effective interest method, if necessary.

Derivative financial instruments

Derivative financial instruments are reported as assets or liabilities. All derivative financial instruments are measured at fair value regardless of their purpose. Derivative hedge transactions are reported in the balance sheet as at the relevant transaction dates. Changes in the fair value are recognised with an effect on income unless the instruments are used for hedge accounting purposes.

Cash flow hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the balance sheet or related to a highly probable forecast transaction. If a cash flow hedge exists, the effective parts of changes in fair value for the hedging transactions effected are recorded under other comprehensive income in the equity until such time as the hedging transaction is realised. Changes in fair value of the hedge transactions deployed, caused by market price changes, are counteracted to an equal extent by expected changes in the fair value of the existing underlying transactions. As a rule, fair value changes are reported with an impact on profit or loss at that point in time when the hedge transaction is realised through profit or loss. The contribution to earnings from the hedging transaction is then transferred from other comprehensive income to the income statement.

IAS 39 establishes certain requirements in accounting for hedging transactions. In particular, hedging relationships need to be documented in detail and be effective, i.e. the changes in fair value of the hedge must lie within a bandwidth of 80 to 125 % of the diametrically opposed changes in fair value of the underlying transaction, both prospectively and retrospectively. Only the effective portion of a hedging relationship may be accounted for according to the rules described for cash flow hedges. The ineffective part of the hedge is immediately taken to the income statement.

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.

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.

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) has adopted changes in the existing International Financial Reporting Standards (IFRS), which became effective for the DEA AG Group as of 1 January 2017:

- Amendments to IAS 7 (2016) "Disclosure Initiative"
- Amendments to IAS 12 (2016) "Recognition of Deferred Tax Assets for Unrealised Losses"

The application of these amendments does not have any material impact on the DEA AG Group's consolidated financial statements. As part of the application of the amended IAS 7, the change in liabilities from financing activities is broken down into cash and non-cash components in order to allow a reconciliation between the balance sheet amount and the cash flow statement (see note 15).

New accounting policies

The IASB and the IFRS IC have adopted further standards and amendments to standards, which are not yet mandatory in the European Union (EU) for fiscal years which begin on 1 January 2017. EU endorsement is still pending in some cases.

The most important changes are described below:

- **IFRS 9 (2014) "Financial Instruments"** 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. The allocation to the respective valuation categories is not expected to have a material impact on the financial statements. In the future, according to IFRS 9, the recognition of financial asset impairments will be 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. Because of the new model, impairment on financial assets will increase by €0m - €10m. 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") if it no longer meets the hedge effectiveness requirements under an unchanged risk management strategy. The change in regulations on hedge accounting will mainly result in an adjustment of the hedge documentation. IFRS 9 (2014) becomes effective for the first time for fiscal years starting on or after 1 January 2018.

- **IFRS 15 (2014) "Revenue from Contracts with Customers"** replaces the previous regulations of IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. 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. In April 2016, some clarifications on IFRS 15 were published, relating in particular to the identification of separate performance obligations, the distinction between principal and agent and the recognition of licence agreements. IFRS 15 (2014) becomes effective for the first time for fiscal years starting on or after 1 January 2018. The application will not have any material impact on the DEA AG Group's consolidated financial statements. The notes will contain further quantitative and qualitative disclosures.

- **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 is currently reviewing its effects on the consolidated financial statements. The main impact identified relates to recognition of new assets and liabilities for most of the operating leases (see note 19). 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. Some commitments may be covered by the exceptions for short-term and low value leases.

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
Annual Improvements to IFRS Standards 2014 - 2016 (2016)	1 January 2018
Amendments to IFRS 2 (2016) "Classification and Measurement of Shared-based Payment Transactions"	1 January 2018
Amendments to IFRS 4 (2016) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	1 January 2018
IFRS Interpretation 22 (2016) "Foreign Currency Transactions and Advance Consideration"	1 January 2018
Amendments to IAS 40 (2016) "Transfer of Investment Property"	1 January 2018
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
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 2017				
€m/kboed	Germany/ Denmark	Norway	North Africa [1]	Other [2]	Total
Production (kboed) [3]	36	54	35	-	125
Revenues	448	802	200	-	1,450
Depletion, depreciation, amortisation	-49	-134	-104	-3	-290
Net impairment of assets	0	-63	-37	-	-100
EBITDAX	269	538	187	-67	927
Exploration cost	-1	-108	-24	11	-122
Capital expenditure (without acquisitions)	57	370	409	2	838

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

	January - December 2016				
€m/kboed	Germany/ Denmark	Norway	North Africa [1]	Other [2]	Total
Production (kboed) [3]	39	63	36	-	138
Revenues	507	832	137	-	1,476
Depletion, depreciation, amortisation	-73	-364	-59	-4	-500
Net impairment of assets	-1	-79	10	0	-70
EBITDAX	346	538	-27	-81	776
Exploration cost	-3	-50	-23	-43	-119
Capital expenditure (without acquisitions)	53	158	444	1	656

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

(1) Sales and other operating revenues

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Oil		
Germany/Denmark	197	228
Norway	479	509
North Africa	54	63
	730	800
Gas		
Germany/Denmark	222	249
Norway	313	310
North Africa	122	72
	657	631
Others		
Germany/Denmark	29	30
Norway	10	13
North Africa	24	2
	63	45
Sales revenues	1,450	1,476
Other operating revenues	8	7
	1,458	1,483

The oil revenues comprise losses from commodity derivatives amounting to €5m (previous year: income of €46m).

(2) Cost of sales

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Cost of operations		
Production costs	311	354
Royalties	79	62
Change in over-/underlift position	0	10
Tariffs, transport and lease expenses	114	87
Depletion, depreciation, amortisation	284	492
Other	-74	73
	714	1,078
Development costs	14	10
Other costs of sales	0	13
	728	1,101

Other cost of operations comprise net impairment gains on financial receivables of €75m (previous year: net losses of €70m) and restructuring costs of €1m (previous year: €3m).

(3) 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.

Inventories amounting to €0m (previous year: €0m) are allocated to the exploration division. Provisions comprise commitments from exploration amounting to €87m (previous year: €122m).

The cash flow from operating activities attributable to exploration amounts to €69m (previous year: €-108m). In addition, the cash flow from investment activities by the exploration division amounts to €-34m (previous year: €-50m).

(4) Staff costs

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

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Cost of sales	84	60
Exploration costs	19	36
General and administration expenses	49	75
	152	171

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Wages and salaries	125	137
Social security and other benefits	16	18
Expenses relating to post-employment benefits	11	16
	152	171

In the fiscal year the average size of the DEA AG Group's workforce (excluding discontinued operations) converted to employee equivalents was 1,126 (previous year: 1,338), of whom 954 (previous year: 1,021) 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 2017 (headcount) was 13 (previous year: 17).

(5) Financial income and financial expenses

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Interest income from third parties	7	10
Interest income from affiliated companies	83	75
Foreign currency exchange gains, net	-	43
Income from investments	0	1
Financial income	**90**	**129**
Interest expenses to third parties	63	57
Interest expenses to affiliated companies	49	26
Less capitalised borrowing costs	-45	-13
Foreign currency exchange losses, net	145	-
Losses from financial derivatives, net	10	118
Other financial expenses	10	12
	232	200
Interest from additions to		
Provisions for pensions and similar obligations less plan assets (net pension obligations)	3	3
Abandonment provisions	34	20
Other provisions	0	1
	37	24
Financial expenses	**269**	**224**

(6) 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 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. 2017	Jan. - Dec. 2016
Result from continuing operations before taxes	206	-51
a) Interest and other financing costs	21	18
b) Exploration costs	120	118
c) Depletion, depreciation, amortisation and net impairment losses	390	570
d) Acquisition, disposal and restructuring costs and extraordinary items as well as income from investments	12	28
e) Realised and unrealised gains/losses from foreign currency valuation and financial derivatives	155	75
f) (Gain)/loss attributable to the disposal of fixed assets	9	-1
g) Pension items	14	19
EBITDAX	927	776

(7) Income taxes

€m	Jan. - Dec. 2017	Jan. - Dec. 2016
Current income taxes		
Germany	42	55
Norway	11	19
North Africa	24	2
Other	0	0
	77	76
Deferred taxes		
arising from deductible temporary differences	76	-121
resulting from taxable loss carry-forwards	32	27
	108	-94
	185	-18

Current income taxes relate to expenses from other periods, amounting to €6m (previous year: income of €6m).

The average consolidated income tax rate on earnings generated by companies liable to German taxation generally amounts to 30.55 % (previous year: 30.14 %). 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. 2017	Jan. - Dec. 2016
Result from continuing operations before taxes	206	-51
Expected tax expenses 30.55 % (previous year: 30.14 %)	63	-15
Changes in expected tax expenses due to:		
Tax rates differences	90	-49
Taxes relating to a different accounting period	6	-6
Tax effects on		
other tax-free earnings and earnings from foreign operations	8	12
expenses not deductible for tax purposes	1	1
different trade income tax assessment bases and tax rates	-3	1
changes in tax loss carry-forwards	-1	-2
tax provision	12	12
Other	11	28
Changes in deferred taxes due to tax rate changes	-2	0
Effective tax expenses	185	-18
Effective tax rate in %	90	35

Income tax assets and liabilities:

	31-12-2017		31-12-2016	
€m	Assets	Liabilities	Assets	Liabilities
Germany/Denmark	0	24	-	19
Norway	11	-	-	20
North Africa	-	20	-	6
Other	-	6	1	13
	11	50	1	58
Non-current	-	26	-	26
Current	11	24	1	32

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	31-12-2017		31-12-2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Non-current assets	85	751	41	740
Current assets	3	16	1	31
Tax-related special items	-	7	-	8
Non-current liabilities				
Pension provisions	49	-	52	-
Other non-current provisions/ liabilities	200	43	219	1
Other current provisions/liabilities	29	1	43	-
	366	818	356	780
Loss carry-forwards	42	-	78	-
Gross	408	818	434	780
Netting	-292	-292	-349	-349
Net amount	116	526	85	431

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 €51m (previous year: €56m).

In the year under review, deferred taxes of €5m (previous year: €25m) 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 €4m (previous year: €18m), as well as from the remeasurement of defined benefit plans amounting to €1m (previous year: €7m).

Effects resulting from currency translation of deferred tax items in foreign financial statements amounting to €39m (previous year: €-27m) were recognised with no impact on profit or loss.

Of the total amount of deferred tax assets and deferred tax liabilities, €37m (previous year: €128m) and €20m (previous year: €29m) are expected to be realised within twelve months.

(8) Intangible assets and property, plant and equipment

Intangible assets

€m	Exploration	Other intangible assets	Goodwill	Total
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
At cost of acquisition and production				
1 January 2016	892	254	116	1,262
Additions	50	16	-	66
Transfers	-92	0	-	-92
Currency translation adjustments	31	1	6	38
Disposals	-19	-12	-	-31
31 December 2016	862	259	122	1,243
Accumulated amortisation and impairment losses				
1 January 2016	-460	-199	-	-659
Amortisation	-	-13	-	-13
Transfers	0	0	-	-
Currency translation adjustments	-11	-1	-	-12
Disposals	8	12	-	20
Impairment losses	-29	-4	-	-33
Reversal of impairment losses	7	14	-	21
31 December 2016	-485	-191	-	-676
Carrying amount 31 December 2016	377	68	122	567

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 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
At cost of acquisition and production					
1 January 2016	104	7,139	155	56	7,454
Additions	0	595	1	1	597
Transfers	1	151	-60	1	93
Currency translation adjustments	0	274	-	1	275
Disposals	-3	-174	-4	-2	-183
31 December 2016	102	7,985	92	57	8,236
Accumulated depreciation and impairment losses					
1 January 2016	-68	-4,785	-129	-40	-5,022
Depreciation	-3	-477	-2	-5	-487
Transfers	0	-50	50	0	0
Currency translation adjustments	-	-199	-	-	-199
Disposals	2	51	2	2	57
Impairment losses	-1	-57	-	-	-58
Reversal of impairment losses	-	-	-	-	-
31 December 2016	-70	-5,517	-79	-43	-5,709
Carrying amount 31 December 2016	32	2,468	13	14	2,527

Capitalised borrowing costs

In connection with the acquisition and production of qualified assets, in the year under review borrowing costs amounting to €45m (previous year: €13m) were capitalised as part of acquisition and production costs. In the year under review the financing cost rate applied in this context was between 3.1 % and 3.5 % (previous year: between 2.6 % and 2.8 %) as well as 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 6.5 % and 9.5 % (previous year: 7.0 - 12.0 %).

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	13	-	153
Cash generating units in Algeria	24	-	264
Cash generating units in Norway	89	26	101
	126	26	

The impairments had to be carried out because of portfolio measures as well as 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.

(9) Financial receivables

€m	31-12-2017		31-12-2016	
	non-current	current	Non-current	current
Loans to related companies and participations	2,021	22	2,207	0
Other loans	-	-	2	-
	2,021	22	2,209	-

The non-current loans to related companies and participations mainly relate to a USD loan which was granted in 2015 by DEA Deutsche Erdoel AG to L1E Funding GmbH in return for a debt assumption (see note 15). The loan carries floating interest rates (LIBOR plus margin).

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

€m	31-12-2017		31-12-2016	
	non-current	current	non-current	current
Trade accounts receivable	-	279	-	336
Other receivables and other assets				
Derivatives	-	1	1	9
Prepayments	-	5	-	19
Prepaid expense	5	11	12	38
Receivables from finance lease	61	6	67	6
Receivables from working interest reductions	15	12	15	13
Receivables from production underlift	-	17	-	27
Miscellaneous other assets	-	17	-	44
	81	69	95	156
	81	348	95	492

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

The receivables from finance lease refer to the lease of two gas storage facilities. Nominal values of leasing agreements amount to €83m (previous year: €92m) and are broken down as follows at the present value of minimum lease payments:

€m	31-12-2017	31-12-2016
Nominal value	83	92
unrealised interest income	16	19
present value of minimum lease payments	67	73

Minimum lease payments for receivables from finance lease agreements have the following terms of maturity:

€m	31-12-2017			31-12-2016		
	Nominal value	Present value	Difference from discounting	Nominal value	Present value	Difference from discounting
Due in up to 1 year	9	9	0	9	9	0
Due in 1 - 5 years	37	32	5	37	32	5
Due after more than 5 years	37	26	11	46	32	14
	83	67	16	92	73	19

Rental income recorded in the fiscal year amounted to €9m (previous year: €9m).

The fair value of receivables from finance leases is at least equal to the book value. Detailed amounts are not stated because assumptions with regard to the calculation of different variables over an extended period would be required.

(11) Inventories

€m	31-12-2017	31-12-2016
Raw materials, supplies and merchandise	82	89
Finished goods	1	1
	83	90

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

(12) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits with original maturities of up to three months. There are no restraints on disposal of cash and cash equivalents.

(13) 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 relate to Speicher Breitbrunn/Eggstätt DEA & Storengy GbR.

(14) Provisions

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

	31-12-2017	31-12-2016
Decommissioning provisions	2.50 - 6.25 %	3.50 - 8.00 %
Provisions for anniversaries	1.25 %	1.25 %
Provisions for early retirement benefits/ severance payments/performance plan	0.00/0.25 and 0.60 %	0.00 and 0.80 %
Other provisions		
with terms of 5 – 10 years	2.25 %	3.25 %
with terms of 1 – 4 years	1.25 and 2.00 %	2.50 and 3.50 %

€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

€m	Decommissioning provisions	Other provisions	Pension Provisions	Total
As at 01-01-2016	569	218	120	907
Addition	7	70	16	93
Release	-131	-15	0	-146
Interest component	20	1	3	24
Other changes	15	1	25	41
Amounts used	-22	-63	-9	-94
As at 31-12-2016	458	212	155	825
Non-current	432	29	155	616
Current	26	183	-	209
	458	212	155	825

Decommissioning provisions

The addition was mainly owing to lower discount rates year-on-year and to additional shares in one concession. With regard to reversal of provisions, life extensions for some concessions and lower cost estimates have taken effect. The change in discount rates had a total impact on the provision amounting to €123m (previous year: €-130m). 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 Towers 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 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: €9m) were transferred to 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.

	31-12-2017		31-12-2016	
	Germany	Norway	Germany	Norway
Discount rate	1.75 %	2.40 %	1.75 %	2.50 %
Salary growth rate	2.35 %	2.25 %	2.35 %	2.25 %
Pension growth	1.00 and 1.60 %	0 - 2.25 %	1.00 and 1.60 %	1.50 %

As of 31 December 2017, the actuary has been changed and, in this connection, the determination of the discount rate for Germany is now based on the accepted determination procedure of the new actuary. In comparison with the determination procedure applied in the previous year, the change results in an increase of the pension obligation amounting to €21m.

Composition of plan assets (fair value) €m	31-12-2017				31-12-2016			
	Germany	thereof active market	Norway	thereof active market	Germany	thereof active market	Norway	thereof active market
Equity instruments	118	118	-	-	129	129	-	-
Interest-bearing instruments	285	285	-	-	291	291	-	-
Assets held by insurance company	-	-	15	-	-	-	23	-
Alternative investments	13	13	-	-	-	-	-	-
Other	3	3	-	-	2	-	-	-
	419	419	15	-	422	420	23	-

Pension assets are continuously monitored and managed from a risk and earnings perspective. Broad diversification of the investments contributes to risk reduction. In order to further increase diversification, the asset allocation was further refined by the addition of two new asset classes in 2017.

The focus of the strategic investment policy is still on European government and corporate bonds with investment grade ratings. The portfolio also includes higher yielding investments such as high-yield corporate bonds and emerging-market bonds. The proportion of global equities in the portfolio is lower than that of bonds. The investment in equities is intended to earn a risk premium over bonds over the long term.

The allocation of funds to the asset-classes is based on detailed analysis of the plan assets and pension obligations and of the relation of these two to each other (Asset-Liability-Management-Study/ALM-Study). A comprehensive update of the ALM-Study prepared in 2015 will be conducted at the beginning of 2018 (as of 31-12-2017). As a target value, several asset key figures are

considered relative to the amount of pension obligations in various scenarios. The sensitivities of the obligation and of the pension assets in relation to a change in the market interest rate are taken into account with particular attention. By comparing different asset allocations, those portfolios are identified that achieve the best target value within the given risk. On the basis of these efficient portfolios, the strategic asset allocation is derived and the associated risk is analysed in detail. The results of the ALM-Study will show whether there will be strategic shifts and optimisations of the existing allocation.

€m	Present value of defined benefit obligations	Fair value of plan assets	Total
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
Transfers	-	-	-
Contribution to the funded plans:			
Employer	-	-8	-8
Employee	-	-	-
Benefit payments	-39	39	0
As at 31-12-2017	**592**	**-435**	**157**
As at 01-01-2016	**558**	**-438**	**120**
Current service cost	19	-	19
Past service cost	-3	-	-3
Interest expense/(income)	13	-10	3
	29	**-10**	**19**
Remeasurements			
Return on plan assets, excluding amounts already recognised in interest income	-	-22	-22
Gains/losses from changes in financial assumptions	57	-	57
Experience gains/losses	-12	-	-12
	45	**-22**	**23**
Effect of exchange rate differences	3	-2	1
Transfers	1	-	1
Contribution to the funded plans:			
Employer	-	-9	-9
Employee	0	0	-
Benefit payments	-36	36	0
As at 31-12-2016	**600**	**-445**	**155**

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 €562m (previous year: €556m) refer to benefit obligations in Germany and €30m (previous year: €44m) 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: 15 years) and 15 or 27 years in Norway (previous year: 20 or 26 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			
		31-12-2017		31-12-2016	
€m		in Germany	in Norway	in Germany	in Norway
Discount rate	Increase by 0.5 percentage points	-42	-4	-41	-5
	Reduction by 0.5 percentage points	48	4	47	6
Salary growth	Increase by 0.5 percentage points	6	1	8	1
	Reduction by 0.5 percentage points	-6	-1	-8	-2
Pension growth	Increase by 0.5 percentage points	28	2	32	4
	Reduction by 0.5 percentage points	-26	-2	-28	-3
Life expectancy	Increase by 1 year	26	1	28	2

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 €1m (previous year: €1m) were incurred in the year under review.

In the financial year 2018 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.

(15) Debt to banks and financial debt

€m	31-12-2017		31-12-2016	
	non-current	current	non-current	current
Debt to banks	1,334	0	1,494	3
Financial debt to related companies	1,013	116	1,018	16
	2,347	116	2,512	19

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 DEA Deutsche Erdoel AG repaid an net amount of USD50m on a voluntary basis. Meanwhile, an amount of USD75m was drawn by DEA Norge AS. As of 31 December 2017 a loan amount of USD1,600m or €1,334m (previous year: USD1,575m or €1,494m) had been utilised by DEA Deutsche Erdoel AG and DEA Norge AS. The floating interest rate was Libor plus a margin of 2.5 % during the reporting period (previous year: 2.25 %).

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 17. 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:

	31-12-2017				31-12-2016			
	Carrying amount [1] €m	Currency	Term	Interest rate	Carrying amount [1] €m	Currency	Term	Interest rate
Shareholder loan from 25 February 2015	460	EUR	2024	LIBOR plus margin	448	EUR	2024	LIBOR plus margin
Revolving shareholder loan [2]	161	USD	2024	LIBOR plus margin	178	USD	2024	LIBOR plus margin
Total shareholder loans	621				626			
Loan from DEA Finance SA [3]	398	EUR	2022	7.55 %	399	EUR	2022	7.55 %
Liability from net profit transfer	110	EUR	-	-	9	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	01-01-2017	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

€m	01-01-2016	Cash flows from repayments/ proceeds	Foreign currency valuation	Changes in accrued interest	Other changes	31-12-2016
Debt to banks	2,026	-569	42	-2	-	1,497
Financial debt	1,062	285	2	18	-333	1,034

(16) Trade accounts payable/other liabilities

€m	31-12-2017		31-12-2016	
	non-current	current	non-current	current
Trade accounts payable	-	304	-	308
Other liabilities				
Derivatives	9	30	8	19
Liabilities arising from other taxes	-	5	-	7
Prepayments	6	8	6	23
Liabilities from production overlift	-	5	-	14
Accrued future overlifts oil	-	21	-	29
Accrued insurance reimbursement	-	150	-	-
Other miscellaneous liabilities	-	13	-	8
	15	232	14	100
	15	536	14	408

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.

(17) Reporting on financial instruments

The financial instruments comprise both primary and derivative financial instruments.

Financial instruments on the assets side chiefly comprise financial assets, receivables and cash and cash equivalents. Financial assets in the category “available for sale” are recognised at fair value, and other primary financial assets at amortised cost. On the liabilities side, the primary financial instruments include liabilities recorded at amortised cost. The primary financial instruments are stated in the balance sheet, with the carrying amounts of financial assets reflecting the maximum risk of default. Wherever default risks are apparent in the financial assets, they are covered by impairments.

Fair values of derivatives are determined using customary market valuation methods taking into account the market data available on the measurement date as well as the counterparty default risk.

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

Fair value hierarchy	31-12-2016			
€m	Total	Level 1	Level 2	Level 3
Other receivables	1			1
Derivative financial assets	10		10	
Derivative financial liabilities	27		27	

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 01-01-2017	Changes recognised in profit or loss	Changes not recognised in profit or loss	Changes with a cash effect	As of 31-12-2017
Financial investments	1			3	4

Development of level 3 financial instruments €m	As of 01-01-2016	Changes recognised in profit or loss	Changes not recognised in profit or loss	Changes with a cash effect	As of 31-12-2016
Financial investments	1				1
Other receivables	15	-4	-11		-

The other receivable ("available for sale") measured at fair value through equity was derecognised in 2016 since the contractual conditions did not occur. An amount of €4m was recognised as general and administrative expenses in profit or loss.

In the year under review, trade accounts payable amounting to €20m (previous year: €25m) were netted with trade accounts receivable amounting to €22m (previous year: €24m) on the basis of an unconditional netting agreement.

Impairment losses and financial assets in the category "loans and receivables" have developed as follows:

€m	Trade accounts receivable	Other receivables and other assets	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

€m	Trade accounts receivable	Other receivables and other assets	Total
As at 01-01-2016	36	4	40
Impairment (+)/reversal of impairment (-) in the year under review	70		70
Disposals		-4	-4
Currency translation adjustments			
As at 31-12-2016	106	-	106

Impairments on trade accounts receivable mainly relate to overdue receivables. The staggered impairment rates for these receivables have been adjusted in the reporting period due to lower potential default risks. This results in a reversal of impairments in the amount of €27m.

Financial assets that are overdue and not impaired exist as at the balance sheet date within the scope of IFRS 7 in the category of “loans and receivables”:

€m	Trade accounts receivable		Other receivables and other assets	
	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Up to 30 days	15	12	0	1
31 to 60 days	10	8	0	1
61 to 90 days	2	11	0	1
91 to 120 days	3	22	0	1
More than 120 days	70	66	1	2

Financial assets and liabilities have been assigned to valuation categories with the following carrying amounts:

	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 assets	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

	31-12-2016							
€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 assets	1	-	-	-	-	-	-	1
Financial receivables	-	-	2,209	-	-	-	-	2,209
Trade accounts receivable	-	-	336	-	-	-	-	336
Other accounts receivable and other assets	-	10	31	-	0	73	137	251
Cash and cash equivalents	-	-	101	-	-	-	-	101
Debt to banks	-	-	-	1,497	-	-	-	1,497
Financial liabilities	-	-	-	1,034	-	-	-	1,034
Trade accounts payable	-	-	-	308	-	-	-	308
Other liabilities	-	-	-	33	27	-	54	114

Net losses on assets and liabilities in the category "held for trading" amount to €10m (previous year: €112m). Impairments and reversals on impairment losses for the category "loans and receivables" are shown in the development of impairment losses above.

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.

The following hedging transactions exist in the form of cash flow hedges for the purpose of hedging commodity price risks arising from future sales revenues:

	Nominal volume		Maturity > 1 year		Fair value (liabilities)	
€m	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016
Oil-price swaps	347	371	176	200	39	27

The nominal amounts allow conclusions on the extent to which derivatives are used, but do not reflect the risks the DEA AG Group incurs from their use. Financial hedging transactions are exposed to default risks in the amount of their positive fair values. These risks are minimised because deals are made only with partners of the highest credit standing.

The future sales currently hedged by cash flow hedges will fall due with an effect on profit or loss within the next two years. The terms of the commodity derivatives are thus also of a short-term nature. Ineffectiveness occurs only as a result of the consideration of the counterparty default risk and was not recognised in profit or loss for reasons of materiality.

With regard to cash flow hedges an amount of €17m (previous year: €27m) was recognised in other comprehensive income and a loss amounting to €5m (previous year: net gain of €40m) was reclassified from equity to profit or loss for the period. Reclassifications were solely made against sales revenues. In the previous year, reclassification were made against sales revenues amounting to €46m and against financial expenses amounting to €6m.

Moreover, non-financial gas forward sales contracts are recognised at fair values in the amount of €1m (previous year: €10m). They are classified as "held for trading". The nominal volume amounts to €12m (previous year: €96m); of this, €-m (previous year: €12m) has a remaining term of more than one year.

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.

These risks are mitigated in the DEA AG Group using systematic risk management methods. In addition to physical forward sales in the gas sector, the risks are also countered by deploying financial derivatives. Financial derivatives are used only to hedge oil price risks arising from payments received for future sales revenues. The instruments used are oil price swaps. Currently parts of our oil sales are hedged until 2019.

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 assets and liabilities in USD 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 30.55 % (previous year: 30.14 %) is applied.

	January - December 2017		January - December 2016	
€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 %	58		57	
Decrease in USD by 10 %	-69		-68	
Increase in oil price by 10 %		-28		-33
Decrease in oil price by 10 %		25		29

Credit risk

Credit risk is defined as an unexpected loss in financial instruments if the contractual partner fails to discharge its obligations in full and on time. As regards original and derivative financial instruments, there is no substantial counterparty default risk because the contractual partners generally have a high credit standing. Existing past due payments are subject to permanent monitoring by management. The maximum risk of default corresponds to the carrying amounts of the financial assets accounted for.

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 three 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 31-12-2017	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		

€m	Carrying amounts 31-12-2016	Amortisation payments 1st succeeding year	2nd - 5th succeeding year	from 6th succeeding year
Debt to banks	1,497	3	1,494	
Other financial debt	1,034	16		1,026
Commodity derivative financial liabilities	27	19	8	
Miscellaneous financial liabilities	341	341		

Interest rate risk

As of 31 December 2017, the DEA AG Group has similar amounts of financial debt and financial receivables that bear floating interest rates. Therefore, a change in the floating rate element would have only a minor impact on our interest payments in 2018. An increase/decrease by 50 basis points would result in a change in our interest result (after tax) of €-/+1m, respectively.

(18) 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 15). In this way, DEA increases its financial flexibility and diversifies the investor base.

(19) Contingent and financial liabilities

Commitments regarding the former chemical business are subject to joint and several liability for a limited period of time (until 2018). The probability of a claim under joint and several liability is considered to be low. With regard to participations in various joint ownerships, the DEA AG Group is subject to statutory liability.

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 2017, 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	31-12-2017	31-12-2016
Due within 1 year	16	24
Due within 1 – 5 years	65	75
Due after more than 5 years	26	41
	107	140

The DEA AG Group has commitments from firm contracts for property, plant and equipment and from field development projects amounting to €626m (previous year: €1,232m) and exploration commitments in the context of concession agreements amounting to €106m (previous year: €57m).

(20) 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	
	31-12-2017/ Jan. - Dec. 2017	31-12-2016/ Jan. - Dec. 2016
Financial receivables	2,043	2,207
Trade accounts receivable	3	0
Financial debt	1,019	1,025
Liabilities from net profit transfer	110	9
Trade accounts payable	9	18
Cost of sales	-	0
General and administrative expenses	9	4
Interest income	83	75
Interest expenses	49	26
Other financial expenses	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 2017 (previous year: €256k). Each Supervisory Board member receives fixed remuneration to an unchanged amount of €20k per calendar year for his or her activities. The Chairman receives double 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 €3m (previous year: €2m), 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 €7m as at 31 December 2017 (previous year: €8m). Pension service costs total €368k (previous year: €351k).

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 2017, the fair value of the long-term performance plan amounts to €301k. In the reporting period, additions to provisions amounting to €199k were recognised as expenses.

(21) 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
Petro Delta [1)]	Operating company for the development and production phase	Cairo, Egypt	12.50
Groupement Reggane	Operating company for the development and production phase	Algiers, Algeria	19.50

1) in the process of liquidation

(22) 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. 2017	Jan. - Dec. 2016
Audit services	704	661
Tax services	139	85
Other services	42	201

Thereof attributable to PwC Germany:

€k	Jan. - Dec. 2017	Jan. - Dec. 2016
Audit services	384	437
Tax services	48	71
Other services	38	159

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.

(23) Events after the balance sheet date

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

(24) 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 Guyana GmbH, Hamburg [1)]	100.00
DEA Idku GmbH, Hamburg [1)]	100.00
DEA International GmbH, Hamburg [1)]	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 Speicher GmbH, Hamburg	100.00
DEA Speicher Holding GmbH & Co. KG, Schechen	100.00
DEA Speicher Management GmbH, Hamburg	100.00
DEA Suez GmbH, Hamburg [1)]	100.00
DEA Suriname GmbH, Hamburg [1)]	100.00
DEA Trinidad & Tobago GmbH, Hamburg	100.00
DEA UK Upstream Limited, London/Great Britain (in liquidation)	100.00
DEA Upstream Polska Sp. z o.o., Warsaw/Poland	100.00
DEA WND GmbH, Hamburg (formerly DEA Speicher Betriebs-GmbH, Hamburg)	100.00
Speicher Breitbrunn/Eggstätt DEA & Storengy GbR, Hamburg	80.28
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
Deutsche Erdoel México S. de R.L. de C.V., Santa Fe/Mexico	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

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
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, GE Power AG

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

Dr Johannes Karlisch (until 31 October 2017)
Responsible for: Commercial

Dirk Warzecha
Responsible for: Operations

Hamburg, 6 February 2018

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, 2017, 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, 2017, 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, 2017. 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, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, 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, 15 February 2018

PricewaterhouseCoopers GmbH

Wirtschaftsprüfungsgesellschaft

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