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Group Annual Report

Vier Gas Transport GmbH

1 January to 31 December 2017

(Translation – the German text is authoritative)

Contents

Group Management Report

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Introduction

The Vier Gas Transport Group is made up of Vier Gas Transport GmbH (VGT), Essen, as the parent company, and its subsidiary Open Grid Europe GmbH (OGE), Essen, with its equity investments.

VGT largely performs a holding company function for OGE. This group management report therefore mainly refers to the business activities of OGE, which is active in the field of gas transport logistics.

OGE is one of Germany's leading natural gas transmission system operators. OGE operates Germany's largest transmission system with a length of approximately 12,000 km. As a network operator, OGE is subject to supervision by the Federal Network Agency (BNetzA), the German regulatory authority, and is bound by both European Union (EU) and German statutory regulations.

OGE's core activities include marketing gas transport capacities (including determining quantities and billing) in the NetConnect Germany GmbH & Co. KG (NCG) market area, operating, maintaining and repairing the pipeline system as well as controlling and monitoring the network and storage stations. Furthermore, the core activities include the efficient further development of the gas transmission pipeline networks in line with demand on the basis of nationwide network development plans.

Vier Gas Services GmbH & Co. KG (VGS), Essen, is the sole shareholder of VGT.

Overall economic development

Gross domestic product (GDP) grew price-adjusted by 2.2% in 2017. This was therefore the highest economic growth since 2011. In the past years consumption was always the main driver of the economy in Germany. In the reporting year, the improved global economic environment also provided increased foreign trade incentives. However, bottom-line foreign trade provided little economic momentum as higher domestic demand also meant higher imports. In summary, the economic upswing in 2017 was broad-based and driven by both domestic demand and foreign trade. The labour market also continued to develop well. In nearly all branches of industry the number of workers paying mandatory social insurance contr butions rose compared with the previous year.

Primary energy consumption in Germany

According to preliminary calculations of the Working Group on Energy Balances (AGEB), primary energy consumption increased slightly in Germany by 0.8% in the reporting year. Gas consumption rose by 5.2% and oil consumption by 3.0%. The increased use of gas in power stations for generating electricity and heat had a considerable effect on the growth of gas consumption. A longer winter and cooler temperatures also led to higher consumption of gas for heating. Demand for renewable energies rose overall by 6.1% in the reporting year. By contrast, consumption of hard coal (10.4%), nuclear power (10.3%) and lignite (0.6%) fell. The fact that consumption rose overall in 2017 is mainly due to the positive performance of the economy.

Energy policy developments in Europe

Network Code Tariff (NC TAR)

The Network Code Tariff (NC TAR) passed through the legislative process in the first quarter of 2017 and entered into force in early April 2017. The object of the Network Code Tariff is to harmonise tariff structures and make the setting and development of fees in the European member states more transparent.

Implementation is taking place in stages. In a first step, the increased transparency requirements are to be met by 1 October 2017. For the German network operators this means initial obligations to implement by 1 December 2017, for example the publication of binding tariffs with effect from 1 January 2018 and the publication of comprehensive key financial and revenue figures, including information on the regulatory asset base. They are to be published on the website of the respective network operator or the European Network of Transmission System Operators for Gas (ENTSOG) transparency platform. OGE met the transparency implementation requirements in full and by the deadline.

Furthermore, the binding network tariffs are, in future, to be published at least 30 days before the start of the annual auctions, i.e. the tariffs for 2020 are to be already published by the end of May 2019. They cannot be subsequently adjusted after that date. The current rules still apply to the network tariffs for 2019. The network tariffs are to be set in accordance with the rules of the NC TAR for the first time by 31 May 2019 with effect from 1 January 2020. Furthermore, in accordance with Art. 26 NC TAR, there is to be a prior two-month consultation period with the market on the method for determining the network tariffs for 2020. The consultation ends with a decision by BNetzA on the method for calculating tariffs and takes place at least every 5 years.

BNetzA leads the consultations. However, the network operators are obliged to provide the necessary data and a report. In order to implement the consultation obligation in accordance with NC TAR, BNetzA has determined requirements for implementing the network code on harmonised gas transmission tariff structures and on capacity allocation mechanisms in gas transmission systems and for repealing Regulation (EU) No. 984/2013 in incentive regulation (INKA, BK9-17-609). Accordingly, the network operators are obliged to make the necessary data and their report available to BNetzA by no later than 31 January 2018. It is planned to then start consultations on 1 April 2018.

Security of Gas Supply Regulation

The Regulation (EU) 2017/1938 concerning measures to safeguard gas supply (Security of Gas Supply Regulation), which entered into force on 1 November 2017, leads in particular to far-reaching cooperation obligations between the member states. For example, they are obliged to conclude bilateral agreements regulating solidarity measures in the event of an emergency. As the authority responsible in Germany, the Federal Ministry for Economic Affairs and Energy (BMWi) has already established various working groups which are being supported by the various associations, also by OGE. In addition to the obligations for the member states, ENTSOG had the obligation to carry out a Union-wide simulation of gas supply and infrastructure disruption scenarios by 1 November 2017. ENTSOG already met this obligation in cooperation with its member companies before the Regulation entered into force. The Regulation requires gas transmission system operators to observe the obligation pursuant to the infrastructure standard to enable bidirectional capacity on all cross-border interconnection points. Although exceptions already granted will initially remain in place, they can be questioned at any time both by the EU Commission and also by the relevant neighbouring member state, which would lead to a new review of the exceptions granted.

NC CAM 2

With the publication of the amended network code for capacity allocation (NC CAM 2) and expiry of the obligatory 20-day period, NC CAM 2 entered into force on 6 April 2017. For OGE, it therefore became necessary to make modifications regarding the information technology it uses. In addition to the introduction of the process to create additional capacities, the “Incremental Capacity Process”, a mechanism was implemented for capacity conversion and the secondary marketing of interruptible capacity products. In 2018, the Europe-wide harmonisation of the general terms and conditions of business will complete implementation of the requirements under NC CAM 2.

Energy policy developments in Germany

Political developments in Germany

The political year 2017 was dominated by the state elections in the Saarland, in Schleswig-Holstein, in North Rhine-Westphalia and in Lower Saxony and the general election. In particular as a result of the coalition negotiations at national level, which lasted several months, only a few (energy) policy initiatives were discern ble.

Amendment to the Gas Grid Access Ordinance (GasNZV)

With the entry into force of the Amendment to the Gas Grid Access Ordinance (GasNZV) on 18 August 2017, some process modifications became necessary for OGE. The fundamental aim of the Amendment is to adapt the national regulations to European requirements (in particular the NC CAM 2). However, in addition to this, national requirements were also re-regulated. These requirements concern, on the one hand, the merger of the two German market areas, GASPOOL Balancing Services GmbH (GASPOOL) and NCG, by 2022 and, on the other hand, capacity marketing and allocation. For example, as of 1 January 2018, domestic network interconnection points are to be marketed on a within-day basis.

Second Act to Amend the Energy Tax Act and the Electricity Tax Act

In August 2017, the Bundestag decided on the continuation of tax benefits for compressed (CNG) and liquefied (LNG) natural gas. With the Second Act to Amend the Energy Tax Act and the Electricity Tax Act, the German federal government extended the tax benefits for CNG and LNG until the end of 2026. However, from 2024 the Act provides for a successive reduction of these tax benefits. In OGE’s opinion, the continued tax benefits support the market initiatives for CNG and LNG mobility.

BNetzA publishes plant demand in accordance with Section 13k of the Energy Industry Act (EnWG)

In accordance with Section 13k EnWG, BNetzA has determined the demand for plants as special network operating equipment to be 1.2 gigawatts (network stability plants). The aim of these plants is to balance out the loss of power station capacities as a result of the phasing-out of nuclear power, above all in Bavaria and Baden-Württemberg. The use of gas-fired power station technology can provide crucial cost advantages here.

Resolution of the Conference of Economic Ministers

In June 2017, the Conference of Economic Ministers (WMK) discussed the exploitation of the opportunities for industry arising from sector linking and expressly stated that gas and the gas infrastructure are key to the energy transition. Consequently, appropriate applications from the states in the Bundesrat or activities of the Federal government are to be expected.

National Diesel Forum and CNG Mobility

In order to broaden the guidelines for German mobility policy following the diesel emissions scandal, the Industry Roundtable of the Volkswagen Group, which was founded in 2017 and of which OGE is a founding member, systematically continued its gas mobility initiative. The broad-based alliance made up of the Vo kswagen Group, gas network operators, operators of CNG filling stations and biotech companies stands together for an immediately effective reduction of CO2 emissions through CNG. The partners have set themselves the joint targets of increasing the CNG fleet in Germany ten-fold and expanding the filling station network to 2,000 locations.

Discussion on the introduction of a CO2 tax

The big political parties currently oppose a German go-it-alone on the introduction of a CO2 tax. In the present legislative period, this will be a relevant topic for the German federal government. The Federal Association of the German Energy and Water Industries (BDEW), the Association of Gas Transmission System Operators (FNB Gas), Zukunft ERDGAS and other associations are currently developing their own positions on this subject.

Energy transition / Intelligent sector linking

In 2017, numerous studies, some involving OGE, were conducted on mastering and financing the energy transition. In many cases, these studies came to the conclusion that intelligent sector linking combined with the greatest-possible openness to new technologies offers promising solutions.

National regulations

In 2017, in accordance with Section 6, para. 1, of the Incentive Regulation Ordinance (ARegV), OGE performed BNetzA's cost examination procedure to determine the base level as a basis for setting the revenue cap for the 3rd regulatory period. In a letter dated 10 July 2017, BNetzA informed OGE of the level of costs it had set for the company for the 3rd regulatory period. BNetzA used this level of costs, determined on the basis of the 2015 calendar year, and the relevant comparability calculation dated 25 July 2017 for determining standardised costs of capital to perform the efficiency comparison in accordance with Section 12 ARegV.

On 15 December 2017, as part of the process for setting the revenue cap for the 3rd regulatory period (2018 to 2022), OGE was informed that it had an efficiency level of 100%. At present, a final decision of BNetzA in the determination process for the 3rd regulatory period is expected in the first half of 2018.

In accordance with Section 9, para. 3, ARegV, from the 3rd regulatory period onwards, BNetzA must determine the general sector-related productivity factor (Xgen) in each case before the start of the regulatory period using state-of-the-art methods. In January 2017, on the basis of an expert report by Wissenschaftliches Institut für Infrastruktur und Kommun kationsdienste GmbH (WIK), BNetzA conducted a market consultation regarding possible calculation approaches. In addition, for determining the Törnqvist productivity index, the network operators were obliged to send BNetzA network operator-specific data for the period 2006 to 2016 by 30 June 2017.

BNetzA opened consultation on determining the Xgen for the 3rd regulatory period Gas (2018 to 2022) on 12 October 2017. In accordance with this determination draft, the Xgen for gas network operators should be 0.88%. On 24 November 2017, BNetzA started a post-consultation with an Xgen of 0.49% on the basis of amended data.

By resolution of 13 December 2017, by way of a provisional order in accordance with Section 72 EnWG, BNetzA set an Xgen of 0.49% for the 3rd regulatory period. The background to the provisional order was delays in the gas efficiency benchmarking, the data of which go into determining the Malmqvist index. The final confirmation on the Xgen of 0.49% was made by resolution dated 21 February 2018 and was published on 28 February 2018 on the website of BNetzA.

On 5 October 2016, BNetzA set the rates of return on capital employed for the 3rd regulatory period. Alongside some 1,100 network operators, OGE lodged an appeal against this before the 3rd Antitrust Senate of the Higher Regional Court of Düsseldorf and is actively leading these proceedings as one of the total of 29 test appeals. In this context, a hearing took place before the Higher Regional

Court of Düsseldorf on 17 January 2018. The subject matter of the proceedings was mainly the questioning of the expert appointed by the court (Prof. Jonas, Warth & Klein). The date for the announcement of the decision of the Higher Regional Court of Düsseldorf in the matter has been set for 22 March 2018.

Network development plans

The expansion of the network is particularly important for the energy transition which has been decided by the German federal government. Both European and national regulations oblige network operators to draw up plans which determine the future network expansion requirements and set out the plans for network expansion.

In line with the EnWG, natural gas transmission system operators have to jointly submit a ten-year network development plan in each even calendar year. In each uneven calendar year, for the first time by 1 April 2017, gas transmission system operators have to submit to the regulatory authority a joint implementation report on the network development plan last published. The implementation reports are largely to present an update of the reporting on the implementation of the network development plans and avoid timing overlaps in the preparation of the network development plan and the preparation of the scenario framework for the next network development plan.

The Gas Implementation Report is prepared in a public consultation process in close cooperation with all market participants affected. All market participants are to be included in the process for preparing the Implementation Report by being given the opportunity to submit comments. In compliance with timetable requirements, the German transmission system operators published the Implementation Report 2017 for the national gas transmission pipeline network pursuant to Section 15b EnWG on 1 April 2017 and submitted it to BNetzA. The Implementation Report 2017 gives a detailed overview listing which confirmed measures set out in the Network Development Plan 2015 have already been implemented, which are currently still under construction and which still have to be performed in the future.

The final version of the Gas Network Development Plan 2016-2026 (NEP Gas 2016) was not decided until 16 October 2017 after publication of the Implementation Report 2017. The plans of the transmission system operators in the final Network Development Plan 2016 for the expansion of the German gas infrastructure provide, among other things, for the expansion of the gas transmission pipelines by an additional 823 km as well as an additional 429 MW of compressor capacity. The total network development plan investment volume is therefore some € 3.9 billion by 2026, of which OGE will account for some € 2.0 billion, that is to say more than 50%.

In addition to describing the current status of plan implementation and comments on foreseeable delays, in a separate chapter the Implementation Report 2017 details the challenges of the plan to permanently convert network areas currently supplied with low calorific value gas (“L-gas”) to high CV quality ("H-gas"), a process which was made necessary by the steady decline in German and Dutch L-gas production levels and which the transmission system operators see as an important element for maintaining gas supply security.

As part of the planning process to switch over from L-gas to H-gas, the transmission system operators produce L-gas balances, both in terms of supply/demand volumes as well as in terms of capacity, for Germany as a whole and for each of the two market areas GASPOOL and NCG. For the purpose of producing these L-gas balances, the transmission system operators forecast supply, storage and demand developments. According to these forecasts, significantly more gas will need to be imported from the Netherlands over the period up to 2030 compared with the second consultation document on the 2016-2026 Gas National Development Plan, with the cumulative total going up from 1,245 TWh to 1,418 TWh (average year). The analyses and assessments of the future transport situation show that the number of gas appliances to be modified each year needs to be revised up from the currently planned maximum of 450,000 to approximately 550,000 per year. The transmission system operators believe that it will be possible to ensure continued supply security for those regions that currently receive L-gas if the switchover works are consistently progressed as planned, temporary technical conversion measures are implemented and the conversion fee charged for the conversion of gas from H-gas to L-gas quality continues in place.

In the Implementation Report 2017, the gas transmission system operators point out that the punctual completion of measures to provide H-gas also depends on how long the approval process by the authorities takes. It is essential for all those involved in the switchover process to provide the resources required if it is to be performed by the deadline and supply security maintained at the same time.

The basis for modelling the Gas Network Development Plan 2018-2028 is the scenario framework that is prepared by the gas transmission system operators and Prognos AG on behalf of the gas transmission system operators. The consultation document was published by the gas transmission system operators on 19 June 2017. For the first time, the gas demand scenarios are based on the European climate goals. The scenario framework was subsequently discussed and amended in a public consultation process with all market participants. BNetzA confirmed the scenario framework for the Gas National Development Plan 2018-2028 with amendments on 14 December 2017. Following confirmation of the scenario framework, the transmission system operators are, in the next step, starting work on the details of the Gas Network Development Plan 2018-2028, which is to be published by 1 April 2018.

Technology

Technical operation and expansion of the gas transmission network ran largely to schedule in the 2017 financial year. Capacity restrictions due to maintenance, repair and integration measures were communicated in good time and information was continually updated on the Internet.

The Group performed various measures to upgrade and expand its technical infrastructure in 2017. These include measures carried out by Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG (MEGAL), Essen, Trans Europa Naturgas Pipeline GmbH & Co. KG (TENP), Essen, Mittelrheinische Erdgastransportleitungsgesellschaft mbH (METG), Essen, Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG (NETG), Dortmund and ZEELINK GmbH & Co. KG (ZEELINK), Essen, which are integrated in the OGE network.

MEGAL, a project company of OGE and GRTgaz Deutschland GmbH, Berlin, is expanding the Rothenstadt compressor station on the basis of the Gas Network Development Plan by increasing compressor capacity by 3 x 15 MW. The building and civil engineering work on the MEGAL Rothenstadt project was completed to schedule in 2017. Pipeline construction for the station has been completed; commissioning and pipeline link-up are to be completed in 2018.

A further MEGAL project is the construction of the Rimpar compressor station on the basis of the Gas Network Development Plan with a compressor capacity of 3 x 11 MW. OGE has started design planning, which is proceeding to schedule.

At the OGE Werne compressor station, the two network development plan projects (expansion and flow reversal) ran to schedule in 2017. As regards the Werne flow reversal project, the commissioning scheduled for 2017 was performed in October. Afterwards, finishing-up work was performed and completion of the project is planned for 2018. The three compressor units (2 x 11 MW and 1 x 22 MW) for the expansion project were delivered. The connection and installation of the first two compressor units began at the end of 2017. Scheduled station outages for the incorporation of the new compressors and components, such as coolers and filters, were performed to schedule. The three compressor units are to be filled with gas by September 2018 and therefore commissioned.

Construction of the main parts of the building of the OGE Herbstein compressor station commenced in February 2016 was completed. Commissioning of the compressor units started in February 2018. The measure is progressing to schedule and commissioning of the entire plant is planned for 2018.

In order to ensure that the emission requirements pursuant to 13th Federal Emission Control Act (BImSchV) are met, a dry low emission system was installed in unit 6 in Werne. After commissioning had been delayed the previous year, this was completed in September 2017. The compressor unit has been available again for gas transport since then.

The detailed engineering for a new compressor unit with electric drive (13 MW) progressed to plan at the OGE Krummhörn compressor station. The building and civil engineering work for the compressor building and the adjacent supply building was largely completed in 2017. Installation and commissioning of the process pipework, the compressor unit with ancillary plant and the construction of the new vent stack are scheduled for 2018. The project opens up the opportunity to use electricity or gas flexibly as operating energy in Krummhörn. So surplus electricity from wind power can be sensibly used and an expansion of the electricity grid is avoided. Here, the gas transmission network is making a meaningful contr bution to the intelligent sector linking of electricity and gas networks.

As part of a preliminary study, planning started for the next expansion stage of the Krummhörn compressor station, the addition of another compressor unit. The gas turbine-driven compressor unit (15 MW) was ordered at the end of November 2017. Basic engineering begins in early 2018.

The OGE Emsbüren compressor station is being extended by a new compressor unit with electric drive (8 MW). The execution planning stage went according to plan in 2017 and the compressor unit has already been ordered. The project is also opening up new possibilities to use electricity or gas flexibly as operating energy in Emsbüren and make a meaningful contribution to the intelligent sector linking of electricity and gas networks.

In line with the Gas Network Development Plan, engineering on the OGE Schwandorf-to-Forchheim gas transmission pipeline (approx. 62 km, DN 1000) was completed in September 2017. Commissioning was performed in December with trial operation. The pipeline from Forchheim to Finsing (approx. 77 km, DN 1000) was officially approved in December 2017. The start of construction activities is scheduled for early 2018.

In line with the Gas Network Development Plan, the official approval process for the OGE gas transmission pipeline from Epe to Legden (15 km, DN 1100) was also successfully completed; this is equivalent to a construction permit from the authorities. Preparations for construction were commenced.

Planning was started for the network development plan projects for the Heiden-to-Dorsten pipeline (15 km, DN 500) and the Erfstadt-to-Euskirchen pipeline (17 km, DN 400) and the application documents for the regional planning procedure are being prepared.

The ZEELINK project, consisting of two compressor stations (3 x 13 MW) in the Aachen and Legden areas and a gas transmission pipeline running from Lichtenbusch to Legden (approx. 215 km, DN 1000) and four gas pressure regulating and metering stations, is proceeding to plan. In March 2017, the first approval processes for the ZEELINK pipeline were successfully completed with the regional planning assessments. In September 2017, the application documents for the in total three official approval processes were submitted on schedule to the district governments in Cologne, Düsseldorf and Münster. Major parts of the detailed design for the compressor stations were completed. Start of construction is scheduled for July 2018.

As part of the switchover from L-gas to H-gas running until 2030, OGE is planning and constructing the gas pressure regulating and metering stations and gas pipes for connecting the former L-gas areas to the H-gas pipelines. In April 2017, Hilter in the hills of the Teutoburg Forest was the first area in the OGE transmission network to switch from L-gas to H-gas. The first five stations for the areas in Lower Saxony and Central Hesse to be switched over were planned in 2017 and will be completed in 2018. Another 20 gas pressure regulating and metering stations are in planning and will be built successively in the next few years.

The Group uses integrity management systems for safety, availability and cost-optimised maintenance. These management systems are used to systematically plan and perform measures to assess the condition and maintain the pipelines and plants. In 2017, ultrasound pigging was performed on a length of 320 km and magnetic flux leakage pigging on a length of 70 km in order to assess the condition of pipelines. As part of the plant integrity management, various inspections, condition assessments and maintenance work were also carried out on plant sections.

During comprehensive inspections, corrosion damage was detected on a section of the TENP 1 pipeline in the area of the weld field coatings. On the basis of these findings and after consultation with the technical experts, the section was shut down. Additional inspections and resulting measures are being performed so that the safety of the pipeline section can also be guaranteed in future. Therefore, only restricted transport capacity is available on certain points in the OGE transmission system until 31 March 2019. Based on current findings, the Group is performing all measures that are necessary and currently poss ble to put the pipeline back into operation. After evaluating the comprehensive inspections in 2017 and the results of the outstanding exposures, the condition of the entire TENP 1 is continuously evaluated on the basis of the findings obtained. However, as the essential results of these measures are not yet available, it is not yet possible to make an assessment of the recommissioning of the decommissioned section of TENP 1. On the basis of current knowledge, all necessary and, at the present time, poss ble measures are taken which are necessary for restarting the pipeline.

In 2017, the number of work-related accidents, measured in terms of TRIFcomb[1], continued to fall on a long-term average and taking account of the proportion of jobs with an increased risk (construction work). In absolute figures, this non-financial performance indicator fell noticeably to 5.3 despite the fact that construction work increased sharply compared with the previous year.

[1] TRIFcomb = Total number of work-related accidents (accidents at work and on the way to and from work) of own employees and subcontractors' employees with medical treatment and/or wi h lost time per one million hours worked.

Non-financial statement in accordance with Section 315b HGB[2]

Environment, climate and energy

The VGT Group attaches particular importance to environmental protection, climate protection and energy efficiency. Meeting and further developing health, safety and environment goals, while taking the requirements of occupational health and safety, environmental protection and energy efficiency into consideration, are major prerequisites for reliable, safe and efficient gas transportation and for the provision of high-quality services for our customers. It goes without saying that in so doing the Group observes the applicable statutory regulations, technical rules/standards and contractual agreements.

Occupational health and safety and environmental protection include an obligation to put processes in place that minimise the risks to health and safety as far as possible for all employees and keep the detrimental effects of our business activities on the environment as small as possible. Therefore, the aim is to avoid work-related illnesses, injuries to persons and accidents as well as damage to the environment. Another goal is to further increase energy efficiency and achieve a lasting reduction in energy demand.

An integrated management system has been developed and introduced in order to control and support the relevant activities; this system meets the requirements of the following standards:

- Quality management in accordance with DIN EN ISO 9001:2015,
- Occupational health and safety management system in accordance with OHSAS 18001:2007,
- Environmental management in accordance with DIN EN ISO 14001:2015,
- Energy management in accordance with DIN EN ISO 50001:2011.

In addition, the management system meets the standards required of a technical safety management system in accordance with the DVGW Code of Practice G 1000. The conformity of the integrated management system with the standards is regularly reviewed by accredited certification bodies.

The main impacts on the environment are in the areas of air pollutants, greenhouse gases and the handling of water pollutants. The gas transport compressor stations operated in the VGT Group are subject to the requirements of the German Greenhouse Gas Emissions Trading Act (CO2-TEHG). Well-established processes ensure that the requirements of the TEHG are implemented. This is confirmed at regular intervals by accredited environmental auditors.

A company-appointed officer for water protection and waste management regularly monitors all plant sites and advises and supports those responsible on site in all questions regarding environmental requirements. The appointment of a waste management officer is voluntary although, on average, only some 2 kt of hazardous and 1.8 kt of non-hazardous waste are produced every year throughout Germany.

Important environmental data in the VGT Group are:

- CO emissions: 0.25 kt[3]
- NOx emissions: 0.48 kt[3]
- CO2 emissions: 431 kt[4]
- Energy consumption - gas: 2.5 GWh[5]
- Energy consumption - electricity: 82.2 MWh[5]

In addition, approx. 0.5 dam³ of liquid fuels (vehicles and emergency/alternative power generation) are consumed.

There were no relevant environmental incidents in 2017.

Employees

At the end of 2017, the VGT Group had 1,358 employees, excluding management and apprentices. The Group trains apprentices for technical and administrative occupations at six locations in North Rhine-Westphalia (Essen), Lower Saxony (Krummhörn), Bavaria (Waidhaus, Wildenranna), Hesse (Gernsheim) und Rhineland Palatinate (Mittelbrunn).

In the VGT Group, the collective wage agreement and various works agreements and policies basically set the framework for the employment conditions of the employees – irrespective of criteria such as gender, race or religion. In this connection, very close cooperation with the codetermination bodies is a matter of course.

[2] In accordance with Section 317, para. 2 HGB, the contents and subject matter of the chapter was not part of the audit by he financial statement auditors.

[3] Report for the year 2016 to the monitoring authorities in accordance with 11th BImSchV.
[4] Total plants subject to emissions trading under TEHG for the year 2016.
[5] Consumption of he compressor stations and manned locations in he year 2016.

The aim is to create working conditions and workplaces that both satisfy the requirements of the field of work and protect the health of the employees. The subject of occupational health and safety, in particular the avoidance of accidents at work, has high priority. This is evidenced by the many training courses, information materials and events on this subject as well as by an occupational health and safety documentation system that is intensively used. In addition, as part of health management, the VGT Group offers its employees a wide range of benefits every year, such as free cancer screening, dietary advice and fitness checks. Height-adjustable desks are also standard in the offices.

In order to enable its employees to reconcile their work and family commitments, the VGT Group offers its employees various working time models providing varying degrees of flexibility and numbers of working hours as well as carer's leave for the immediate family.

Remuneration depends on the relevant position and its evaluation. As jobs differ with regard to the tasks involved, the qualifications required or the amount of respons bility, as part of the job evaluation the “value” of all tasks, responsibilities etc. that the job involves is systemically determined on the basis of qualitative requirement features. Then the job is assigned to a job classification system depending on the relevant evaluation system – either to the pay groups of the applicable collective pay agreement or to the pay classification system for employees outside the collective pay agreement.

The VGT Group offers a comprehensive further training programme to encourage lifelong learning – both with regard to professional qualifications and to social skills. This programme is supplemented by various Human Resources development modules specially designed for various target groups in the company and supporting different career paths.

Social engagement

VGT is aware of its corporate social respons bility. For this reason, OGE has already been running its apprentice training facility in the Altenessen district of Essen for over 70 years. Every year, this facility trains young people in technical occupations. In addition, the company also provides training in administrative professions. This offering is supplemented by apprenticeships for young people in technical occupations at five sites throughout Germany. At the end of 2017, the company ermployed a total of 80 technical and commercial apprentices.

The VGT Group attaches great importance to the subject of integration. In 2016, OGE took on an additional four apprentices from Syria and Iran. In 2017, another two apprenticeships were created for young refugees. Furthermore, OGE underlined the importance of sport for sucessful integration by donating 1,000 footballs to the city of Essen.

Through the annual "Last Few Cents Campaign", the VGT Group and its employees support numerous charity projects, for example in 2017 the Alzheimer Society in Hattingen and Sprockhövel, the Outpatient Childrens Hospice, Möwennest, in Oberhausen or the Women Help Women Association. The "Last Few Cents Campaign" has been running for nearly ten years now. Roughly half of the workforce has joined in and donates the net cent amounts from their monthly salaries to charitable causes. These cents are collected and topped up by the company at the end of the year. Some € 50,000 in donations was raised in the last five years. It helps organisations from different areas to carry on their work and makes wide-ranging social engagement possible.

Compliance

Compliance has top priority in the VGT Group. Compliance with law, regulations and internal policies is regarded as a matter of course and is part of the corporate culture. Compliance creates the framework for corporate actions and serves to safeguard the company's sustained business success.

The subject of compliance has gained considerably in importance in recent years. The reasons for this are, on the one hand, the ever-greater complexity of the statutory and regulatory framework. On the other hand, compliance subjects are nowadays increasingly the focus of public interest. The reputation and economic success of a company can be considerably damaged by compliance violations. Therefore, nowadays, a risk-focused and preventive compliance strategy is more important than ever. For this reason, it is the Groups's declared aim to make compliance with external and internal rules and regulations a self-evident part of the thinking and actions of all bodies, managers and employees.

Group-wide, the following points have been identified as the main focuses in the compliance environment:

- Code of Conduct
- Equal treatment
- Anti-corruption / fraud prevention

- Anti-trust law
- Data protection
- Insider law

The OGE Compliance Office coordinates all compliance activities of the Group and handles the relevant compliance topics. In addition, the Compliance Office is available to all managers and employees as the central contact and advisor on all compliance questions.

The Code of Conduct that has been rolled out throughout the Group is to convey the key principles and rules for lawful and responsible conduct. It is the duty of all employees to live the values and rules that are detailed in this Code of Conduct and in the company policies and to use them as a benchmark for their actions. It is to serve as a basis and guide for every employee in their daily work and create a binding framework for how to deal with business partners, competitors, officials and public institutions.

The Code of Conduct lays down in particular requirements for dealing with business partners, government bodies and other thrid parties, for handling confidential information and for dealing responsibly with the property and resources of the company and, where necessary, refers to explicit rules in other policies.

A whistleblower hotline has been set up on which information can be given on violations of the rules in the VGT Group, in particular with respect to corruption, fraud, anti-trust law and infringements of the Code of Conduct. The information received by the Compliance Office is examined according to clearly defined responsibilities and processes while maintaining strict confidentiality.

VGT commits to taking systematic action against any form of corruption. The aim of the internal anti-corruption policy is to lay down clear rules and respons bilities through which cases of corruption are prevented in good time and to pursue any such cases in a rigorous and consistent manner. In addition, internal training courses are to heighten the awareness of all employees of the risks of corruption.

Investments

As expected, the Group increased its capital expenditure significantly in the 2017 financial year, investing a total of € 509.7 million compared with € 357.5 million in 2016. Of this figure, € 485.9 million was invested in property, plant and equipment (previous year: € 275.0 million).

The Group invested € 280.0 million in the expansion and upgrade of compressor stations. The installation of three new compressor units in Werne accounted for € 64.0 million and a further € 96.3 million was invested in the further expansion of the compressor station in Herbstein, construction of which started in 2015. Further major investments were the construction of a new compressor station in Rothenstadt (a total of € 31.6 million) and in Rimpar (a total of € 5.6 million), the flow reversal project in the Waidhaus compressor station (a total of € 4.9 million) and the replacement of a compressor unit in Mittelbrunn (a total of € 5.8 million) and in Waidhaus (a total of € 2.8 million). Investments amounting to € 25.2 million were made for the construction of the ZEELINK compressor stations in Würselen and Legden.

A total of € 189.0 million was invested in the expansion and upgrade of pipelines. This work included the Schwandorf-to-Forchheim loop line (a total of € 71.3 million), the expansion of the Forchheim-to-Finsing loop line (€ 38.9 million), the re-routing of pipeline No. 56 (€ 7.7 million) and the start of construction of a loop line between Epe and Legden (€ 3.1 million). The construction of the ZEELINK I pipeline accounted for € 18.6 million and the construction of the ZEELINK II pipeline for € 19.4 million.

Other investments accounted for € 41.2 million and included investments in gas metering and regulating systems (€ 22.1 million) and IT projects (a total of € 14.4 million).

Capital expenditure relating to obligations under the network development plan accounted for a total of € 430.8 million (previous year: € 205.3 million).

The value of additions to financial assets increased by € 8.1 million. Additions to financial assets relate mainly to € 7.5 million for the payment of part of the outstanding limited partner contribution to and the acquisition of further shares in GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, Straelen.

Disposals in the amount of € 18.0 million result from a withdrawal from the capital reserve of jordgasTransport GmbH. With regard to the accounting of investments and divestments, we refer to the consolidated statement of changes in investments in section 8 of the notes to the consolidated financial statements.

Financing

Since 1 January 2013, there has been a profit-and-loss transfer agreement with OGE, under which OGE undertakes to transfer its entire profit to VGT and VGT undertakes to offset any losses sustained by OGE. The agreement was concluded for a period of five years and is extended by periods of one year if it is not terminated. Since 1 January 2013, VGT and OGE have formed a tax unit for corporate and trade tax purposes, according to which VGT is the controlling company and OGE the controlled company. OGE and VGT have concluded an income tax allocation agreement to allocate to OGE the taxes on income incurred by OGE in its commercial operations. As a result of the income tax allocations, OGE recognises an income tax liability that it would have incurred if it had not formed a single tax unit with VGT.

In addition, since 1 January 2013, there has also been a profit-and-loss transfer agreement with VGS, under which VGT undertakes to transfer its entire profit to VGS and VGS undertakes to offset any losses sustained by VGT. The agreement was also concluded for a period of five years and is extended by periods of one year if it is not terminated. Furthermore, since 1 January 2013, VGT and VGS have also formed a tax unit for corporate and trade tax purposes, according to which VGS is the controlling company and VGT the controlled company. VGT and VGS also concluded an income tax allocation agreement to allocate to VGT the taxes on income incurred by VGT in its commercial operations. VGT recognises an income tax liability that VGT would have incurred if it had not formed a single tax unit with VGS.

In line with the existing profit-and-loss transfer agreement and in view of considerable future pending investments, the shareholders resolved, after thorough examination, to leave the entire net income of OGE reported for the year under commercial law in the amount of € 122.9 million in OGE by transferring it to the company's revenue reserves.

In 2013, VGT placed three bond tranches with a total volume of € 2,250.0 million on the capital market. The syndicated loan facility in the amount of € 200.0 million concluded by VGT on 20 December 2013 was replaced by a new syndicated loan facility (Revolving Credit Facility, RCF) in the amount of € 600.0 million on 4 August 2017. OGE is also a borrower under the loan and therefore entitled to use the credit line. As of the reporting date, the credit facility had been drawn down in the amount of € 60.0 million. Furthermore, this credit line includes an ancillary facility in the amount of € 1.5 million, which is reserved for surety (e.g. bank guarantees), € 1.0 million of which had been utilised as of 31 December 2017 for the issuing of bank guarantees.

Owing to the long terms of the bonds, which mature in 2020, 2023 and 2025, and of the RCF with an expected term until 2024 (minimum term until 2022), VGT has, overall, a balanced liquidity profile with a wide maturity spread.

In order to cover their obligations arising from pension entitlements, OGE and METG use a Contractual Trust Agreement (CTA). The trust fund set up in this connection is managed on a fiduciary basis by Helaba Pension Trust e.V. (Helaba), Frankfurt am Main. In the 2017 financial year, € 7.1 million was added to the plan assets pension obligations and another € 6.5 million was added for long-term working-time account obligations. Furthermore, the equivalent of the remuneration payments of € 1.1 million made in 2017 for fulfilment shortfalls in connection with part-time phased-retirement programmes was taken from the trust assets over the course of the year.

Features of the internal control system

The Group has a uniform accounting and reporting policy for the consolidated financial statements. This includes a description of the accounting and measurement methods to be applied in accordance with IFRS. Furthermore, there is a binding balance-sheet closing calendar.

In conjunction with the closing processes, additional qualitative and quantitative information relevant to accounting and the preparation of financial statements is compiled. Furthermore, dedicated quality assurance processes are in place for all relevant departments to discuss and ensure the completeness of relevant information on a regular basis.

The consolidated financial statements of the VGT Group are prepared using SAP consolidation software in a multi-stage process. The ongoing accounting and annual financial statement preparation processes are divided into discrete functional steps. Automated or manual controls are integrated into each step. Defined organisational procedures ensure that all transactions and the preparation of the consolidated financial statements and annual financial statements are recorded on an accrual basis, processed and documented in a complete, timely and accurate manner. In addition, quality is assured using the four-eye principle.

The results of this quality-assured process, which is used for the preparation of quarterly and annual financial statements as well as for planning at regular intervals, are the basis of internal management reports, which are used for (Group) management purposes. Key financial performance indicators applied in this context are transport revenues, EBITDA (earnings before interest, tax, depreciation and amortisation – but including equity income) and net debt-asset ratio.

Report on Economic Position

In the following, the Group's main earnings drivers and income statement items are compared with the figures and the prior year's forecast in order to provide a better analysis of the company's situation.

The main driver of the Group's profit is the revenues from OGE's regulated gas transport business.

OGE charges a uniform tariff for entry and exit. Compared with the previous year, this resulted in roughly 8% higher fees for both entry and exit. Whilst the system for calculating the regulated fees remained the same, the higher fees are due in particular to falling capacity bookings. This fall is a result of the customers optimising their booking behaviour by increasingly using the day-ahead and within-day booking options at cross-border and market area interconnection points.

Overall, contrary to expectations, the Group posted a decline in revenues of 2.6% to € 923.0 million in the 2017 financial year (previous year: € 947.9 million). Total revenues comprise revenues from the gas transport business and from the services business. Revenues from the gas transport business and transport-related services amounted to € 803.0 million in the 2017 financial year (previous year: € 827.9 million).

Gas transport revenues were mainly affected by more-than-expected cancellations of transport contracts at the end of the past year that were only partly offset by subsequent bookings during the year. Furthermore, as a result of the fall in volumes, the cost of fuel gas required for gas plant was well below the prior-year figure and the forecasts. Due to these effects, the revenues from the gas transport business were € 54.5 million down on the revenue cap expected and permitted under Article 4 of the Incentive Regulation Ordinance (ARegV). In accordance with the new mechanism of the Incentive Regulation Ordinance, these revenue shortfalls will be spread over the 3-year period from 2019 to 2021 as part of cross-period balancing and will lead to higher revenues in those years.

At € 120.0 million, revenues from the services business were, as expected, on a par with the figure in the previous year (€ 120.0 million).

Cost of materials increased compared with the previous year by some € 11.0 million, which is in particular due to higher market area conversion and biogas levy costs. The lower cost of fuel gas had an opposite effect.

At the end of 2017, the VGT Group had 1,358 employees (previous year: 1,366), excluding management and apprentices. Personnel costs during the financial year totalled € 157.5 million (previous year: € 151.4 million).

Profit before tax fell by € 27.7 million to € 229.2 million, largely as a result of the above-mentioned effects. The Group's net income amounted to € 158.9 million (previous year: € 165.4 million), showing the development that was forecast in 2016. At 17.2%, the profit margin[6] remained at a high level (previous year: 17.5%).

As a key internal control metric, EBITDA is defined as follows:

€ million	31 Dec. 2017	31 Dec. 2016
Income before financial result and taxes	283.5	319.0
Income from equity investments	-0.6	-0.8
Income from companies accounted for using the equity method	15.9	3.3
Depreciation and amortisation	155.1	163.4
Earnings before interest, tax, depreciation and amortisation (EBITDA)	453.9	484.9

EBITDA fell slightly by € 31.0 million compared with the prior-year figure (€ 484.9 million) owing to the aforementioned developments and was therefore in line with the forecast.

The Group's financial result contained interest expense of € 59.8 million (previous year: € 64.9 million), which mainly reflects interest expenses under the VGT bonds and the pro-rata interest expense of the companies MEGAL and TENP (adjusted for capitalised borrowing costs). By contrast, interest income amounted to € 0.1 million (previous

[6] Definition: Consolidated net income for the year divided by revenues.

year: € 0.3 million; for an exact breakdown, see the Notes to the consolidated financial statements).

Income taxes for the Group totalled € 70.3 million (previous year: € 91.5 million). This figure contains deferred tax income in the amount of € 4.0 million (previous year: deferred tax expense of € 0.9 million).

As of 31 December 2017, the Group's total assets amounted to € 4,682.5 million (previous year: € 4,466.8 million), resulting in a debt-asset ratio of 76.6% (previous year: 79.4%; detailed breakdown in the Notes to the consolidated financial statements), which is slightly better than expected. Of the external funds, 7.1% relate to provisions, 79.3% to liabilities and 13.6% to deferred tax liabilities. Financial liabilities contained within liabilities amount to € 2,661.6 million (previous year: € 2,569.7 million). The majority of these liabilities (€ 2,242.1 million) (previous year: € 2,240.7 million) related to bonds issued by VGT. Furthermore, miscellaneous financial liabilities resulted primarily from liabilities of the pipeline companies MEGAL and TENP to banks as well as utilisation of the RCF at VGT in the amount of € 60.0 million. Cash and cash equivalents amounted to € 106.4 million as of 31 December 2017 and therefore decreased by € 83.0 million year on year. This development is in line with the forecast made in the previous year. Of the Group's total assets, non-current assets accounted for € 4,372.1 million as of the reporting date (previous year: € 4,044.0 million).

In the 2017 financial year, the Group generated cash flow from operating activities in the amount of € 388.4 million (previous year: € 460.8 million). Cash used for investing activities totalled € -433.7 million in 2017 (previous year: € -346.9 million).

Cash used for financing activities amounted to € -37.7 million (previous year: € -74.2 million) and mainly comprised payments to the parent company, VGS, in the amount of € -54.6 million (previous year: € -49.1 million), cash interest payments under VGT bonds and loans of the companies MEGAL and TENP as well as utilisation of the RCF at VGT in the amount of € 60.0 million. Cash flow was therefore appreciably down on the forecast made in the previous year.

In summary, it can be said that the Group's net assets, financial position and results of operations were positive and secure for the financial year and as of the reporting date.

Report on opportunities and risks

The Group's opportunities and risks are determined by its main companies.

In its business operations, the Group is exposed to a large number of risks connected with its activities. In line with the requirements of the Corporate Sector Control and Transparency Act (KonTraG), the aim of the Group's internal risk management system is to use a management and control system to identify and record risks which might threaten the continued existence of the company and, if necessary, to take appropriate counteraction.

The basis for risk management is the opportunity and risk policy which is binding throughout the Group. Risk reporting is an integral part of the internal control system, thus ensuring the continual identification and evaluation of significant opportunities and risks.

Description of the opportunity and risk management process

The opportunity and risk situation of the Group is assessed and documented every quarter in a standardised process. The OGE Management and the Supervisory Board are regularly informed as part of this process. The aim of the process is to recognise significant opportunities and risks at an early stage and – wherever poss ble and necessary – take action to exploit opportunities or mitigate risks.

A risk/opportunity is defined as an event which leads to a deviation from the mid-term planning, which covers a period of 5 years.

Risks are evaluated with regard to probability of occurrence and poss ble net impact (i.e. maximum impact of the event on profit before tax and/or liquidity) and their cumulative impact over the 5-year period reported to the OGE Management. The reporting threshold per individual case is a cumulative net impact of € 10.0 million over the 5-year period. The net impact is defined as the value of the risk after allowance for precautionary measures in the worst case. Risks with a probability of occurrence of more than 50% are always included in the mid-term planning. In addition, potential opportunities are also recorded.

Risks in the order of magnitude of € 100.0 million and more in the above-mentioned period are considered to be significant. Risks of this order of magnitude are reported to the OGE Supervisory Board.

Significant risks

Significant risks are classified according to probability of occurrence and net impact as shown in the following table:

Probability of occurrence in %	Low	≤ 5
	Moderate	> 5 ≤ 20
	High	> 20
Cumulative net impact in € million over 5 years	Low	≥ 100 ≤ 200
	Medium	> 200 ≤ 300
	High	> 300

Regulatory framework: The risk situation of OGE is largely governed by the regulatory environment. As a regulated company, OGE's earnings situation and earnings prospects are directly dependent upon decisions made by the regulatory authorities. Important parameters affecting regulated revenues are the approval of the cost base, return on equity, the general sectoral productivity factor and the company-specific efficiency figure. The decisions of the authorities affect the company's revenues, earnings and liquidity situation.

Probability of occurrence: moderate; net impact: high

Investment requirements: Due to the high intensity of investments that the OGE business involves, additional investment requirements may lead to considerable additional funding requirements in the medium term. However, against the background of regulation, frequent opportunities arising from additional transport revenues are to be weighed against these additional investments.

For example, additional expansion measures may result from changes in the network development plan.

External influences such as natural disasters may partly or completely destroy important plant (e.g. compressor stations), which may lead to temporary interruptions or a local outage preventing gas transportation. In addition to temporary losses of earnings, any necessary reconstruction work may require additional financing.

Probability of occurrence: low; net impact: high

The increasing age of plants or changes in legal requirements (e.g. emission regulations) may make unscheduled investments necessary.

Probability of occurrence: moderate; net impact of the individual risks: medium

Information technology: OGE uses complex information technology (IT) to operate and control the pipeline network.

As a consequence, there are fundamentally risks of the failure of parts of the IT systems leading to temporary impairments to business activities. Failure may be the result of deliberate, unauthorised modification (external access) and / or an impairment of functionality due to errors occurring during operation or hardware and software component faults. This could affect both marketing systems and network control systems. A failure of the network control systems could, in the worst case scenario, lead regionally to a total failure of the gas supply system for several days.

Probability of occurrence: low; Net impact: high

Integrity breaches may also affect both the marketing and the network control systems. System errors or system failure may mean that proper handling of network control or transport capacity marketing can no longer be guaranteed. This may lead to claims for compensation by shippers.

Probability of occurrence: low; net impact: medium

OGE safeguards against these risks with redundant systems as well as comprehensive quality assurance and access protection systems. In the last financial year, OGE was officially certified by TÜV Rheinland according to BNetzA's IT security catalogue which is binding for all network operators. The legal requirements are met.

Transport business operation: To ensure fault-free operation of the transport business, OGE employs high quality standards and sophisticated quality assurance concepts. Nevertheless, errors and resultant claims for compensation by customers cannot be entirely excluded.

Probability of occurrence: low; net impact: high

Technical plant and on-site conditions: Local site conditions change over the course of time (e.g. changed soil conditions due to erosion). As a result, measures to restore the original conditions may be necessary.

Probability of occurrence: low; net impact of the individual risks: low

Risks which are not significant

OGE generates the majority of its revenues from the marketing of transport capacities with a small number of key accounts.

Due to the regulatory account system, terminations of long-term capacity bookings only lead to temporary declines in revenues. Resulting revenue shortfalls in comparison to the approved revenue cap are recognised in the so-called regulatory account, bear interest and are balanced out through an adjustment of the calendar-year revenue cap in future financial years. There is therefore no sustained risk from fluctuations in demand. The syndicated credit line also minimises the liquidity risk.

Financial risks

In the normal course of business, the Group is exposed to various financial risks: market risks (covering foreign exchange risks, interest-related risks due to changes in the fair value, interest-related cash flow risks and market price risks), credit risks and liquidity risks. The overarching Group risk management focuses on unforeseeable developments in the financial markets and its aim is to minimise the potentially negative effects on the Group's financial situation. The Group uses derivative financial instruments to hedge certain risks.

Risk management is performed decentrally both by the Finance department of the service provider OGE and by the Investment Controlling department of the shareholders. Financial risks are identified, assessed and hedged in close cooperation with the Group's operational units. Owing to the very limited volume of transactions in foreign currency as well as the only occasional raising and securing of loans, the currency risks, interest rate risks and credit risks are handled and the use of derivative and non-derivative financial instruments is agreed on a case-by-case basis with the relevant bodies of the company affected.

Foreign currency risks may largely arise from procurement transactions with business partners outside the eurozone. When such non-euro-based procurement transactions are conducted, foreign currency forwards are used to hedge the foreign currency risk. Due to the very limited volume of transactions in foreign currency, the Group is currently only exposed to an insignificant foreign currency risk.

The Group's interest rate risks arise from long-term interest-bearing liabilities. The liabilities with floating interest rates expose the Group to interest-related cash flow risks which are partly offset by bank balances with floating interest rates. The liabilities with fixed interest rates result in an interest-related risk arising from changes in the fair value.

The long-term focus of the business model basically means meeting a high proportion of financing requirements at fixed interest rates. In the Management's opinion, VGT therefore has an interest risk from long-term interest-bearing liabilities in addition to the refinancing risk fundamentally existing on expiry of loans. The liabilities with fixed interest rates basically give rise to a risk of higher financing costs when refinancing has to be performed in future.

In the Management's opinion, credit risks at OGE - and therefore at VGT - result from cash and cash equivalents, derivative financial instruments and deposits at banks and financial institutions as well as from the utilisation of credit facilities by customers involving outstanding receivables and transactions performed. In the financing area, the Group only works with banks with an independent rating given by the three big rating agencies. For cash investments, the rating must be at least "BBB+" to "A-" (Standard & Poor's, Fitch) or "Baa1" to "A3" (Moody's), while for borrowings, on average the rating must be at least “BBB” (Standard & Poor's, Fitch) or „Baa2“ (Moody's) (the focus being on the “unsecured long-term rating” if available). The ratings of all banks as well as other indicators of credit standing (such as current prices of credit default swaps) are continuously monitored.

As long as the Group meets its duty of diligence in the general credit assessment of its customers, payment defaults of individual customers are balanced out as part of the regulated tarification. Therefore, the credit risk from key accounts is only a temporary phenomenon.

In the past, there have been no significant payment defaults. The Management is also not expecting any defaults in future as a result of non-performance by these business partners.

The cash flow forecasts are prepared centrally for every major operating company and combined into a Group forecast. The Management monitors the rolling advance planning of the Group's liquidity reserve to ensure that sufficient liquidity is available to cover operational requirements and that unutilised credit facilities provide enough flexibility at all times. Such forecasts take into account the Group financing plans, compliance with loan agreements, the meeting of internal target balance sheet figures as well as, where applicable, external statutory or official requirements.

Disclosures in accordance with Section 315, para. 2, No. 1 HGB

There are foreign exchange risks for the VGT Group from procurement transactions with business partners outside the eurozone. If required, derivative financial instruments are concluded exclusively for hedging purposes. The Group had no hedges in its financial portfolio at the end of the financial year 2017.

As of 31 December 2017, interest rate risks due to market interest rate fluctuations of the Euribor from floating-rate loans at the Group company, TENP, in the amount of € 137.5 million (nominal amount) and the Group company, MEGAL, in the amount of € 135.0 million (nominal amount) are hedged by swap agreements as part of measurement units. These interest swaps are microhedges, which are given prospective effectiveness through matched maturities and volumes.

Opportunities

The main opportunities are through additional increases in efficiency compared with the approved revenue cap. However, due to the regulatory framework these are only of a temporary nature. Moreover, further opportunities and risks are possible as the regulatory framework may change. The risk of higher expansion obligations because of a changed network development plan also presents, on the other hand, an opportunity for higher returns from additional investments.

Overall assessment of opportunity and risk situation

In summary and as in the previous year, the Management sees no risks threatening the continued existence of the company as of the reporting date and for the forecast period and considers the Group's risk-bearing capability to be fully ensured.

Material legal disputes

In May 2016, a shipper filed an application with BNetzA to initiate abuse proceedings aimed at obliging OGE to make within-day transport capacities available for booking to all shippers at all network entry and exit points. BNetzA dismissed the application in the autumn of 2016 as unfounded. The shipper filed an appeal against this decision with the Düsseldorf Higher Regional Court. After withdrawal of the appeal lodged by the shipper, the decision became final in 2017. In September 2016, a storage facility operator filed an application with BNetzA to initiate abuse proceedings against OGE for its refusal to give the storage facility operator a network connection to the OGE H-gas network. In March 2017, BNetzA decided that the network connection obligation in accordance with Section 17 EnWG had not been met sufficiently and obliged OGE to establish the connection without delay. OGE initially lodged an appeal against this decision with the Higher Regional Court of Düsseldorf but has withdrawn this again owing to a change occurring in the meantime in the availability of volumes and capacities of Dutch L-gas.

In January 2017, a shipper initiated abuse proceedings, against OGE among others, in which OGE's obligation to grant non-discriminatory network access in accordance with Section 20, para. 1 EnWG at a concrete entry and exit point was to be examined. BNetzA issued a final decision in favour of OGE in June 2017.

Furthermore, in December 2016 OBNETZAGE lodged an appeal before the Higher Regional Court of Düsseldorf against BNetzA's decision on the rates of return on capital employed for the 3rd regulatory period. The court's decision is expected on 22 March 2018.

Forecast report

According to the forecast on the overall economic situation made by the German Council of Economic Experts, the German economy is expected to continue to grow strongly in 2018. GDP is forecast to increase to 2.2% on an annual average.

With effect from 1 January 2018, OGE adjusted the standard transport fees for entry and exit. As a result, fees for entry and exit are some 9% higher than in 2017. The system for charging authority-regulated fees remained unchanged. The higher fees are due in particular to higher amounts passed on for the market area conversion charge.

Furthermore, the expansion measures provided for in the gas network development plan continue to have an effect. This expansion work will not only strengthen supply security in Germany but also permit the start of L/H-gas market area conversion in North Rhine-Westphalia, Lower Saxony and Hesse.

Overall, the Management is expecting transport revenues in 2018 to be slightly higher than in 2017.

Revenues of the services business are expected to be on a par with the 2017 financial year. The cost of materials is also forecast to be slightly higher than in the 2017 financial year.

Appreciably lower interest expenses from the measurement of provisions are expected in the financial result. However, this effect will be partly offset by income from equity investments, which is expected to decrease appreciably compared with the prior-year figure.

In addition, expected higher tax charges have had an effect in the 2017 financial year. In view of the above-mentioned effects, the Management anticipates that EBITDA as well as net income for the Group in 2018 will be slightly lower than the figure for the 2017 financial year.

Continued high capital expenditure on measures under the network development plan is forecast to lead to slightly lower total investments forecast for the reporting year.

Owing to the expected development of results and investments, cash flow for 2018 is expected to be appreciably above the level of the 2017 financial year. Net debt-asset ratio is expected to be slightly above the level of the 2017 financial year. In summary, the Management believes that the company's liquidity situation will be stable and secure.

In the field of occupational safety, the Management's aim is to confirm the previous trend towards a reduction in the number of workplace accidents and to further develop the safety culture. In order to achieve this, appropriate measures have been either put in place or continued.

Consolidated Financial Statements

Vier Gas Transport GmbH

1 January to 31 December 2017

Contents

Consolidated Balance Sheet

in € million	Note	31 Dec. 2017	31 Dec. 2016
Assets			
Non-current assets			
Intangible assets	4.3	41.8	54.4
Goodwill	4.2	830.4	830.4
Property, plant and equipment	4.4	3,346.4	2,990.4
Financial assets	4.5	153.5	168.8
Companies accounted for using the equity method		*121.0*	*126.5*
Other financial assets		*32.5*	*42.3*
Deferred tax assets	4.11	26.9	24.5
Non-current receivables	4.6	69.6	88.6
Total		**4,468.6**	**4,157.1**
Current assets			
Inventories	4.7	30.4	32.6
Trade receivables (including advance payments made)	4.8	33.6	30.9
Receivables from tax creditors	4.8	13.6	7.8
Other receivables	4.8	29.9	49.0
Cash and cash equivalents	4.9	106.4	189.4
Total		**213.9**	**309.7**
Total assets		**4,682.5**	**4,466.8**

in € million	Note	31 Dec. 2017	31 Dec. 2016
Equity and liabilities			
Equity			
Subscribed capital	4.10	-	-
Additional paid-in capital	4.10	925.6	925.6
Retained earnings	4.10	139.7	26.2
Accumulated other comprehensive income	4.10	-1.7	-2.3
Total		**1,063.6**	**949.5**
Non-current liabilities			
Provisions for pensions and similar obligations	4.12	130.2	134.3
Other provisions	4.13	92.5	97.0
Financial liabilities	4.14	2,553.2	2,493.1
Other non-current liabilities	4.14	29.4	27.0
Deferred tax liabilities	4.11	492.8	490.1
Total		**3,298.1**	**3,241.5**
Current liabilities			
Other provisions	4.13	34.3	41.3
Financial liabilities	4.14	108.4	76.6
Trade payables	4.14	81.7	54.6
Income tax liabilities	4.14	0.0	2.3
Other liabilities	4.14	96.4	101.0
Total		**320.8**	**275.8**
Total equity and liabilities		**4,682.5**	**4,466.8**

For mathematical reasons the tables may include rounding differences of +/- one unit (€, % etc.).

The notes on pages 1 to 46 are an integral part of these consolidated financial statements.

Consolidated Income Statement

in € million	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Revenues	5.1	923.0	947.9
Changes in inventories		0.3	-0.8
Own work capitalised	5.2	26.2	26.0
Cost of materials	5.4	-297.5	-286.5
Personnel costs	5.5	-157.5	-151.4
Depreciation and amortisation	5.7	-155.1	-163.4
Other operating income	5.3	25.8	27.3
Other operating expenses	5.6	-81.7	-80.1
Income before financial result and taxes		**283.5**	**319.0**
Income from equity investments		-0.6	-0.8
Income from companies accounted for using the equity method		15.9	3.3
Interest result		-59.7	-64.6
of which interest expense		*-59.8*	*-64.9*
Impairment of financial assets		-9.9	0.0
Financial result	**5.8**	**-54.3**	**-62.1**
Earnings before tax		**229.2**	**256.9**
Current taxes		-74.3	-90.6
of which income tax allocation		*-73.5*	*-84.8*
Deferred taxes		4.0	-0.9
Income taxes	**5.9**	**-70.3**	**-91.5**
Net income		**158.9**	**165.4**
Share in net income attributable to the sole shareholder of the parent company		158.9	165.4

For mathematical reasons the tables may include rounding differences of +/- one unit (€, % etc.).

The notes on pages 1 to 46 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

in € million	Note	31 Dec. 2017	31 Dec. 2016
Net income		**158.9**	**165.4**
Other comprehensive income		**8.9**	**-40.8**
Reclassifiable OCI		0.6	0.1
Cash flow hedges	*4.10*	*0.9*	*0.2*
Deferred taxes	*4.10*	*-0.3*	*-0.1*
Not reclassifiable OCI		8.3	-40.9
Remeasurement of defined benefit plans	*4.10*	*12.3*	*-50.0*
Deferred taxes	*4.10*	*-4.0*	*9.1*
Comprehensive income		**167.8**	**124.6**
Share in net income attributable to the sole shareholder of the parent company		167.8	124.6

For mathematical reasons the tables may include rounding differences of +/- one unit (€, % etc.).

The notes on pages 1 to 46 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in € million	Subscribed capital*	Additional paid-in capital	Retained earnings	Change in accumulated other comprehensive income Cash flow hedges	Total
1 Jan. 2017	.	925.6	26.2	-2.3	949.5
Comprehensive income			**167.2**	**0.6**	**167.8**
Net income			158.9		158.9
Other comprehensive income			8.3	0.6	8.9
Remeasurement of defined benefit plans			*8.3*		*8.3*
Change in accumulated other comprehensive income				*0.6*	*0.6*
Profit transferred			**-53.7**		**-53.7**
of which profit transferred in advance			-45.0		-45.0
31 Dec. 2017	.	925.6	139.7	-1.7	1.063.6

*The subscr bed capital of VGT is € 25k. It is fully paid in and unchanged over the previous year.

For mathematical reasons the tables may include rounding differences of +/- one unit (€, % etc.).

The notes on pages 1 to 46 are an integral part of these consolidated financial statements.

in € million	Subscribed capital*	Additional paid-in capital	Retained earnings	Change in accumulated other comprehensive income Cash flow hedges	Total
1 Jan. 2016	.	925.6	-63.7	-2.4	859.5
Comprehensive income			**124.5**	**0.1**	**124.6**
Net income			165.4		165.4
Other comprehensive Income			-40.9	0.1	-40.8
Remeasurement of defined benefit plans			*-40.9*		*-40.9*
Change in accumulated other comprehensive income				*0.1*	*0.1*
Profit transferred			**-34.6**		**-34.6**
of which profit transferred in advance			-25.0		-25.0
31 Dec. 2016	.	925.6	26.2	-2.3	949.5

*The subscr bed capital of VGT is € 25k. It is fully paid in and unchanged over the previous year.

For mathematical reasons the tables may include rounding differences of +/- one unit (€, % etc.).

The notes on pages 1 to 46 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

in € million	Note	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Cash provided by operating activities		**388.4**	**460.8**
Net income		158.9	165.4
Depreciation and amortisation/ impairment charges	5.7, 5.8	165.0	163.4
Changes in provisions		9.1	19.2
Changes in deferred taxes	5.9	-4.0	0.9
Dividends received[1]		16.8	16.0
Changes plan assets		-12.4	3.0
Interest received	5.8	0.1	0.2
Other adjustments		53.4	58.9
Changes in operating assets, liabilities and income tax		1.9	33.1
Inventories		*2.1*	*-1.3*
Trade receivables		*-2.6*	*-7.0*
Other operating receivables and tax claims		*-7.5*	*-29.6*
Trade payables		*6.2*	*23.1*
Other operating liabilities and tax obligations		*3.7*	*47.9*
Loss / gain from disposal of assets		-0.4	0.7
Intangible assets and property, plant and equipment		*-0.4*	*0.7*
Cash used for investing activities		**-433.7**	**-346.9**
Proceeds from the disposal of intang ble assets and property, plant and equipment	4.3, 4.4	1.8	0.1
Proceeds from the disposal of other equity investments and equity-accounted investments		18.0	0.0
Purchases of investments in intangible assets and property, plant and equipment	4.3, 4.4	-469.6	-261.0
Purchases of other equity investments and equity-accounted investments	4.5	-7.7	-70.7
Proceeds from / purchases of other financial investments		23.8	-15.3
Proceeds from the disposal of other financial investments		*24.1*	*0.5*
Purchases of other financial investments		*-0.3*	*-15.8*
Cash used for financing activities		**-37.7**	**-74.2**
Interest paid	5.8	-66.3	-65.1
Proceeds from financial liabilities		162.9	164.3
Repayments of financial liabilities		-72.6	-119.8
Dividends paid[2]		-61.7	-53.6
Changes in cash and cash equivalents		**-83.0**	**39.7**
Cash and cash equivalents at beginning of period		**189.4**	**149.7**
Cash and cash equivalents at end of period	**4.9**	**106.4**	**189.4**

[1] Including in 2017 dividends received from non-consolidated equity investments as well as the distribution from outside shareholders resulting from joint operations amounting to € 0 3 million (previous year: € 0.2 million).
[2] The dividends paid consist in particular of the transfer of the profit for the 2016 financial year in the amount of € 9.6 million and the advance profit distribution in the amount of € 45.0 million to VGS (previous year: remaining profit transfer for the 2015 financial year in the amount of € 24.1 million and advance profit transferred in the amount of € 25.0 million). In addition, distributions to outside shareholders resulting from joint operations in the amount of € 7.1 million are presented (previous year: € 4.5 million).

Additional information on cash provided by operating activities

in € million	31 Dec. 2017	31 Dec. 2016
Income tax paid (minus refunds)	-2.5	-2.3
Non-cash income and expenses from equity adjustment	5.0	-3.0

For mathematical reasons the tables may include rounding differences of +/- one unit (€, % etc.).

Further information on the consolidated cash flow statement is given in section 6.1 of the Notes to the consolidated financial statements.

The notes on pages 1 to 46 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements of Vier Gas Transport GmbH for the Financial Year from 1 January 2017 to 31 December 2017

1 Basic information

The registered head office of Vier Gas Transport GmbH (“VGT” or “the Company”) is Kallenbergstraße 5, 45141 Essen. The sole shareholder is Vier Gas Services GmbH & Co. KG, Essen (“VGS”). VGS is therefore the ultimate domestic parent company of the Group and in principle obliged to prepare consolidated financial statements. However, since Vier Gas Holdings S.à r.l. ("VGH"), Luxembourg, publishes consolidated financial statements and a Group management report as the highest European parent company in the Group, in accordance with Section 291 HGB (German Commercial Code) VGS is exempt from preparing consolidated financial statements and a Group management report. VGS is invoking this exemption. VGT is a capital market-oriented corporation within the meaning of Section 264d HGB. As capital market-oriented parent company domiciled in Germany, VGT is obliged to prepare consolidated financial statements pursuant to Section 315e of the German Commercial Code (HGB).

The Company is registered under HRB 24299 in the commercial register of the Essen local court.

The object of the Company is to acquire, hold and manage as well as sell equity investments in companies or their assets and every action or measure connected therewith and the provision of services of any nature for its subsidiaries, including but not limited to the provision of financial services.

The business operations of the Group are conducted by Open Grid Europe GmbH (“OGE”), Essen, including its equity investments (“OGE Group”). OGE performs the activities of a gas transmission network operator and is subject to supervision by the Federal Network Agency (BNetzA), the German regulatory authority. Furthermore, OGE provides services for the gas industry.

The financial year is the calendar year.

On 14 March 2018, these consolidated financial statements were approved by the Management for publication.

2 Summary of Significant Accounting Policies

2.1 Basis of presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), the interpretations of the International Accounting Standards Board (IASB) as well as the commercial provisions to be applied in accordance with Section 315e (1) HGB.

The consolidated financial statements of the VGT Group are generally prepared based on historical cost, with the exception of available for sale financial assets that are recognised at fair value and of financial assets and liabilities (including derivative financial instruments) recognised at fair value through profit or loss.

The preparation of IFRS consolidated financial statements requires management to make estimates. Furthermore, the application of Group-wide accounting policies requires management assessments to be made.

In accordance with IAS 1 “Financial Statements: Presentation”, the consolidated balance sheet has been prepared using a classified balance sheet structure. Assets that will be realised within twelve months of the reporting date as well as liabilities that are due to be settled within one year of the reporting date are classified as current.

The consolidated income statement is classified using the nature-of-expense method.

Unless otherwise stated, all figures are in million euros (€ m). Figures under 50 thousand euros are indicated in the tables by the insertion of a full stop.

2.2 Effects of new accounting standards

Accounting standards and interpretations applied for the first time

All new, amended or revised accounting standards are generally applied from the date when the EU requires mandatory application.

In the 2017 financial year, the Group applied the following new or amended standards and interpretations for the first time.

Amendments to IAS 7 – Statement of Cash Flows

As of 1 January 2017, the Group implemented the amendments to IAS 7 "Statement of Cash Flows" made under the IASB disclosure initiative. These amendments require additional disclosures regarding changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accounting standards and interpretations published but not yet applied

New, amended or revised standards and interpretations that have been published but whose adoption is not yet mandatory in the financial year and their impact on the consolidated financial statements are explained in the following:

IFRS 9 – Financial Instruments

The IASB published the new standard IFRS 9 "Financial Instruments" in July 2014. The EU has adopted this standard into European law. Accordingly, the application of the amendments is mandatory for financial years beginning on or after 1 January 2018.

The IFRS 9 results in a change in the classification and measurement of financial assets and financial liabilities. New hedge accounting rules and requirements are introduced and the previous impairment model is modified.

All financial assets of the Loans and Receivables category under IAS 39 continue to be measured at amortised cost in the Group in accordance with IFRS 9. There were no effects on the balance sheet from the reclassification of these financial instruments.

The Group will make use of the option under IFRS 9.4.1.4 to measure financial investments in equity instruments at fair value through other comprehensive income (FVTOCI). At initial application the Group does not hold any significant equity instruments to which this option is to be applied.

There are no changes regarding the classification and measurement of financial liabilities. The Group does not hold any liabilities designated as at fair value through profit or loss.

The previous impairment model has been replaced by the expected loss model, as a result of which impairment allowances for expected credit losses are recognised in profit or loss at initial recognition. The expected loss model is applied to financial assets which are not subsequently measured at fair value through profit or loss and which are not equity instruments for which fair value changes are recognised in other comprehensive income as well as to contract assets as defined in IFRS 15. At the date of initial application, implementation of the new impairment model will not result in any material effects on the Group's net assets, financial position and results of operations.

The Group will make use of the option under IFRS 9.5.5.15 (b) to measure impairment losses of lease receivables using the simplified impairment model.

The new hedge accounting rules and requirements will not have any effect. Existing hedging relationships continue to be recognised unchanged under IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB published the new standard IFRS 15 "Revenue from Contracts with Customers". This standard replaces existing guidelines on the recognition of revenue such as IAS 18 "Revenue" and IAS 11 "Construction Contracts". Revenue from contracts with customers will in future be recognised when control of a product or a service passes to the customer.

Following the adoption of IFRS 15 into European law, application of this standard is mandatory for financial years beginning on or after 1 January 2018. Early adoption is permitted. The Group will apply IFRS 15 for the first time for the financial year beginning on 1 January 2018 according to the fully retrospective method.

The existing contracts in the Group were fully examined with regard to potential changes in revenue recognition. No contracts were identified that will lead to a change in revenue recognition when IFRS 15 enters into effect.

Contracts that have so far been accounted for as construction contracts under IAS 11 and where revenue is recognised using the percentage-of-completion method (PoC) will in future using the same method lead to a recognition of revenue over time.

The effects of transitioning to IFRS 15 are limited to changes in presentation in the balance sheet and more extensive disclosures in the notes. Following the introduction of IFRS 15, the new contract assets and contract liabilities line items are presented under receivables and liabilities in the balance sheet. In the contract assets line item, the entitlement to a consideration from a contract with a customer for goods and services already transferred to the customer is presented net of any advance payments already received – or the unconditional entitlement thereto. If the advance payments received – or the unconditional entitlement thereto – exceed the entitlement to a consideration for goods and services already transferred to the customer, the resulting balance is recognised in the contract liabilities line item.

As IFRS 15 contains no specific requirements, expected losses from executory contracts are not netted against assets recognised in accordance with IAS 11, but treated in accordance with IAS 37.5(g). This results in the presentation of a provision for expected losses in the amount of the unavoidable costs.

The effects on the balance sheet are as follows:

in € million	Carrying amount under IAS 18 and IAS 11 31 Dec. 2017	Reclassification	Carrying amount under IFRS 15 31 Dec. 2017
Non-current assets			
Non-current receivables	29.9	-29.9	0.0
Current assets			
Other receivables	0.0	+6.9	6.9
Non-current liabilities			
Other provisions	.	0.0	.
Current liabilities			
Other liabilities	46.3	-23.0	23.3

IFRS 16 – Leases

IFRS 16 "Leases“ was published by the IASB in January 2016. The EU has adopted this standard into European law. Accordingly, application of the amendments is mandatory for financial years beginning on or after 1 January 2019. This new standard replaces the previous lease accounting standard IAS 17 and the Interpretations IFRIC 4, SIC-15 and SIC-27. In future lessees will be required to recognize all leases in the balance sheet in the form of a right-of-use asset and a corresponding lease liability.

The Group will apply the standard for the first time with effect from 1 January 2019 using the modified retrospective transition scenario. The introduction project was started in the Group in 2016 and is not yet completed.

The Group currently does not plan to extend the scope of application of IFRS 16 to intangible assets. In addition, the accounting options for short-term leases and leases of low-value items are generally to be exercised in that a right-of-use asset and a corresponding lease liability will not be recognised in the balance sheet. The software solution for presenting leases has already been implemented. The collecting of information on the relevant lease contracts and the detailed evaluation of these contracts has not yet been completed. Therefore, concrete statements on the effects of the standard on the consolidated balance sheet cannot yet be made. However, from a current perspective no material effects are expected.

IAS 19 – Employee Benefits

In February 2018, the IASB issued amendments to IAS 19 "Plan Amendment, Curtailment or Settlement". These amendments clarify that after a plan amendment, curtailment or settlement during a reporting period the current service cost and the net interest for the remainder of the reporting period are to be recalculated. The amendments to IAS 19 have not yet been adopted into European law. The IASB has specified first-time application for financial years beginning on or after 1 January 2019. The possible effects on the Group are currently being examined.

2.3 Consolidation policies and scope of consolidation

(a) Subsidiaries

Subsidiaries are all entities in which the Group is exposed to variable returns from its involvement with the entity or has rights in the entity and has the ability to affect those returns through its power over the entity (control as defined in IFRS 10).

Subsidiaries are included in the consolidated financial statements of VGT (full consolidation) from the time at which control passes to VGT. They are deconsolidated at the time at which control ends.

As of the reporting date and unchanged compared with the prior year, four domestic subsidiaries taken over as part of the acquisition of the OGE Group were fully consolidated. The fully consolidated subsidiaries are controlled by virtue of the fact that VGT holds the majority of the voting rights either directly or indirectly. Subsidiaries are not consolidated as long as their net assets, financial position and results of operations are immaterial for the consolidated financial statements of VGT. In accordance with IAS 39, these subsidiaries are accounted for at cost and shown under financial assets. This applied to three domestic companies and thus remains unchanged compared with the prior year.

(b) Joint Arrangements

Companies which, in accordance with IFRS 11, have been classified as joint operations are, for the purposes of simplification, generally proportionately consolidated in line with the share of ownership interest, with the exception of expansion investments involving only one joint operator. These are recognised in full in the consolidated financial statements of that joint operator.

All material transactions and balances between joint operations and other affiliated companies that are included in the consolidated financial statements of VGT are generally proportionately eliminated with the exception of internal revenues from the joint operations and the corresponding cost of materials of the joint operator. As the parties to the joint operation take its entire output, these items are, in accordance with the IFRIC Update published in March 2015 by the IFRS IC, fully eliminated where the share of ownership interest is the same as the share of the output purchased. In the event of differences between the share of ownership interest and the share of output purchased, which is the case in the VGT Group, only revenues or cost of materials measured proportionately in the amount of the difference between the two percentage shares therefore remain in the consolidated financial statements. When applying this procedure, a transaction between the joint operation parties involved is assumed. If one party to the joint operation takes less output than the percentage share it would be due in relation to its share of ownership interest, according to this approach it is assumed that a sale to the other party of the joint operation has taken place in the amount of the "shortfall quantity" – i.e. the difference between the share of output due to the party of the joint operation based on its ownership interest and the share of output it has actually taken. If a party to the joint operation takes more output than the percentage share it would be due in relation to its share of ownership interest, it is similarly assumed that a purchase from the other party to the joint operation has taken place in the amount of the "excess quantity" – i.e. the difference between the share of output actually taken and the share of output due to the party to the joint operation based on its ownership interest. In this fictive transaction it is also assumed that the purchase price is the same as the price at which the joint operation sells to the parties of the joint operation. As joint operations are included and transactions between the Group and the joint operations generally proportionately eliminated, as described, in line with ownership interest, whilst revenues from the joint operations and the corresponding cost of materials are fully eliminated where the share of ownership interest is the same as the share of the output purchased, receivables and/or liabilities which, from the Group point of view, have not led to revenues or cost of materials may have to be reported in the consolidated financial statements. As transactions between the joint operations and the parties thereto which lead to revenues of the joint operation are generally monthly and immediately cash-effective, such receivables and/or liabilities - where existing at the reporting date - are normally not material compared with the operating receivables or liabilities as a whole reported in the consolidated financial statements.

As of the reporting date, four domestic joint operations (previous year: four) were proportionately consolidated. Despite the fact that these companies are legally separate entities, the examination of other factors and circumstances leads to the conclusion that rights to their assets and obligations for their liabilities exist as these companies provide their services exclusively for the joint operation parties. OGE is contractually bound to the other joint operators not only through the Articles of Association but also through consortium agreements. These agreements also form the basis for the classification of the joint arrangements as joint operations. Furthermore, the joint operations grant OGE and the other joint operators the use of their pipeline network under grant-of-use agreements. These pipeline networks are a vital prerequisite for the Company's business activity as a gas transmission network operator on the current scale.

The joint operations operate in a regulated business environment. As a result, there is a general business risk for these companies because of the uncertainty surrounding the development of the regulatory framework in Germany and Europe. However, as the joint operations do not apply for their own revenue caps under the incentive regulation, but lease their pipeline network under individual contracts to the joint operators, the risk is limited.

As of the reporting date and unchanged compared with the prior year, one domestic joint venture was included in the consolidated financial statements. In accordance with the requirements of IFRS 11, joint ventures are accounted for using the equity method. Gains or losses from the sale of the Group's own assets to joint ventures are recognised in the amount of the proportion of the gain or loss attributable to the interests of the other joint venturers. However, the full amount of any loss on such transactions is recognised immediately if the loss provides reliable evidence of a reduction in the net realisable value of assets to be sold or an impairment loss.

The Group's shares of profits and losses of joint ventures which arise from the purchase of assets from a joint venture are not recognised by the Group until it resells the assets to a company not belonging to the Group. If a loss provides reliable evidence of a reduction in the net realisable value of assets to be purchased or an impairment loss, the Group's share of such losses is recognised immediately.

Nine domestic joint arrangements (previous year: eight) are accounted for at cost in the consolidated financial statements in accordance with IAS 39 as they are only of immaterial significance for giving a true and fair view of the assets, liabilities, financial position and profit or loss of the VGT Group. They are reported under financial assets.

(c) Associates

An associate is an entity over which the Group has significant influence but does not have exclusive control.

Interests in associates are accounted for using the equity method. Interests in associates accounted for using the equity method are reported on the balance sheet at cost, adjusted for changes in VGT's share of the net assets after the date of acquisition, as well as any impairment charges. Any goodwill resulting from the acquisition of an associate is included in the carrying amount of the associate.

As of the reporting date and unchanged compared with the prior year, six associates were identified. Five of them are still accounted for at cost in accordance with IAS 39 and shown under financial assets due to their immaterial significance for the consolidated financial statements. The only associate accounted for using the equity method is GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG ("GasLINE KG"), Straelen, whose business is the construction, acquisition, rental, maintenance and grant of use particularly of f bre-optic cables and cable ducts for telecommunications purposes. OGE and GasLINE KG provide services for each other.

See section 7 "List of shareholdings" for a detailed description of the companies included in the consolidated financial statements as well as unconsolidated companies.

There are regulatory restrictions on the transfer of assets between the companies within the Group. They relate to the following assets of the affiliates OGE and Mittelrheinische Erdgastransportleitungsgesellschaft mbH ("METG"), Essen, within the consolidated balance sheet:

€ million	31 Dec. 2017	31 Dec. 2016
Assets		
Non-current assets		
Intangible assets	37.8	49.7
Property, plant and equipment	2,568.7	2,301.8
Deferred tax assets	12.8	10.0
Non-current receivables	2.0	2.1
Total	**2,621.3**	**2,363.6**
Current assets		
Inventories	12.5	12.7
Trade receivables (incl. advance payments made)	20.7	16.9
Receivables from tax creditors	4.8	1.3
Other receivables	13.9	25.1
Cash and cash equivalents	47.6	88.3
Total	**99.5**	**144.3**
Total assets	**2,720.8**	**2,507.9**

We refer to section 4.5 for the carrying amounts of the joint operations within the consolidated balance sheet.

2.4 Acquisition and establishment of companies

The following shareholdings were acquired and one company was renamed in the 2017 financial year.

(a) GasLINE KG

In the financial year, Line WORX GmbH, Essen, acquired a further 0.91 % of the shares in GasLINE KG, which was already included in the consolidated financial statements. For the sake of simplification and taking materiality considerations into account, the date of acquisition for all of these further shares was taken as 1 January 2017. GasLINE KG continues to be included in the consolidated financial statements as an associate and thus accounted for using the equity method.

(b) jordgasTransport GmbH

On entry in the commercial register on 1 November 2017, jordgasTransport GmbH, Emden, was legally merged with Norddeutsche Erdgastransport Infrastruktur GmbH ("NEI"), Hanover. The company has since traded under the name jordgasTransport GmbH ("JGT"), Hanover. JGT continues to perform the activities of a gas transmission network operator. The merger has no effect on the inclusion of JGT (formerly NEI) using the equity method.

2.5 Foreign currency translation

The items contained in the financial statements of each Group company are measured in euros as this currency is the functional currency of all Group companies. The consolidated financial statements are also prepared in euros, which is the functional currency and the reporting currency of VGT.

Transactions denominated in foreign currency are translated into the functional currency at the exchange rate at the transaction date or at the measurement date in the case of remeasurement. Gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities denominated in foreign currency at the reporting date are recognised in the income statement unless they are to be recognised within equity as qualified cash flow hedges and qualified net investment hedges.

Foreign currency gains and losses are shown in the income statement under other operating income and other operating expenses.

2.6 Goodwill

Goodwill is created when subsidiaries, associates and jointly controlled companies are acquired and is the amount by which the consideration transferred exceeds the fair value of the Group's shares in the acquired identifiable assets, the liabilities assumed and the contingent liabilities at the date of acquisition.

In accordance with IFRS 3, "Business Combinations", goodwill is not amortised but rather tested for impairment at the cash-generating unit level on at least an annual basis according to the requirements of IAS 36 "Impairment of Assets". Impairment tests must also be performed between these annual tests if events or changes in circumstances indicate that the carrying amount of the respective cash-generating unit might not be recoverable.

The VGT Group represents one single cash-generating unit and is consequently a one-segment group. Therefore, no allocation of goodwill had to be performed.

2.7 Intangible assets

IAS 38 requires that intangible assets be amortised over their expected useful lives unless their lives are considered to be indefinite. Factors such as typical product life cycles and legal or similar limits on use are taken into account in the classification.

Intangible assets subject to amortisation are measured at cost of acquisition or production and amortised on a straight-line basis over their respective useful lives. Internally generated intang ble assets subject to amortisation are mainly related to software and are amortised over a maximum of five years. Acquired intang ble assets subject to amortisation are largely software and software licences as well as contract-based intang ble assets. The useful life of acquired software and software licences is generally three years. Contract-based intangible assets are amortised in accordance with the provisions specified in the contracts. Useful lives and amortisation methods are subject to annual review. Intangible assets subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that such assets may be impaired.

Under IFRS, emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Since emission rights are not depleted as part of the production process, they are reported as intangible assets not subject to amortisation. Emission rights are capitalised at cost when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the national authorities responsible, or upon acquisition.

The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision are reported under cost of materials.

2.8 Research and development costs

In accordance with IAS 38.57 ff., research and development costs must be allocated to a research phase and a development phase. While expenditure on research is expensed as incurred, development costs must be capitalised as an intangible asset if all of the general criteria for recognition specified in IAS 38, as well as certain other specific prerequisites, have been fulfilled. In the financial year, these criteria were fulfilled for internally generated software, which were capitalised accordingly. No research costs were incurred.

2.9 Property, plant and equipment

Property, plant and equipment are initially measured at acquisition or production cost and are generally depreciated over the expected useful lives of the components, using the straight-line method, unless a different method of depreciation is deemed more suitable in certain exceptional cases. The useful lives of the major components of property, plant and equipment are presented below:

- Buildings 25-50 years
- Technical equipment, plant and machinery 10-40 years
- Other equipment, fixtures, furniture and office equipment 5-14 years

The remaining carrying amounts and economic useful lives are reviewed at every reporting date and adjusted where necessary.

Expenses related to scheduled maintenance work on large-scale plants are capitalised as a separate asset in the amount of the cost of the work and depreciated using the straight-line method over the period until the next maintenance work. The costs for the exchange of components are recognised as assets to the extent that a future additional benefit is expected. The carrying amount of the exchanged components is derecognised. The costs for maintenance and repair work as part of normal business operations are recognised as an expense.

Private investment subsidies do not reduce the acquisition and production costs of the respective assets; they are instead reported on the balance sheet as deferred income.

2.10 Impairment

The impairment test referred to in IAS 36 is carried out for intangible assets and items of property, plant and equipment whenever events or changes in circumstances indicate that an asset may be impaired. Goodwill and other intangible assets with an indefinite useful life are subject to an impairment review at least once a year.

In accordance with IAS 36, the carrying amount of an asset is tested for impairment by comparing the carrying amount with the asset's recoverable amount, which is the higher of its value in use and its fair value less costs to sell. Should the carrying amount exceed the corresponding recoverable amount, an impairment loss equal to the difference between the carrying amount and the recoverable amount is recognised and reported in income under “Depreciation and amortisation".

If the reasons for previously recognised impairment losses no longer exist, such impairment losses are reversed by affecting net income for intangible assets - except goodwill - and for items of property, plant and equipment. A reversal shall not cause the carrying amount of an asset subject to amortisation or depreciation to exceed the amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised during the period.

If the recoverable amount for an individual intangible asset or an item of property, plant and equipment cannot be determined, the recoverable amount is determined for the smallest identifiable group of assets (cash-generating unit) to which the individual asset can be assigned.

In a goodwill impairment test, the recoverable amount of the cash-generating unit is compared with its carrying amount, including goodwill. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. Measurement from the viewpoint of the fair value less costs to sell is performed using the discounted cash flow method, and accuracy is verified through the use of appropriate multipliers, to the extent available. In addition, market transactions or valuations prepared by third parties for comparable assets are used to the extent available. If needed, a calculation of value in use is also performed. Unl ke fair value, the value in use is calculated from the viewpoint of management. In accordance with IAS 36, it is further ensured that restructuring expenses, as well as initial and subsequent capital investments (where those have not yet commenced), in particular, are not included in the valuation.

If the carrying amount exceeds the recoverable amount, the goodwill allocated to that cash-generating unit is adjusted in the amount of this difference.

If the impairment thus identified exceeds the goodwill, the remaining assets of the unit must be written down in proportion to their carrying amounts. Individual assets may be written down only if their respective carrying amounts do not fall below the highest of the following values as a result:

- fair value less costs to sell
- value in use or
- zero.

Any additional impairment loss that would otherwise have been allocated to the asset concerned must instead be allocated pro rata to the remaining assets of the unit. Impairment charges on the goodwill reported in the income statement under "Depreciation and amortisation" may not be reversed in subsequent reporting periods.

VGT has elected to perform the annual testing of goodwill for impairment at the cash-generating unit level in the fourth quarter of each financial year.

For the impairment test as of 31 December 2017, the recoverable amount was determined, as in the previous year, by taking the fair value less costs to sell on the basis of the forecast of future cash flows ("fair value less costs to sell view"). This method is in line with level 3 of the measurement hierarchy in accordance with IFRS 13.

The cash flow forecasts used for the valuation are based on the medium-term planning of the Group representing the net assets, financial position and results of operations in the past projected into the future. In this context, significant assumptions are regulatory revenues reflecting the current regulatory regime, the planning of operating costs and the investment planning that is mainly characterised by investments under the network development plan. The key parameters of the regulatory framework as well as the network development plan are information that is publicly available. The calculations for impairment-testing purposes are generally based on the five planning years of the medium-term plan. In certain justified exceptional cases, a longer detailed planning period is used as the calculation basis, especially when that is required under a regulatory framework or specific regulatory provisions. The cash flow assumptions extending beyond the detailed planning period are determined using specific growth rates that are based on historical analysis and prospective forecasting. The inflation rate assumed in the medium-term planning is based on publicly available market data and unchanged from the previous year at 2.0 % in the terminal value; the sustained growth rate was conservatively derived from this inflation rate and assumed to be unchanged from the previous year at 1.5 %. The interest rate used for discounting cash flows (WACC after tax) is calculated using market data and at the measurement date was 3.3 % (previous year: 3.2 %).

In the interim consolidated financial statements for the period ended 30 June 2017, the BNetzA's processing of the fee application for the 3rd regulatory period (2018 – 2022) gave rise to indications of poss ble impairment. As a result the non-current assets and goodwill were tested for impairment at the interim financial statement 2017 reporting date. For the purpose of the asset impairment test, the carrying amounts of the intang ble assets and property, plant and equipment were compared with their fair values, which are largely derived from the regulatory returns. The recoverable amount calculation at the end of the 2016 financial year was taken for the purpose of the goodwill impairment test. The main assumptions and calculation basis for determining the fair value less costs of disposal at the interim financial statement reporting date had either not changed at all or only insignificantly compared with the prior year 2016. The impairment test did not identify any need for recognition of an impairment loss.

2.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are only recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the rights to payments from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial assets. A financial liability is to be derecognised when the obligations agreed in the contract have been fulfilled and the financial liability has thus been discharged, cancelled or expired.

Non-derivative financial instruments

Non-derivative financial instruments are recognised at fair value on the settlement date when acquired. In the case of financial instruments which will not be subsequently measured at fair value through profit or loss, the transaction costs directly attr butable to the purchase also have to be taken into account. In the case of financial instruments which will subsequently be measured at fair value, the associated transaction costs are recognised in profit or loss. Unconsolidated equity investments and securities are measured in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”. Financial instruments are classified in accordance with the measurement categories of IAS 39. VGT categorises financial assets as assets measured at fair value through profit or loss, which include financial instruments held for trading, available for sale securities as well as loans and receivables. Classification depends on the purpose for which the financial asset was acquired. Management determines the categorisation of the financial assets at initial recognition.

Securities categorised as available for sale are carried at fair value on a continuing basis. Any resulting unrealised gains and losses, net of related deferred taxes, are reported as a component of equity (other comprehensive income) until realised.

Realised gains and losses are determined by analysing each transaction individually. If there is objective evidence of impairment, any losses previously recognised in other comprehensive income are instead recognised in the financial result. When estimating a possible impairment loss, VGT takes all available information into consideration, such as market conditions and the length and extent of the impairment.

Assets measured at fair value through profit or loss are financial assets which are held for trading. A financial asset is assigned to this category if it was, in principle, acquired with the intention to sell it in the short term.

Current loans and receivables (including trade receivables) are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Current loans and receivables are reported on the balance sheet under “Receivables and other assets.” They are subsequently measured at amortised cost. Valuation allowances are provided for identifiable individual risks.

Non-derivative financial liabilities (including trade payables and bonds) within the scope of IAS 39 are measured at amortised cost using the effective interest method. Initial measurement takes place at fair value, with transaction costs included in the measurement. In subsequent periods, the residual carrying amount is adjusted for accretion of any premium and amortisation of any discount remaining until maturity. The premium/discount is recognised in the financial result over the term.

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset available for sale or measured at amortised cost is impaired. A financial asset or group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset or group of assets (a "loss event") and that loss event has an impact which can be reliably estimated on the expected future cash flows of the financial asset or group of financial assets.

Objective evidence of impairment may include indications that a debtor or group of debtors is experiencing financial difficulty as evidenced by default or delinquency in interest or principal payments or a higher probability of insolvency.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows (excluding future credit losses that have not been incurred) – discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the loss. The amount of the loss is recognised in the consolidated income statement. If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was first recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

If there is objective evidence of impairment of an asset classified as available for sale, the cumulative loss recognised in equity – measured as the difference between the acquisition cost (less any redemptions and amortisations) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a financial asset classified as available for sale increases and this increase can objectively be related to an event occurring after the impairment was first recognised in profit or loss, the impairment loss is reversed through the consolidated income statement. Impairment losses recognised in profit or loss for an equity instrument classified as available for sale are reversed directly in equity when the fair value of the equity instrument increases.

In 2017, there was no objective evidence of impairment of financial assets or financial liabilities in the VGT Group with the exceptions of trade receivables for which individual valuation adjustments had been made and the impairment of financial assets described in section 4.5.

Derivative financial instruments and hedging transactions

Derivative financial instruments and separated embedded derivative financial instruments are measured at fair value at initial recognition and in subsequent periods. IAS 39 requires that they be categorised as financial instruments measured at fair value through profit or loss as long as they are not a component of a hedge accounting relationship. Gains and losses from changes in fair value are immediately recognised in income.

The instruments mainly used are foreign currency transactions as well as interest rate swaps. These are measured at fair value for both on initial inclusion and in subsequent periods.

IAS 39 sets requirements for the documentation of hedging relationships, the hedging strategy as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. Retrospective measurement of effectiveness is performed using the cumulative dollar offset method and prospective measurement of effectiveness using the critical term match method. Hedge accounting is retrospectively considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument, including a risk premium in accordance with IFRS 13, is 80 % to 125 % effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative, including a risk premium in accordance with IFRS 13, and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognised in income. If a derivative financial instrument qualifies as a cash flow hedge under IAS 39, the effective portion of the hedging instrument’s change in fair value is recognised in equity as a component of other comprehensive income. A risk premium is also taken into consideration. A reclassification into income is performed in the period or periods during which the cash flows of the transaction being hedged affect income. The hedging result is reclassified to income immediately if it becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognised immediately in the income statement to the extent required.

In the context of cash flow hedges, changes in the fair value of derivative instruments that must be recognised in income are presented as other operating income or expenses. Gains and losses from interest-rate derivatives are netted for each contract and included in interest result.

Additional information on financial instruments is provided in sections 3 and 4.1.

2.12 Inventories

Of the inventories, raw materials and supplies are generally measured at the lower of weighted average cost and net realisable value. The net realisable value is the estimated selling price achievable in the ordinary course of business less the necessary variable costs to sell. Inventory risks resulting from excess and obsolescence are provided for using appropriate valuation write-downs.

Work in progress is measured at production cost. In addition to production materials and wages, production costs include pro-rata material costs and production overheads based on normal capacity. The costs of general administration are not capitalised. The acquisition and production costs do not include any borrowing costs.

The gas inventories in the pipeline network are measured at acquisition cost using the weighted average cost method.

Construction contracts

A construction contract is defined according to IAS 11 as a contract specifically negotiated for the construction of an asset. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period.

For projects running over more than one period, mainly gas industry construction projects, the Group uses the PoC method to determine the contract revenue to be recognised in a particular financial year in line with the percentage of completion. The percentage of completion is the proportion of contract costs incurred for work performed up to the reporting date compared with the estimated total contract costs (cost-to-cost method). The contract costs incurred in the current financial year that relate to future activities are not included in the contract costs when determining the percentage of completion.

The net amount for a construction contract is shown as an asset or liability on the balance sheet. A construction contract is shown as an asset when the costs incurred plus recognised profits (less recognised losses) exceeds progress billings. In the opposite case, a liability is recognised.

2.13 Receivables and other assets

Receivables and other assets are initially measured at fair value, which generally approximates nominal value. They are subsequently measured at amortised cost using the effective interest method. Valuation allowances, included in the reported net carrying amount, are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

2.14 Cash and cash equivalents

Cash and cash equivalents include cheques, cash on hand and bank balances with an original maturity of less than three months. Cash and cash equivalents with an original maturity of less than three months are considered to be cash and cash equivalents, unless they are restricted.

2.15 Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset from the time of acquisition or from the beginning of construction or production until its entry into service are capitalised and subsequently amortised alongside the related asset. Qualifying assets are assets which necessarily take more than twelve months to get ready for their intended use or sale. In the case of a specific financing arrangement, the respective borrowing costs incurred for that particular arrangement during the period are used. For non-specific financing arrangements, a financing rate uniform within the Group of 2.3 % was applied for 2017 (previous year: 2.5 %). Other borrowing costs are expensed.

2.16 Income taxes

Tax expense for the period consists of current and deferred taxes. Taxes are recognised in the income statement unless they relate to items which have been directly recognised within equity or other comprehensive income. In the latter case, the taxes are also recognised within equity or other comprehensive income.

The current tax expense is calculated using the tax regulations applicable on the reporting date (or soon to apply) of the countries in which the Company and its subsidiaries operate and generate taxable income. The Management regularly reviews tax declarations, above all with regard to issues subject to interpretation, and, when appropriate, establishes provisions based on the amounts which it expects will have to be paid to the tax authorities.

Under IAS 12, "Income Taxes", deferred taxes are recognised on temporary differences arising between the carrying amounts of assets and liabilities on the balance sheet and their tax bases (balance sheet liability method). Deferred tax assets and liabilities are recognised for temporary differences that will result in taxable or deductible amounts when taxable income is calculated for future periods, unless those differences are the result of the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither pre-tax profit/loss nor taxable profit (so-called initial differences). Deferred tax liabilities are also not recognised when they result from the first-time recognition of goodwill. IAS 12 further requires that deferred tax assets be recognised for unused tax loss carryforwards and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the temporary differences, unused tax loss carryforwards and unused tax credits can be utilised. Each of the corporate entities is assessed individually with regard to the probability of a positive tax result in future years. Any existing history of losses is incorporated in this assessment. For those deferred tax assets to which these assumptions do not apply, the value of the deferred tax assets is reduced.

Deferred tax liabilities caused by temporary differences associated with investments in subsidiaries and associates are recognised unless the timing of the reversal of such temporary differences can be controlled within the Group and it is probable that, owing to this control, the differences will in fact not be reversed in the foreseeable future.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of enacted or substantially enacted changes in tax rates and tax law is generally recognised in income. Equity is adjusted for deferred taxes that had previously been recognised directly in equity. The adjustment is generally made in the period in which the legislation mandating the change is substantively enacted.

Deferred taxes for domestic companies are calculated using a total tax rate of 31.0 %. This tax rate includes, in addition to the 15.0 % corporate income tax, the solidarity surcharge of 5.5 % on the corporate tax and the average trade tax rate of 15.0 % applicable to the Group.

Deferred tax receivables and liabilities are netted against each other when a legally enforceable right to netting exists and when the deferred tax receivables and liabilities relate to income taxes levied by the same tax authority for either the same taxable entity or different taxable entities which intend to settle on a net basis.

2.17 Employee benefits

(a) Pension obligations

Various pension plans exist in the Group. The plans are generally funded by payments to insurance companies or trust funds, the amounts paid being based on regularly updated actuarial calculations.

The Group has both defined benefit plans and defined contribution plans: a defined contribution plan is a pension plan under which the Group pays fixed amounts to a company (fund) which does not belong to the Group. The Group has no legal or constructive obligation to pay additional contributions if the fund does not hold sufficient assets to settle the pension entitlements of all employees arising from the current and prior financial years. A defined benefit plan is a plan which is not a defined contribution plan.

Defined benefit plans typically fix an amount which the employees will receive on retirement and which normally depends on one or more factors (such as age, years of service and salary).

To protect against insolvency and fund the employees' entitlements under pension commitments and similar obligations, the Group as the trustor established a two-sided CTA trust relationship with Helaba Pension Trust e. V. (Helaba), Frankfurt am Main (trustee), under agreements dated 14 December/21 December 2011 and as trustor transferred, as a precautionary measure, assets to the trustee.

The trustee holds and administers the trust assets for the trustor in a fiduciary capacity ring-fenced and separate from the trust assets of other trustors and the trustee's own assets.

The trust assets meet the requirements for being classified as plan assets.

In accordance with IAS 19 "Employee Benefits", the provision for defined benefit plans recognised on the balance sheet corresponds to the present value of the defined benefit obligation (DBO) on the reporting date less the fair value of the plan assets. The DBO is calculated annually by an independent actuary using the projected unit credit method. This method takes into account not only the pension obligations known on the reporting date and acquired vested rights but also economic trend assumptions which are chosen according to realistic expectations. The assessment is based on the 2005 G mortality tables of Prof. Dr Klaus Heubeck which serve as a biometric basis for calculation.

The present value of the DBO is calculated by discounting the expected future cash outflows using interest rates of corporate bonds with a very high rating. The corporate bonds are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related pension liabilities.

The expected return on plan assets is determined on the basis of the discount rate used to measure pension obligations.

The remeasurement component, which is based on experience adjustments and changes in the actuarial assumptions, is recognised directly within equity in other comprehensive income in the period in which they occur and thereafter reported under retained earnings.

The employer service cost representing the additional benefits that employees earned under the benefit plan during the financial year is reported under personnel costs; net interest cost/income resulting from the net pension obligation is reported under the financial result.

Past service cost is recognised immediately in income.

With defined contribution plans, the Group pays contributions to public or private pension insurance plans on the basis of a statutory or contractual obligation or on a voluntary basis. The Group has no further payment obligations beyond the payment of the contributions. The payments are expensed as incurred and reported under personnel costs.

(b) Other post-employment benefits

The Group grants some of its pensioners a post-employment benefit in the form of a gas allowance. An accounting method corresponding to that used for defined benefit plans is used to measure the gas allowances.

(c) Termination benefits

Termination benefits are paid when a Group company terminates an employee's employment contract before the normal retirement date or when employees volunteers to terminate the employment contract in exchange for severance benefits. The Group recognises severance benefits when it can be proved that it is obliged to terminate the employment of current employees according to a detailed formal plan which cannot be reversed, or if it can be proven that it is obliged to make severance payments after voluntary termination of employment by employees. Benefits which are due more than twelve months after the reporting date are discounted to their present value.

(d) Other long-term benefits

The provisions for long-service anniversary benefits and part-time phased-retirement obligations were calculated in line with actuarial principles, taking into account a reasonable discount rate, reasonable salary increases and - if applicable to the relevant obligation – reasonable pension increases and staff turnover rate. Measurement was performed on the basis of the 2005 G mortality tables compiled by Prof. Dr Klaus Heubeck.

The provisions for long-term working-time accounts are measured using the discount rate for the pension obligations.

The plan assets resulting from the insolvency insurance to cover employee claims under part-time phased-retirement obligations and long-term working-time accounts are offset against the respective provisions.

(e) Short-term benefits

A provision based on estimates is established for performance-related and company success-related bonus payments to employees.

In addition, a provision is recognised in the consolidated financial statements in cases where a contractual obligation exists or where there is a constructive obligation resulting from past business practice. These cases mainly include vacation and short-term working time account provisions. These provisions are measured at the daily rates and/or the average hourly rate including social security contr butions due.

2.18 Provisions

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognised when the Company has a legal or constructive present obligation towards third parties as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured in accordance with IAS 37 at the best estimate of expenditure required to settle the present obligation, taking the probability of occurrence and the timing of settlement into account. The provision is recognised at the expected settlement amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material; future cost increases that are foreseeable on the balance sheet date and likely to occur must also be included in the measurement. Long-term obligations are discounted at the market interest rate applicable as of the respective balance sheet date. The accretion amounts and the effects of changes in interest rates are presented as part of the financial result. A reimbursement related to the provision that is virtually certain to be collected is capitalised as a separate asset. No offsetting within provisions is permitted. Advance payments remitted are deducted from the provisions.

Changes in estimates arise in particular from deviations from original cost estimates, from changes to the maturity or the scope of the relevant obligation, and also as a result of the regular adjustment of the discount rate to current market interest rates.

Where necessary, provisions for restructuring costs are recognised at the present value of the future outflows of resources. Provisions are recognised once a detailed restructuring plan has been decided on by management and publicly announced or communicated to the employees or their representatives. Only those expenses that are directly attributable to the restructuring measures are used in measuring the amount of the provision. Expenses associated with the future business operations are not taken into consideration.

2.19 Recognition of income

The Company recognises revenues upon delivery of goods to customers or purchasers, or upon completion of services rendered. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of goods and services are measured at the fair value of the consideration received or receivable.

Revenue is shown net of sales taxes and less any rebates and discounts given as well as returns, and after elimination of intragroup transactions.

Interest income is recognised pro rata using the effective interest method. Dividend income is recognised when the right to receive the distr bution payment arises.

2.20 Leases

Leases in which substantially all of the risks and rewards incident to ownership of the leased property remain with the lessor are classified as operating leases. Payments made under an operating lease (net after deduction of incentive payments made by the lessor) are recorded on a straight-line basis in income over the term of the lease.

No Group company is a lessee under a finance lease in accordance with IAS 17.

2.21 Consolidated cash flow statement

In accordance with IAS 7 “Cash Flow Statements”, the consolidated cash flow statement is classified by operating, investing and financing activities. Income taxes paid and refunded as well as dividends and interest received are classified as cash from operating activities. Dividends and interest paid are classified as cash from financing activities. The purchase prices paid and selling prices received in acquisitions and disposals of companies are reported, net of any cash and cash equivalents acquired (disposed of), under investing activities if the respective acquisition or disposal results in a gain or loss of control. In the case of acquisitions and disposals that do not result in a gain or loss of control, the corresponding cash flows are reported under financing activities.

2.22 Estimates and assumptions as well as judgements in the application of accounting policies

The preparation of the consolidated financial statements requires management to make estimates and assumptions that may influence the application of accounting principles within the Group and affect the measurement and presentation of reported figures. Estimates are based on past experience and on additional knowledge obtained on transactions to be reported. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period, or in the period of the revision and subsequent periods if both current and future periods are affected.

Estimates are particularly necessary for the measurement of the value of property, plant and equipment and of intangible assets, especially in connection with purchase price allocations, the recognition and measurement of deferred tax assets, the accounting treatment of provisions for pensions and other provisions, for impairment testing in accordance with IAS 36, as well as for the determination of the fair value of certain financial instruments.

The underlying principles used for estimates in each of the relevant topics are outlined in the respective sections.

3 Financial Risk Management

3.1 Financial risk factors

In the normal course of business, the Group is exposed to various financial risks: (a) market risks (covering foreign currency risks and interest risks), (b) credit risks and (c) liquidity risks. The overarching Group risk management focuses on unforeseeable developments in the financial markets and its aim is to minimise the potentially negative effects on the Group's financial situation. The Group uses derivative financial instruments to hedge certain risks.

Risk management is performed decentrally both by the Finance department of OGE, and by the Investment Controlling department of the shareholders. The Corporate Finance department identifies, assesses and hedges financial risks in close cooperation with the Group's operational units. Owing to the very limited volume of transactions in foreign currency as well as the only occasional raising and securing of loans, the currency risks, interest risks and credit risks are handled and the use of derivative and non-derivative financial instruments is agreed on a case-by-case basis with the relevant bodies of the company affected.

(a) Market risk

(i) Foreign currency risk

Foreign currency risk may largely arise from procurement transactions with business partners outside the euro zone. When such non-euro-based procurement transactions of a significant volume are conducted, foreign currency forwards and currency swaps are used to hedge the foreign currency risk. Owing to the very limited volume of transactions in foreign currency, the Group is currently only exposed to an insignificant foreign currency risk. Hedged procurement transactions already expired during the financial year so that such contracts no longer existed as of 31 December 2017.

(ii) Interest rate risk

The Group's interest risks arise from long-term interest-bearing liabilities. The liabilities with floating interest rates expose the Group to interest-related cash flow risks which are partly offset by bank balances with floating interest rates. The liabilities with fixed interest rates result in an interest-related risk arising from changes in the fair value.

The long-term focus of the business model generally means meeting a high proportion of financing requirements at fixed interest rates in the planning period by the securing of fixed-rate loans or by the use of interest rate swaps if floating-rate loans are taken out.

(b) Credit risk

Credit risk is managed at Group level. Credit risk results mainly from receivables from banks and other financial institutions from bank deposits and derivative financial instruments as well as receivables from wholesale and retail customers.

Only banks with an independent rating given by the three big rating agencies qualify to work with the Group in the financial area. For cash financial investments, a rating of at least "BBB+" to "A-" (Standard & Poor's, Fitch) or "Baa1" to "A3" (Moody's) is required while for borrowing an average rating of at least "BBB" (Standard & Poor's, Fitch) or "Baa2" (Moody's) is necessary, the focus being on the "unsecured long-term rating" if available. The ratings of all banks as well as other indicators of credit standing (such as current prices of credit default swaps) are continuously monitored.

The Group generates the vast majority of its revenues with a small number of key accounts.

Customers are reviewed in credit assessments to the extent customary in the industry. Credit risk is managed in a risk-based manner, i.e. the customers that generate the highest revenues are regularly assessed with regard to their creditworthiness. For this purpose, assessments of recognised credit bureaus or published ratings of renowned rating agencies are used.

The vast majority of revenues are generated in the regulated gas transport business. The regulated fees are largely determined on the basis of the Company's capital and operating costs.

In the past there have been no significant payment defaults. The Management is also not expecting any defaults in future as a result of non-performance by these business partners.

Credit risks result from non-delivery or partial delivery by a counterparty of the agreed consideration for services rendered, from total or partial failure to make payments owing on existing accounts receivable, and from replacement risks in open transactions. Credit risks are monitored and controlled using uniform credit risk management procedures in place throughout the Group which identify, measure and control the credit risks. The maximum risk of default is equal to the carrying amounts of the financial assets.

The financial assets shown in other receivables are neither impaired nor past due and totalled € 58.6 million (previous year: € 83.0 million). They are recognised in the balance sheet both under current and non-current assets. The financial receivables are also neither impaired nor past due. They totalled € 8.8 million in the reporting period (previous year: € 16.5 million). The age structure analysis of trade receivables is to be found in section 4.8.

(c) Liquidity risk

The cash flow forecasts are prepared at the level of the operating companies and combined in the Group. The Management monitors the rolling advance planning of the Group's liquidity reserve to ensure that sufficient liquidity is available to cover operational requirements and that unutilised credit facilities provide enough flexibility at all times. Such forecasts take into account the Group financing plans, the observance of loan agreements as well as the meeting of internal target balance sheet figures.

The liquidity of the Group comprises cash and cash equivalents as well as cash inflows from operating activities which, owing to the profitability of OGE, guarantee adequate liquidity at all times. The Group continues to minimise the liquidity risk by regular liquidity planning on the basis of which short and medium-term financial requirements are determined.

The following table shows the contractually agreed (undiscounted) cash outflows arising from the liabilities included in the scope of IFRS 7:

	Cash outflows					
	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years	
in € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-derivative financial instruments	-62.3	-82.9	-1,127.1	-1,215.4	-1,658.6	-1,704.7
Derivative financial instruments	-1.1	-1.1	-1.4	-2.3	-0.1	0.0

For financial liabilities with floating interest rates, the floating-interest rates on the reporting date are used to calculate future interest payments for subsequent periods as well.

In gross-settled derivatives (usually currency derivatives), outflows are accompanied by related inflows of funds or commodities. The derivatives are therefore to be seen in conjunction with the associated underlying transactions.

In line with the approach to loans with floating interest rates, to calculate future payments for net-settled derivatives (here interest rate swaps) the floating rates as of the reporting date are also used for subsequent periods.

3.2 Capital management

The Group's capital structure is regularly measured and monitored. The primary aim is to steer the financing conditions of the Group by securing an investment grade rating. In line with the relevant KPIs of the leading bank and rating analysts, the Group calculates the debt-asset ratio in accordance with IFRS as the ratio of net debt to assets. Net debt comprises all financial liabilities and provisions for pensions less cash and cash equivalents and interest-bearing financial receivables. Non-current assets result from the values of intangible assets and property, plant and equipment recognised as of the reporting date. As of 31 December 2017, the Group had a debt-asset ratio of 76.6 % (previous year: 79.4 %).

in € million	31 Dec. 2017	31 Dec. 2016
Financial liabilities	-2,661.6	-2,569.7
Provisions for pensions	-130.2	-134.3
Deferred tax assets on provisions for pensions[3]	81.5	80.9
Financial receivables	8.8	16.5
Cash and cash equivalents	106.4	189.4
Net debt VGT Group	**-2,595.1**	**-2,417.2**
Property, plant and equipment	3,346.4	2,990.4
Intangible assets	41.8	54.4
Debt-asset ratio	**76.6 %**	**79.4 %**

[3] Before netting of deferred tax assets in the balance sheet.

4 Information on the Balance Sheet

4.1 Categories of financial instruments

The balance-sheet value of the current financial assets and current financial liabilities (= carrying amount) is, in the Group's opinion based on the information available at the reporting date, the best-possible approximation of the respective fair values of these financial instruments.

The credit quality of financial assets which are neither past due nor impaired is determined by reference to available credit ratings or past experience of default rates of the business partners. In the financial year, no conditions were renegotiated for a financial asset which would otherwise have been past due or impaired. Additional information is provided in section 4.5 "Financial assets". No financial asset which can be regarded as material from the Group's point of view is past due or impaired.

On the basis of the credit ratings available and past experience, for all assets which were neither past due nor impaired on the reporting date, there is no indication that these assets might be impaired.

Derivative financial instruments and hedging transactions

In the Group hedge accounting in accordance with IAS 39 is employed primarily for interest rate derivatives used to hedge long-term liabilities as well as for currency derivatives.

Cash flow hedges are used to protect against the risk arising from variable cash flows which result from loans, non-current liabilities and future payment obligations in foreign currency. Particularly interest rate swaps and foreign currency swaps are used to limit the risk resulting from changes in interest rates and exchange rates.

In 2017, one further interest swap was concluded to hedge risks resulting from changes in interest rates. The parameters of the interest-cash flow hedges were agreed in line with the parameters of the underlying hedged items. Of the derivatives from the last financial year, two cash flow hedges for currency hedging expired in 2017 in line with the terms of the contracts. As of the reporting date, no foreign currency transactions existed.

As of 31 December 2017, the hedged transactions in place are included in interest cash flow hedges with maturities of up to seven years. The cash flows from hedged transactions secured in cash flow hedge accounting occur in the period from 2018 to 2024 and affect the income statement at the same time.

The effective components of cash flow hedge accounting are recognised within equity as a component of other comprehensive income and reclassified to income under other operating income or other operating expenses in the period when the cash flows of the hedged item affect income. Gains and losses from the ineffective portions of cash flow hedges are recognised under other operating income or other operating expenses. Interest cash flow hedges are reported under other interest and similar.

The fair values of the derivatives used in cash flow hedges total € -1.8 million (previous year: € -2.7 million).

No ineffectiveness resulted in the financial year. In the financial year, accumulated other comprehensive income before allowance for deferred taxes changed by € 0.9 million to € -1.7 million (previous year: € --2.6 million). Of this figure, income of € 1.6 million (previous year: € 0.9 million) was reclassified to the income statement.

Measurement of derivative financial instruments

Derivative financial instruments are measured by determining fair value. The fair value of derivative financial instruments is sensitive to movements in underlying market rates. The Company determines and monitors the fair value of derivative financial instruments at regular intervals. Fair values for each derivative financial instrument are determined as being equal to the price at which one party can sell the rights and/or obligations to an independent third party. The fair values of derivative financial instruments are calculated using common market valuation methods with reference to market data available as of the measurement date including a credit value adjustment in the case of positive market values and a debit value adjustment in the case of negative market values. All derivative financial instruments are measured separately.

The following table gives an overview of the nominal values and fair values of the derivatives existing as of 31 December 2017. The derivatives all qualify as hedging instruments under cash flow hedge accounting in accordance with IAS 39:

	31 Dec. 2017		31 Dec. 2016	
in € million	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Interest-rate swap (fixed-rate payer)	139.0	-1.8	126.2	-2.7

As part of the sensitivity analyses in accordance with IFRS 7, an examination is conducted for the relevant risk variables to establish what effects the change of the relevant values as of the reporting date would have on the other operating income and expenses and the other comprehensive income for hedging transactions before taking deferred tax into account. The interest analysis assumes a shift in the interest structure curve on the reporting date by -/+ 100 basis points (bp) in each case.

The sensitivity analyses of the interest-rate swaps as of 31 December 2017 are as follows:

	Equity sensitivity		Income statement sensitivity	
in € million	**Interest curve -1 %**	**Interest curve +1 %**	**Interest curve -1 %**	**Interest curve +1 %**
Interest-rate swaps	-3.1	3.3	0.0	0.0

The sensitivity analyses as of 31 December 2016 were as follows:

	Equity sensitivity		Income statement sensitivity	
in € million	**Interest curve -1 %**	**Interest curve +1 %**	**Interest curve -1 %**	**Interest curve +1 %**
Interest-rate swaps	-4.1	4.3	0.0	0.0

Additional information on financial instruments

All financial instruments recognised at fair value are divided into three categories defined in accordance with IFRS 13, as follows:

- Level 1 – quoted market prices
- Level 2 – measurement techniques (inputs that are observable on the market)
- Level 3 – measurement techniques (inputs that are unobservable on the market)

In the period from 1 January 2017 to 31 December 2017, there were no reclassifications between level 1 and level 2, nor were there any reclassifications to or out of level 3. Furthermore, there was no change in purpose for the financial assets that would have caused a change to the classification of an asset.

The Group holds no credit enhancements or collateral that would minimise the credit risk. The carrying amount of the financial assets therefore reflects the potential credit risk.

There is no net reporting for these financial assets and financial liabilities since no enforceable master netting arrangements or similar agreements exist.

The carrying amounts of the financial instruments, their grouping into IAS 39 measurement categories, their fair values and their measurement sources by level are presented in the following table as of 31 December 2017:

					Fair value (IFRS 13)		
in € million	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measure-ment category[4]	Fair value	of which level 1	of which level 2	of which level 3
Equity investments	**29.5**	**29.5**	**AfS**	**n/a**			
Financial receivables and other financial assets	**8.8**	**8.8**		**n/a**			
Other financial receivables and financial assets	8.8	8.8	LaR	n/a			
Trade receivables and other operating assets	**95.1**	**95.1**		**n/a**			
Trade receivables and long-term loans granted	36.5	36.5	LaR	n/a			
Other operating assets	58.6	58.6	LaR	n/a			
Cash and cash equivalents	**106.4**	**106.4**	**LaR**	**n/a**			
Total assets	**239.8**	**239.8**		**n/a**			
Financial liabilities	**2,661.6**	**2,661.6**		**2,819.6**	**2,507.1**	**312.5**	
Bonds	2,242.1	2,242.1	AmC	2,507.1	2,507.1		
Liabilities to banks	281.8	281.8	AmC	219.7		219.7	
Other financial liabilities	137.7	137.7	AmC	92.8		92.8	
Trade payables and other operating liabilities	**177.6**	**177.6**		**1.8**		**1.8**	
Trade payables	81.7	81.7	AmC	n/a			
Derivatives with hedging relationships	1.8	1.8	n/a	1.8		1.8	
Other operating liabilities	94.1	94.1	AmC	n/a			
Total liabilities	**2,839.2**	**2,839.2**		**2,821.4**	**2,507.1**	**314.3**	

[4] AfS: Available for sale; LaR: Loans and receivables; AmC: Amortised cost; n/a: the derivatives with hedging relationships cannot be assigned to any IAS 39 category.

Carrying amounts as of 31 December 2016:

					Fair value (IFRS 13)		
in € million	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measure-ment category[5]	Fair value	of which level 1	of which level 2	of which level 3
Equity investments	**39.1**	**39.1**	**AfS**	**n/a**			
Financial receivables and other financial assets	**16.5**	**16.5**		**n/a**			
Other financial receivables and financial assets	16.5	16.5	LaR	n/a			
Trade receivables and other operating assets	**117.0**	**117.0**		**n/a**			
Trade receivables and long-term loans granted	34.0	34.0	LaR	n/a			
Other operating assets	83.0	83.0	LaR	n/a			
Cash and cash equivalents	**189.4**	**189.4**	**LaR**	**n/a**			
Total assets	**362.0**	**362.0**		**n/a**			
Financial liabilities	**2,569.7**	**2,569.7**		**2,831.6**	**2,559.8**	**271.8**	
Bonds	2,240.7	2,240.7	AmC	2,559.8	2,559.8		
Liabilities to banks	181.0	181.0	AmC	179.8		179.8	
Other financial liabilities	148.0	148.0	AmC	92.0		92.0	
Trade payables and other operating liabilities	**138.0**	**138.0**		**2.7**		**2.7**	
Trade payables	54.6	54.6	AmC	n/a			
Derivatives with hedging relationships	2.7	2.7	n/a	2.7		2.7	
Other operating liabilities	80.7	80.7	AmC	n/a			
Total liabilities	**2,707.7**	**2,707.7**		**2,834.3**	**2,559.8**	**274.5**	

[5] AfS: Available for sale; LaR: Loans and receivables; AmC: Amortised cost; n/a: the derivatives with hedging relationships cannot be assigned to any IAS 39 category.

The financial assets recognised at fair value through profit or loss relate to derivative financial instruments that are included in hedge accounting. These include derivative interest rate hedging contracts, which are based on ISDA (International Swaps and Derivatives Association) agreements and on the German Master Agreement on Financial Derivatives Transactions, which was published by the Association of German Banks. The fair values of the interest hedging instruments were calculated on the basis of discounted, expected cash flows. Discounted cash values are determined for interest rate swaps for each individual transaction as of the reporting date. The market interest rates for the remaining terms of the financial instruments were used. These include market factors which other market participants would also take account of when setting prices.

The carrying amounts of cash and cash equivalents and trade receivables are considered realistic estimates of their fair values because of their short maturity.

The financial liabilities measured at fair value through profit or loss relate to derivative financial instruments that are included in hedge accounting. These financial instruments comprise derivative interest rate hedging contracts. The fair values of interest rate hedging contracts were calculated on the basis of discounted, expected cash flows. The market interest rates for the remaining terms of the financial instruments were used.

The market value of the bonds is based on the prices quoted on the reporting date.

The fair value of debt instruments that are not actively traded, such as loans received, long-term loans granted and financial liabilities, is determined by discounting future cash flows and corresponds to the relevant carrying amount. Any necessary discounting is performed using current market interest rates over the remaining terms of the financial instruments. Fair value measurement was not applied to any shareholdings (apart from the investment measured using the equity method) as cash flows could not be reliably determined for them. Fair values could not be derived on the basis of comparable transactions. There are no plans to sell these investments.

The carrying amount of borrowings under short-term credit facilities and trade payables is used as the fair value owing to the short maturities of these items.

The net gain/loss from financial instruments by IAS 39 measurement categories is shown in the following table:

in € million	2017	2016
Loans and receivables	-0.3	0.3
Financial liabilities measured at amortised cost	-66.6	-66.6
Available for sale	-9.9	0.0
Total	**-76.8**	**-66.3**

In addition to interest income from long-term loans granted, the net gain/loss in the loans and receivables category consists primarily of write-downs on trade receivables.

The net gain/loss in the financial liabilities measured at amortised cost category is primarily due to interest on bonds and financial liabilities and the reversal of bond discounts.

We refer to section 4.5 for information on the net loss from the impairment of shares in Nordrheinische Erdgas-transportleitungsgesellschaft mbH & Co. KG ("NETG"), Dortmund, classified as available for sale.

Further information on the risk factors can be found in section 3.1 “Financial risk factors”.

4.2 Goodwill

The acquisition of OGE in 2012 results in goodwill which, according to IFRS 3, is not amortised. Therefore, in the financial year, impairment testing in accordance with IAS 36.80 ff. was performed on the basis of the cash-generating unit, which in the present case represents the Group; this impairment testing gave no indication of impairment.

Further details on the impairment test are given in section 2.10.

The tax deductible goodwill amounted to € 15.2 million as of 31 December 2017 (previous year: € 16.9 million). Since January 2012, tax goodwill has been amortised on a straight-line basis over 15 years in the tax balance sheet of OGE.

4.3 Intangible assets

We refer to the consolidated statement of changes in non-current assets for the development and composition of the intangible assets.

In 2017, the Group recorded amortisation expense of € 27.7 million (previous year: € 30.5 million). There were no impairment losses or reversals of impairments.

As of the reporting date, the carrying amount of intangible assets with indefinite useful lives is € 4.5 million (previous year: € 3.0 million). Of this figure, easements account for € 3.8 million (previous year: € 1.7 million) and emission rights for € 0.7 million (previous year: € 1.3 million).

In the financial year, there were additions of € 0.4 million to the internally generated intangible assets (previous year: € 0.8 million).

4.4 Property, plant and equipment

We refer to the consolidated statement of changes in non-current assets for the development and composition of the property, plant and equipment. Borrowing costs in accordance with IAS 23 in the amount of € 9.4 million were capitalised in 2017 (previous year: € 4.7 million). Depreciation of property, plant and equipment amounts to € 127.4 million (previous year: € 132.9 million).

4.5 Financial assets

in € million	31 Dec. 2017	31 Dec. 2016
Companies accounted for using the equity method	121.0	126.5
Equity investments	29.5	39.2
Long-term loans granted	3.0	3.1
Total	**153.5**	**168.8**

The list of shareholdings is given in section 7.

The main equity investments are NETG amounting to € 19.9 million (previous year: € 29.8 million), and PLEdoc Gesellschaft für Dokumentationserstellung und -pflege mbH („PLEdoc“), Essen, amounting to € 4.2 million (previous year: € 4.2 million).

In the financial year, an impairment of € 9.9 million was recorded on the equity investment in NETG.

Two companies accounted for using the equity method have been taken into consideration as at the reporting date. They are GasLINE KG as an associate and JGT as a joint venture.

The following table provides information in accordance with IFRS 12.B12 ff. on the companies accounted for using the equity method:

GasLINE KG in € million	31 Dec. 2017	31 Dec. 2016
Dividends received	10.9	0.2
Current assets*	49.1	75.9
Cash and cash equivalents	*37.7*	*69.0*
Non-current assets*	330.5	326.7
Current liabilities*	42.6	46.2
Current financial liabilities	*0.0*	*0.3*
Non-current liabilities*	73.8	110.3
Non-current financial liabilities	*0.0*	*0.0*
Pro-rata equity	76.9	69.7
Other effects	1.1	0.7
Carrying amount of company accounted for using the equity method	**78.0**	**70.4**
Revenues*	86.1	85.5
Depreciation and amortisation*	13.7	13.2
Interest income / expense*	0.0	0.2
Income tax expense*	7.5	7.2
OCI*	0.0	0.0
Income statement result*	**58.9**	**35.6**
Total comprehensive income*	**58.9**	**35.6**

* Figures refer to the total shareholder share (100%).

JGT **in € million**	**31 Dec. 2017**	**31 Dec. 2016[6]**
Current assets*	32.7	60.6
Cash and cash equivalents	*22.2*	*45.6*
Non-current assets*	83.1	87.2
Current liabilities*	29.8	34.2
Current financial liabilities	*6.8*	*0.0*
Non-current liabilities*	1.3	1.6
Non-current financial liabilities	*0.0*	*0.0*
Pro-rata equity	42.4	56.0
Other effects	0.6	0.1
Carrying amount of company accounted for using the equity method	**43.0**	**56.1**
Revenues*	25.4	-
Depreciation and amortisation*	3.9	-
Interest income / expense*	.	-
Income tax expense*	3.7	-
OCI*	0.0	-
Income statement result*	**9.6**	**-**
Total comprehensive income*	**9.6**	**-**

* Figures refer to the total shareholder share (100%).

OGE is connected with the partner of the joint venture JGT through a consortium agreement. Under this agreement, the parties have mutual guarantee obligations, unchanged from the previous year, the infringement of which could lead to mutual claims in the amount of € 5.0 million. Due to the improbability that a guarantee will be infringed, no obligation therefor was recognised in the consolidated financial statements.

[6] JGT (formerly NEI) did not qualify for inclusion in the consolidated financial statements until 31 December 2016 and for this reason the Group has no figures available which impact on profit or loss.

The companies MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG ("MEGAL"), Essen, Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG ("TENP"), Essen, NETRA GmbH Norddeutsche Erdgas Transversale & Co. Kommanditgesellschaft ("NETRA"), Schneiderkrug, and Zeelink GmbH & Co. KG ("Zeelink"), Essen, are, as joint operations, included in the Group on a pro-rata basis.

In the financial year, the consolidated balance sheet includes the following carrying amounts of the joint operations:

in € million	MEGAL	TENP	NETRA	Zeelink
Non-current assets				
Intangible assets	.	0.0	0.7	0.0
Property, plant and equipment	354.7	215.0	101.0	56.2
Deferred tax assets	4.5	0.6	.	0.0
Current assets				
Trade receivables (including advance payments made)	2.5	5.5	1.4	0.0
Receivables from tax creditors	0.7	0.2	0.0	4.5
Other receivables	.	3.5	2.5	7.1
Cash and cash equivalents	2.5	7.5	1.0	3.0
Non-current liabilities				
Provisions for pensions and similar obligations	0.1	0.2	0.0	0.0
Other provisions	.	.	0.0	0.0
Financial liabilities	206.6	104.6	0.0	0.0
Other non-current liabilities	22.0	34.8	0.2	0.0
Deferred tax liabilities	27.1	14.6	10.9	3.6
Current liabilities				
Other provisions	.	.	.	.
Financial liabilities	2.4	0.1	0.0	0.0
Trade payables	4.2	2.1	0.0	0.1
Other liabilities	8.6	4.3	0.2	0.0

Carrying amounts of the joint operations in the consolidated balance sheet as of 31 December 2016:

in € million	MEGAL	TENP	NETRA	Zeelink
Non-current assets				
Intangible assets	.	0.0	1.6	0.0
Property, plant and equipment	318.5	210.0	104.9	10.0
Deferred tax assets	4.0	0.2	.	.
Current assets				
Trade receivables (including advance payments made)	2.5	4.1	0.6	0.0
Receivables from tax creditors	1.3	0.4	0.2	3.4
Other receivables	0.2	3.5	.	0.0
Cash and cash equivalents	1.9	18.5	1.3	3.8
Non-current liabilities				
Provisions for pensions and similar obligations	0.1	0.2	0.0	0.0
Other provisions	.	.	0.0	0.0
Financial liabilities	160.7	91.8	0.0	0.0
Other non-current liabilities	0.0	18.5	0.0	0.0
Deferred tax liabilities	24.2	15.4	11.3	2.0
Current liabilities				
Other provisions	.	.	0.0	.
Financial liabilities	0.6	20.3	0.0	0.0
Trade payables	5.6	1.7	.	1.7
Other liabilities	1.3	3.4	0.3	0.0

The balance sheet and profit/loss data of all other equity investments held by the Group and measured at cost are not material in aggregate.

4.6 Non-current receivables and assets

Non-current receivables include receivables of € 34.6 million (previous year: € 50.5 million) from the two proportionately consolidated pipeline companies MEGAL and TENP from accounting for the one-sided capital contribution. The financial statements of these pipeline companies reflected this by recognising the capital contributions as borrowings in accordance with IAS 32 and, in the case of MEGAL, reducing by € 15.9 million in the reporting year. Receivables from the application of the PoC method with a remaining term of two to five years account for € 29.9 million (previous year: € 34.1 million). The costs incurred and profits recognised from these construction contracts total € 73.0 million (previous year: € 77.0 million). Advance payments of € 32.9 million (previous year: € 25.6 million) received for these construction contracts are shown under other operating liabilities.

4.7 Inventories

Inventories break down as follows:

in € million	31 Dec. 2017	31 Dec. 2016
Raw materials and supplies	14.5	14.5
Work in progress	2.7	2.5
Gas inventories	13.2	15.6
Total	**30.4**	**32.6**

4.8 Trade receivables and other current receivables

Current receivables break down as follows:

in € million	31 Dec. 2017	31 Dec. 2016
Trade receivables	33.5	30.8
Other current operating receivables	35.9	41.4
Trade receivables and other current operating receivables	**69.4**	**72.2**
Financial receivables	7.7	15.5
Total	**77.1**	**87.7**

All receivables contained in this item have a maturity of less than one year. Other receivables comprise mainly input tax refund receivables from tax creditors in the amount of € 13.6 million (previous year: € 7.8 million), receivables from joint operations included on a pro-rata basis in the amount of € 8.0 million (previous year: € 11.3 million), receivables from contractual penalties in the amount of € 3.5 million (previous year: € 3.5 million) as well as receivables from market area changeover and biogas levies in the amount of € 3.4 million (previous year: € 5.8 million).

The age schedule of trade receivables is presented in the table below:

in € million	31 Dec. 2017	31 Dec. 2016
Not yet due	29.6	28.8
0 to 30 days past-due	1.5	0.3
31 to 60 days past-due	0.4	0.3
61 days to one year past-due	0.5	2.6
Over one year past-due	4.3	2.8
Gross trade receivables excl. valuation allowances	**36.3**	**34.8**
Doubtful debts	3.3	4.6
Valuation allowances	2.8	4.0
Net value of trade receivables	**33.5**	**30.8**

The written-down receivables are due from a large number of customers from whom it is unl kely that full repayment will ever be received. Receivables are monitored in the individual Group companies.

The valuation allowance for trade receivables has changed as shown in the following table:

in € million	2017	2016
Start of financial year	**4.0**	**4.3**
Utilisation / Reversal	-1.5	-0.3
Net addition	0.3	0.0
End of financial year	**2.8**	**4.0**

All write-downs were recognised as individual valuation allowances.

4.9 Cash and cash equivalents

Cash and cash equivalents are solely to balances at banks which are mainly invested as current account balances, overnight money and one-month money.

4.10 Equity

Subscribed capital

The subscribed capital of VGT is fully paid in and remains unchanged from the previous year at 25,000 shares, each with a value of € 1. The shares are held by the sole shareholder, VGS.

The changes in equity and other comprehensive income are shown separately in the statement of changes in equity and in the statement of total comprehensive income.

Additional paid-in capital

As in the previous year, additional paid-in capital amounts to € 925.6 million.

Retained earnings

Retained earnings total € 139.7 million (previous year: € 26.2 million). The change results from the consolidated net income for the year of € 158.9 million (previous year: € 165.4 million) and the remeasurement of defined benefit plans amounting to € 12.3 million (previous year: € -50.0 million) as well as the deferred taxes thereon of € -4.0 million (previous year: € 9.1 million). Furthermore, in the reporting year the profit in the amount of € 53.7 million (previous year: € 34.6 million) was transferred, € 45.0 million of this figure (previous year: € 25.0 million) being transferred in advance.

Other Comprehensive Income

Accumulated OCI totals € -1.7 million (previous year: € -2.3 million) and results from the measurement of derivatives amounting to € -1.7 million (previous year: € -2.6 million) and the deferred taxes thereon of € 0.0 million (previous year: € 0.3 million).

4.11 Deferred taxes

The following table shows the deferred tax assets and deferred tax liabilities:

	Deferred tax assets		Deferred tax liabilities	
in € million	**2017**	**2016**	**2017**	**2016**
Intangible assets	7.9	8.3	4.6	8.4
Goodwill	4.7	5.2	0.0	0.0
Property, plant and equipment	2.5	16.3	493.1	513.1
Financial assets	0.2	0.1	62.5	52.8
Other assets	13.9	15.0	9.4	10.8
Special reserve items	0.0	0.0	5.3	0.0
Provisions	81.5	81.1	12.6	22.1
Liabilities	4.7	4.8	2.5	2.7
Loss carryforward	8.7	13.5	n/a	n/a
Deferred taxes before netting	**124.1**	**144.3**	**590.0**	**609.9**
Netting	-97.2	-119.8	-97.2	-119.8
Deferred taxes after netting	**26.9**	**24.5**	**492.8**	**490.1**

In 2017, current deferred tax assets of € -0.1 million (previous year: € -0.6 million) and non-current deferred tax assets of € -97.1 million (previous year: € -119.2 million) were netted against deferred tax liabilities.

The Group has trade tax loss carryforwards of € 48.5 million (previous year: € 89.8 million). Deferred tax assets of € 8.7 million (previous year: € 13.5 million) were recognised on these loss carryforwards.

The maturity structure of the deferred taxes is as follows:

	31 Dec. 2017		31 Dec. 2016	
in € million	**Current**	**Non-current**	**Current**	**Non-current**
Deferred tax assets	14.7	12.2	15.2	9.3
Deferred tax liabilities	-0.8	-492.0	-0.8	-489.3
Net amount	**13.9**	**-479.8**	**14.4**	**-480.0**

Of the deferred tax assets shown, € -4.3 million (previous year: € 9.0 million) were recognised within equity in the reporting period.

These deferred taxes are attributable in their entirety to the remeasurement of defined benefit plans recognised in comprehensive income as well as to the measurement of derivatives (cash flow hedges).

	1 Jan. - 31 Dec. 2017		
in € million	**Before tax**	**Income tax**	**After tax**
Changes from the remeasurement of defined benefit plans	12.3	-4.0	8.3
Cash flow hedges	0.9	-0.3	0.6
Other comprehensive income	13.2	-4.3	8.9

in € million	1 Jan. - 31 Dec. 2016 Before tax	 Income tax	 After tax
Changes from the remeasurement of defined benefit plans	-50.0	9.1	-40.9
Cash flow hedges	0.2	-0.1	0.1
Other comprehensive income	-49.8	9.0	-40.8

No deferred taxes were recognised on temporary differences of € 10.3 million (previous year: € 8.4 million) connected with shares in subsidiaries.

4.12 Provisions for pensions and similar obligations

In addition to their entitlements under government retirement systems and the income from private retirement planning, the employees in the Group are also covered by company retirement plans. These company retirement plans are based on company-wide agreements and on agreements in individual contracts.

Both defined contr bution and defined benefit plans are in place, which provide retirement, invalidity and surviving dependant benefits. All pension commitments exist solely in Germany.

In the VGT Group, there are currently five different pension plans in the form of direct commitments, of which one pension plan for new employees is still open, and one pension plan in the form of an insurance-based pension vehicle.

With the exception of the insurance-based pension option, the basis for the relevant pension plan is always a works agreement in conjunction with the individual's employment contract. The individual employment contracts of senior executives contain pension commitments. Apart from the statutory rules customarily applying in Germany, the pension plans are not subject to any legal or regulatory rules.

All pension commitments (with the exception of direct insurance) constitute direct legal claims of the employees against the respective company and therefore provisions have to be shown in the balance sheet.

If and insofar as plan assets are created which serve solely to fulfil pension commitments, they are offset in the balance sheet against the present value of the obligation.

Provisions for pension obligations were established solely in connection with defined benefit pension commitments for current and former employees. As part of defined benefit pension commitments, beneficiaries are granted pensions with a defined benefit when they retire.

Employees in the Group mainly have pension commitments with fixed benefit commitments. The majority of pension commitments for the active workforce is based on capital components that the employees earn for each year of service with the company. The amount of the capital component earned in a year depends on the employees' income and their individual ages or length of service with the company.

Defined benefit pension commitments also generally include benefits for invalidity and death. Obligations from defined benefit pension commitments are largely covered by assets in bond, equity and real estate funds which are outsourced on a long-term basis.

Furthermore, the Group makes commitments under defined contribution plans. In this case, fixed contributions are paid to external insurance companies or funds. The VGT Group has generally no further benefit obligations or risks from these pension plans beyond the payment of the defined contributions. In addition, the Group pays contributions to statutory retirement systems.

Respons bility for managing the pension commitments, in particular with regard to investment plans and contribution plans, rests with each management.

Individual contractual pension benefit commitments

There are pension commitments under individual contracts of managing directors and senior executives. They contain retirement, invalidity and surviving dependants' benefits based on the Bochumer Verband Benefits Plan, the "VO Pension Plan" and deferred compensation. Employer-financed direct life insurance contracts exist in individual cases.

Defined benefit plans

Defined benefit plan commitments constitute direct pension claims of the employees against the company and therefore provisions have to be shown in the balance sheet. If plan assets are created which serve solely to meet retirement plan commitments, they are offset on the balance sheet against the present value of the obligations.

Extent of obligations for pension commitments

The direct pension obligations, measured by their present value, have developed as follows:

in € million	2017	2016
Present value at start of financial year	**449.0**	**369.6**
Service cost	16.6	14.1
Past service cost	0.7	0.0
Interest cost	8.9	10.1
Gains/losses from plan settlements	-0.1	-0.1
Payments from plan settlements	-0.2	-0.2
Remeasurement of defined benefit plans	-4.5	58.9
Pension benefits paid	-4.3	-3.4
Present value at end of financial year	**466.1**	**449.0**

Past service cost is solely the result of new early retirement agreements and contains not only the social security compensation but also the effects on general pension obligations.

Plan settlements in the reporting period mainly relate to transfers of obligations at the commercial balance sheet carrying amount resulting from transfers of employees.

The remeasurement of defined benefit plans in the financial year is due to losses from changes in the financial assumptions (€ 5.7 million; previous year: € 63.1 million) and gains from experience adjustments (€ 10.2 million; previous year: € 4.2 million).

The weighted average duration of the obligation is 22.7 years (previous year: 22.5 years) as of the reporting date.

In the following 10 years, the following pay-outs for pension benefits are expected:

	Due within 1 year		Due in 1 to 2 years		Due in 2 to 5 years		Due in more than 5 years	
in € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Expected pay-outs for pension benefits	6.3	5.1	7.1	6.8	29.1	27.0	76.9	73.4

Actuarial assumptions

The following parameters were used for measurement:

	31 Dec. 2017	31 Dec. 2016
Discount rate	2.00 %	2.00 %
Expected salary increase rate	2.75 %	2.50 %
Expected pension increase rate	2.00 % or in line with promised guaranteed increase	2.00 % or in line with promised guaranteed increase
Biometric data	Prof. Dr Klaus Heubeck 2005 G mortality tables based on disability incidence rates which are reduced to 80 %	Prof. Dr Klaus Heubeck 2005 G mortality tables based on disability incidence rates which are reduced to 80 %

Sensitivity analysis

If the assumptions vary by +/– 0.25 percentage points or the expected mortality in the mortality tables varies by +/- 10 %, the effects on the scope of the obligation will be as follows:

2017	+0.25 %p or +10 %	-0.25 %p or -10 %
Discount rate	-5.01 %	+5.30 %
Future salary increase rate	+1.27 %	-1.23 %
Future pension increase rate	+2.94 %	-2.91 %
Mortality	-2.57 %	+2.87 %

2016	+0.25 %p or +10 %	-0.25 %p or -10 %
Discount rate	-5.03 %	+5.41 %
Future salary increase rate	+1.35 %	-1.31 %
Future pension increase rate	+3.21 %	-3.05 %
Mortality	-2.58 %	+2.88 %

The effects were determined using the same methods as for the measurement of the obligation at the end of the year.

Apart from the normal risks to which the pension commitments expose the Group, such as longevity or volatility of the assets, the Group is not exposed to any unusual or company-specific risks in connection with the pension commitments.

Fair value of plan assets

The fair value of the plan assets changed as follows:

in € million	2017	2016
Start of financial year	**314.7**	**297.6**
Interest income from plan assets	6.3	8.2
Remeasurement of defined benefit plans	7.8	8.9
Payments into plan assets	7.1	0.0
End of financial year	**335.9**	**314.7**

To minimise the effects of the loss of individual investments or the failure of individual investments to provide the expected return, the Group spreads asset investments widely. The Group intends to ensure that plan assets fully cover the pension obligations under commercial law at every reporting date.

Should the development of plan assets fall short of the development of the obligations, payments into the plan assets are made.

As of the reporting date, the trustee has invested the plan assets in the following asset classes:

%	Target allocation	31 Dec. 2017	31 Dec. 2016
Bonds	62.5	58.2	59.5
Equity funds	23.8	24.3	25.9
Real estate funds	13.7	13.1	10.3
Cash and money market instruments	0.0	4.4	4.3

All assets are traded in an active market.

The expected return on plan assets for the subsequent year amounts to € 6.7 million. The expected payments into plan assets for the subsequent year amount to € 38.8 million.

Presentation of provisions for pensions

Provisions for pensions changed as follows:

in € million	2017	2016
Start of financial year	**134.3**	**72.0**
Service cost	16.6	14.1
Past service cost	0.7	0.0
Net interest expense	2.7	1.9
Plan settlement gain/loss	-0.1	-0.1
Transfers/payments from plan settlements	-0.3	-0.2
Remeasurement effects	-12.3	50.0
Pension benefits paid	-4.3	-3.4
Payments into plan assets	-7.1	0.0
End of financial year	**130.2**	**134.3**

Pension cost

The net periodic pension cost for defined benefit pension plans breaks down as follows:

in € million	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Current cost (incl. plan settlement gain/loss)	16.5	14.0
Past service cost	0.7	.
Interest cost	8.9	10.1
Interest income from plan assets	-6.3	-8.2
Total	**19.8**	**15.9**

The remeasurement of defined benefit plans is accrued and recognised in full. It is reported outside the income statement as part of equity in the statement of recognised income and expenses.

The remeasurements of defined benefit plans recognised in equity and corresponding plan assets are shown in the following table:

in € million	2017	2016
Accumulated remeasurement recognised in equity at start of financial year	**-88.8**	**-38.8**
Remeasurement of the current financial year recognised in equity	12.3	-50.0
Accumulated remeasurement recognised in equity at end of financial year	**-76.5**	**-88.8**

4.13 Other provisions

Provisions with a maturity of more than one year are recognised at the present value of the expected future cash flows.

The other provisions changed in the financial year as follows:

in € million	Start of period	Additions	Disposals	Unwinding of discounting	Reclassifi-cations	Change in plan assets	Utilisation	End of period
Other provisions	**138.3**	**29.6**	**-6.1**	**1.6**	**0.0**	**-4.8**	**-31.8**	**126.8**
Provisions – pipeline sector	**76.9**	**2.3**	**-2.4**	**0.0**	**0.0**	**0.0**	**-5.3**	**71.5**
Provisions for miscellaneous in the pipeline sector - current	17.5	2.3	-2.4	0.0	0.0	0.0	-4.6	12.8
Provisions for miscellaneous in the pipeline sector - non-current	59.4	0.0	0.0	0.0	0.0	0.0	-0.7	58.7
Provisions – personnel sector	**55.8**	**25.2**	**-0.3**	**1.6**	**0.0**	**-4.8**	**-25.2**	**52.3**
Provisions for early-retirement obligations and part-time phased retirement - non-current	12.3	1.8	-0.2	.	0.0	1.7	-4.8	10.8
Provisions for annual and special bonuses etc. – current	15.7	16.6	0.0	0.0	0.0	0.0	-15.7	16.6
Provisions for annual and special bonuses etc. - non-current	2.8	1.4	0.0	0.0	0.0	0.0	-1.4	2.8
Provisions for long-service anniversary obligations - non-current	6.8	0.1	.	0.1	0.0	0.0	-0.6	6.4
Provisions for gas allowance obligations - non-current	9.1	.	-0.1	0.2	0.0	0.0	-0.1	9.1
Provisions for other personnel expenses – current	3.0	2.6	0.0	0.0	0.0	0.0	-2.6	3.0
Provisions for other personnel expenses - non-current	6.1	2.7	0.0	1.3	0.0	-6.5	0.0	3.6
Provisions for other risks	**3.5**	**0.4**	**-3.2**	**0.0**	**0.0**	**0.0**	**.**	**0.7**
Provisions for litigation cost risks and compensation obligations – current	3.5	0.4	-3.2	0.0	0.0	0.0	.	0.7
Miscellaneous other provisions	**2.1**	**1.7**	**-0.2**	**0.0**	**0.0**	**0.0**	**-1.3**	**2.3**
Provisions for external annual financial statement audit cost – current	0.4	0.3	.	0.0	0.0	0.0	-0.3	0.4
Miscellaneous other provisions – current	1.2	0.6	-0.2	0.0	0.2	0.0	-1.0	0.8
Miscellaneous other provisions – non-current	0.5	0.8	0.0	0.0	-0.2	0.0	0.0	1.1
Total – current	**41.3**	**22.8**	**-5.8**	**0.0**	**0.2**	**0.0**	**-24.2**	**34.3**
Total - non-current	**97.0**	**6.8**	**-0.3**	**1.6**	**-0.2**	**-4.8**	**-7.6**	**92.5**

VGT expects the complete amount of current provisions (€ 34.3 million) to be utilised within the year.

As part of the acquisition of OGE, in 2012 contingent liabilities were identified, measured at fair value, accounted for as provisions and adjusted for changes in accordance with IFRS 3.56. These include provisions for restoration obligations for the decommissioned pipeline network in the amount of € 58.6 million (previous year: € 59.4 million) which are recognised under provisions for the pipeline sector and for which, according to current estimates, utilisation can mainly be expected from 2027 onwards.

The following obligations are grouped under personnel obligations:

Obligations for bonus payments amounting to € 19.4 million (previous year: € 18.5 million)

Early retirement obligations and other restructuring measures in the amount of € 10.7 million (previous year: € 11.5 million)

Obligations for part-time phased-retirement arrangements amounting to € 0.1 million (previous year: € 0.8 million)

Obligations for gas allowance payments amounting to € 9.1 million (previous year: € 9.1 million)

Obligations for long-service anniversary payments amounting to € 6.4 million (previous year: € 6.8 million)

Obligations for long-term working-time accounts amounting to € 3.6 million (previous year: € 6.1 million)

Other current obligations amounting to € 3.0 million (previous year: € 3.3 million)

The existing plan assets for part-time phased-retirement obligations and long-term working-time account obligations are only for fulfilling the pension commitments and are not available to the creditors, even in the event of the Company's insolvency. For this reason, the plan assets for long-term working-time accounts (€ 25.5 million; previous year: € 18.2 million) are netted with the present value of the obligations for long-term working-time accounts (€ 29.1 million; previous year: € 24.3 million) and the remaining amount (€ 3.6 million; previous year: € 6.1 million) is recognised as a liability. Plan assets relating to obligations for part-time phased retirement (€ 0.9 million; previous year: € 3.5 million) are netted with the present value of the share of the obligations for part-time phased retirement attributable to the performance arrears (€ 0.3 million; previous year: € 3.5 million) and the remaining amount (€ 0.6 million, previous year: € 0.0 million) is recognised as an asset. The share of the obligations for part-time phased retirement attributable to the top-up amount (€ 0.1 million; previous year: € 0.8 million) is recognised as a liability.

For the purpose of simplification, the same duration for the provisions for gas allowance obligations, long-service anniversary payments and long-term working-time accounts is assumed as for pension provisions. The following utilisation periods result:

in € million	2017	2016
Utilisation within 1 year	0.3	0.2
Utilisation between 1 and 5 years	1.5	1.7
Utilisation after 5 years	17.4	20.1

Utilisation of the remaining other provisions amounting to € 14.9 million (previous year: € 15.6 million) is expected within the next two to five years.

4.14 Liabilities

The following table provides a breakdown of the liabilities:

	31 Dec. 2017		31 Dec. 2016	
in € million	**Current**	**Non-current**	**Current**	**Non-current**
Bonds	0.0	2,242.1	0.0	2,240.7
Liabilities to banks	62.5	219.3	20.4	160.6
Liabilities to proportionately consolidated companies	7.7	0.0	15.4	0.0
Other financial liabilities	38.2	91.8	40.8	91.8
Financial liabilities	**108.4**	**2,553.2**	**76.6**	**2,493.1**
Trade payables	81.7	1.5	54.6	0.7
Investment grants / construction cost grants	0.0	7.5	0.0	4.7
Liabilities to proportionately consolidated companies	30.6	0.0	23.0	0.0
Liabilities to affiliated companies	5.2	0.0	22.8	0.0
Income tax liabilities	0.0	0.0	2.3	0.0
Accruals	13.2	0.0	9.0	0.0
Liabilities from derivative financial instruments	0.0	1.8	0.0	2.7
Payments received on account of orders	25.2	0.0	14.4	0.0
Other operating liabilities	22.2	18.6	31.8	18.9
Trade payables and other operating liabilities	**178.1**	**29.4**	**157.9**	**27.0**
Total	**286.5**	**2,582.6**	**234.5**	**2,520.1**

The three corporate bonds issued in 2013, each for € 750.0 million and maturing in 2020, 2023 and 2025 still exist. In addition, in August 2017 the revolving credit facility for € 200.0 million still unused at that time was replaced by a new revolving credit facility in the amount of € 600.0 million maturing in 2022. They continue to provide a secure and balanced maturity and liquidity profile for the VGT Group. Other financial liabilities include promissory notes in the amount of € 76.2 million (previous year: € 76.2 million) and registered bonds in the amount of € 15.6 million (previous year: € 15.6 million).

Other operating liabilities mainly result from obligations to other shareholders of joint operations amounting to € 5.3 million (previous year: € 6.9 million). There are also liabilities to Uniper Global Commodities SE, Düsseldorf (as the legal successor of E.ON Global Commodities SE ("E.ON"), Düsseldorf), from a subsequent adjustment to the purchase price of OGE in the amount of € 7.7 million (previous year: € 7.7 million) as well as liabilities from taxes amounting to € 2.4 million (previous year: € 7.0 million).

5 Information on the Income Statement

5.1 Revenues

Of the revenues generated in 2017, € 783.0 million result from the gas transmission business (previous year: € 809.1 million) and € 20.0 million from transport-related services (previous year: € 18.8 million). € 120.0 million result from technical and commercial services (previous year: € 120.0 million). This includes revenue from construction contracts of € 40.9 million (previous year: € 25.0 million).

5.2 Own work capitalised

Own work capitalised amounts to € 26.2 million (previous year: € 26.0 million) and results primarily from engineering services in the network sector and in connection with new construction projects.

5.3 Other operating income

Other operating income includes mainly € 15.5 million (previous year: € 10.0 million) from the purchase price adjustment due to the tax clause agreed between VGT and E.ON on the acquisition of OGE as well as income from market area changeover and biogas levies in the amount of € 3.4 million (previous year: € 5.8 million).

Realised exchange rate gains and income from foreign currency translation on the reporting date were of an insignificant amount (< € 250k.).

5.4 Cost of materials

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Expenses for raw materials and supplies	197.2	189.0
Expenses for purchased goods	100.3	97.5
Total	**297.5**	**286.5**

Expenses for raw materials and supplies mainly comprise expenses for fuel energy, usage fees and load flow commitments. This item also includes expenses for market area changeover and biogas levies, which are largely passed on to the customers and collected in revenues of the transport business. The expenses for purchased goods mainly relate to maintenance costs as well as other services purchased in connection with the services business.

5.5 Personnel costs

Personnel costs contain the following components:

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Wages and salaries	121.7	118.3
Social security contributions	18.2	17.8
Pension costs and other employee benefits	17.6	15.3
Total	**157.5**	**151.4**

Of the pension costs and other employment benefits totalling € 17.6 million, € 0.4 million (previous year: € 0.0 million) relate to defined contribution plans.

In the reporting period, the Group employed an average of 1,438 employees (previous year: 1,434), of which 322 were industrial workers (previous year: 322), 1,040 were salaried employees (previous year: 1,036), 72 were apprentices (previous year: 72) and 4 were managing directors (unchanged from the previous year). As in the previous year, the figure includes four employees from proportionately consolidated Group companies.

The personnel figures were determined on an average basis from the end figure of each quarter. Employees from proportionately consolidated companies were included in full.

5.6 Other operating expenses

The other operating expenses break down as follows:

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
IT costs	32.2	33.7
Expenses for sale and purchase agreements	8.2	0.0
Expenses for services rendered by third parties	6.4	5.8
Vehicle costs	4.7	4.7
Market area changeover and biogas levies	4.6	5.8
Social security contr butions	3.8	1.9
Travelling costs	3.5	3.1
Insurance premiums	3.5	3.6
Rental and lease costs	2.3	2.2
External audit and consulting costs	2.3	2.6
Fees and contr butions	2.2	2.1
Miscellaneous other operating expenses < € 2 million	8.0	14.6
Total	**81.7**	**80.1**

5.7 Depreciation and amortisation

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Amortisation of intangible assets	27.7	30.5
Depreciation of property, plant and equipment	127.4	132.9
Total	**155.1**	**163.4**

5.8 Financial result

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Income/loss (-) from equity investments	**-0.6**	**-0.8**
Income from company accounted for using the equity method	**15.9**	**3.3**
Interest income	**0.1**	**0.3**
Interest expenses	**-59.8**	**-64.9**
Interest share of the addition to provisions	*-2.7*	*-3.0*
Tax-related interest expense	*0.0*	*-0.1*
Other interest expenses	*-57.1*	*-61.8*
Impairment of financial assets	**-9.9**	**0.0**
Financial result	**-54.3**	**-62.1**

The interest share of the addition to provisions is mainly the interest cost from pension provisions (€ 8.9 million) - after deduction of the expected return on plan assets (€ 7.7 million) – as well as the unwinding of discounting of the other non-current personnel provisions totalling € 1.5 million.

Other interest expenses are largely interest on debt in connection with the bonds (€ 60.0 million; previous year: € 60.0 million).

An interest expense of € 1.5 million (previous year: € 1.5 million) resulted from the effective interest rate of the bonds.

The other interest expenses are reduced by the capitalised interest on debt amounting to € 9.4 million (previous year: € 4.7 million).

The impairment of financial assets results from the impairment of NETG. See section 4.5 “Financial Assets”.

5.9 Income taxes

A profit-and-loss transfer agreement has existed since 1 January 2013 with OGE as the controlled company and VGT as the controlling company which provides the reason for the establishment of a fiscal entity for income tax purposes between VGT and OGE. Since then, following the conclusion of a further profit-and-loss transfer agreement, a further fiscal entity for income tax purposes has also existed with VGT as the controlled company and VGS as the controlling company.

In addition, income tax allocation agreements were concluded between VGT and OGE, and between VGS and VGT with the aim of allocating the income taxes economically incurred by OGE and VGT to these companies. Consequently, the VGT Group shows income tax allocations for the reporting year.

The domination and profit-and-loss transfer agreements between OGE as the intermediate controlling company and its subsidiaries METG, Open Grid Regional GmbH, Essen ("OGR"), PLEdoc, Open Grid Service GmbH, Essen ("OGS"), Line WORX GmbH, Essen and NEL Beteiligungs GmbH, Essen ("NELB") continue in existence. No agreements on income tax allocation were made between OGE and its controlled companies.

The income taxes break down as follows:

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Income taxes for current financial year	0.8	3.7
Income tax allocations	73.5	84.8
Income taxes for prior financial years	0.0	2.1
Deferred taxes for current financial year	-5.2	-13.3
Deferred taxes for prior financial years	1.2	14.2
Income taxes	**70.3**	**91.5**

The pro-rata trade tax of proportionately consoldiated partnerships is shown as an effective tax expense for the current year. Taxes for prior financial years include deferred tax income from partnerships.

The deferred tax expense is due to the change in temporary differences.

The following reconciliation shows the differences between the expected and the recognised tax expense / rate in the Group:

		1 Jan. – 31 Dec. 2017		1 Jan. – 31 Dec. 2016	
		in € million	%	in € million	%
	Profit before tax in accordance with IFRS	**229.2**		**256.9**	
	Group income tax rate		31.0		31.0
	Expected income tax expense	**71.1**		**79.6**	
1	Permanent effects	-3.4	-1.3	-3.1	-1.2
2	Difference due to the trade tax assessment basis	2.4	0.9	-0.9	-0.4
3	Taxes not relating to the period	-1.2	-0.5	16.4	6.4
4	Effect from measurement using the equity method	-1.6	-0.6	-2.4	-0.9
5	Change in deferred taxes on loss carryforwards	0.0	0.0	2.7	1.1
6	Other	3.0	1.2	-0.9	-0.4
	Effective tax expense / rate	**70.3**	**30.7**	**91.5**	**35.6**

The difference between the calculated tax expense and the actual tax expense is due to permanent effects from purchase price adjustments as a result of the tax clause agreed between VGT and E.ON on the acquisition of OGE as well as to effects from partnerships.

6 Other Information

6.1 Information on the Cash Flow Statement

Cash provided by operating activities amounted to € 388.4 million in the reporting year (previous year: € 460.8 million). The reduction of € 72.4 million is largely due to a decrease of € 6.5 million in consolidated net income, the changes in plan assets of € -12.4 million (previous year: € 3.0 million) and the changes in working capital in the amount of € 1.9 million (previous year: € 33.1 million).

The cash used for investing activities changed in the financial year by € -86.8 million to € -433.7 million. Cash outflows for investments rose by € 208.6 million to € 469.6 million largely as a result of the new build and expansion measures. Of the total additions to property, plant and equipment and intangible assets in the amount of € 501.6 million (previous year: € 286.5 million), € 32.0 million (previous year: € 25.5 million) were non-cash. In addition, the cash flow used for investing activities contains purchases of and proceeds from the disposal of investments in other equity investments and equity-accounted investments in the amount of € 10.3 million (previous year: € -70.7 million). In the reporting year, these are due mainly to proceeds from the capital reduction at JGT, payment for the acquisition of further shares in GasLINE KG and payment of part of the outstanding limited partner contr bution at GasLINE KG.

In the financial year, cash used for financing activities totalled € -37.7 million (previous year: € -74.2 million). Utilisation of a revolving credit facility of VGT resulted in cash inflows of € 60.0 million. Furthermore, the refinancing in 2016 and 2017 of the project companies MEGAL and TENP resulted in cash inflows of € 40.3 million, particularly as a result of forward starting loans, while cash outflows were in particular interest payments (€ -66.3 million) and dividend payments (€ -61.7 million).

The following shows the changes in liabilities from financing activities in the financial year:

	Financial liabilities		
in € million	**Current**	**Non-current**	**Total**
Start of the financial year	**76.6**	**2,493.1**	**2,569.7**
Cash-effective changes	-32.1	58.7	26.6
Non-cash changes	63.9	1.4	65.3
End of the financial year	**108.4**	**2,553.2**	**2,661.6**

The non-cash changes result almost exclusively from accrued interest and are classified under "other changes" in accordance with IAS 7.44B (e).

For the purposes of the cash flow statement, cash and cash equivalents comprise exclusively cash at banks totalling € 106.4 million (previous year: € 189.4 million).

See section 4.5 for information on the cash and cash equivalents of the joint operations.

6.2 Contingencies

All financings in the VGT Group (in the form of bonds or bank loans) are granted to the borrowing Group companies without the provision of collateral security. As of 31 December 2017, the total amount of bank guarantees in favour of third parties was € 1.0 million (previous year: € 1.0 million).

6.3 Other financial obligations

The other financial obligations which cannot be seen from the balance sheet amount to € 68.3 million per annum (previous year: € 68.8 million) as of the reporting date and arise from long-term contracts for the grant of use of the pipeline network. The minimum lease payments for pipeline networks listed in section 6.4 are not included.

The following purchase commitments existed as of the reporting date:

in € million	31 Dec. 2017	31 Dec. 2016
Purchase commitment for investments in intangible assets	4.3	2.9
Purchase commitment for investments in property, plant and equipment	552.3	476.1
Purchase commitment for maintenance work (incl. inventory materials)	145.7	151.8
Total purchase commitment	**702.3**	**630.8**

6.4 Leases

The Group rents pipeline networks, business premises, vehicles and other operating equipment under cancellable operating leases. For significant operating leases, there is an option to extend the contract. The existing contract relationships result in the following minimum lease payments for the Group:

	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years	
in € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Pipeline networks	0.0	12.3	0.0	0.0	0.0	0.0
Buildings	1.7	1.5	5.5	5.3	.	0.0
Vehicles, IT and others	4.0	4.0	5.5	5.4	0.0	0.0
Minimum lease payments	**5.7**	**17.8**	**11.0**	**10.7**	**.**	**0.0**

In the 2017 financial year, payments under leases of € 18.4 million were recognised in income (previous year: € 18.5 million).

The Group is also a lessor under operating leases. The lease business is, however, only a side-line activity for the Group.

The existing leases do not normally refer to individually separable assets and also do not grant a particular customer exclusive usage of a separable asset; thus there is no indication in the balance sheet of the assets bound by operating leases. The contract relations with the Group as lessor result in minimum lease payments received as follows:

	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years	
in € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Buildings	0.7	0.7	0.6	0.6	0.0	0.0
IT and others	0.1	0.1	0.3	0.3	0.0	0.0
Minimum lease pay-ins	**0.8**	**0.8**	**0.9**	**0.9**	**0.0**	**0.0**

In the 2017 financial year, payments under leases of € 0.9 million were recognised in income (previous year: € 1.1 million).

Sub-leases under the operating leases were only made with one subsidiary not included in the Group in an insignificant volume.

6.5 Segment reporting

In accordance with IFRS 8, the segments are defined according to the internal steering and reporting in the VGT Group (management approach). The entire Management of OGE is identified as the chief operating decision-maker (CODM) of the VGT Group. In particular the implementation of the concept of an Independent Transmission Operator (ITO) prohibits intervention of higher levels in the business operations of the OGE Group. Consequently, resource allocation at higher level is not possible.

The VGT Group has two business segments, the Transport and Other Services businesses. The revenues of these two business segments are reported separately to the Management of OGE. However, as expenses exist in both business segments which are neither immaterial nor independent of revenues, the revenues are not a result metric within the meaning of IFRS 8.5 (b). Another result metric for the two business segments is not reported separately to the Management of OGE. As a result, the VGT Group constitutes a "one segment company".

Entity-wide disclosures

External revenues break down as follows:

in € million	2017	2016
Transport business	803.0	827.9
Other Services business	120.0	120.0
Total	**923.0**	**947.9**

Information on geographical regions in accordance with IFRS 8.33 is not given as the business of the VGT Group largely relates to one region (Germany; place of performance and/or seat of the companies).

The VGT Group generated € 162.7 million with one customer in 2017 (previous year: € 166.5 million). That is more than 10 % of total revenues.

6.6 Business transactions with related parties

From the Group's perspective, the following companies and bodies are related parties as defined by IAS 24:

Controlling companies: through VGH and VGS, a consortium consisting of the British Columbia Investment Management Corporation (32.15 %), Abu Dhabi Investment Authority (24.99 %), Macquarie Infrastructure and Real Assets (23.58 %), Münchener Rückversicherungs-Gesellschaft AG (18.73 %) as well as Halifax Regional Municipality Master Trust (0.55 %), together holding 100 % of the shares in VGT.

On the basis of the profit-and-loss transfer agreement concluded with VGS on 1 January 2013, VGT is to transfer its profits of € 53.7 million to VGS (previous year: € 34.6 million) and to pay € 73.5 million (previous year: € 84.7 million) to VGS under the income tax allocation agreement with VGS. An advance payment of € 122.0 million (previous year: € 95.0 million) was already made to VGS on the basis of these two agreements. On the reporting date, the total remaining amount of € 5.2 million (previous year: € 24.4 million) after deduction of tax receivables chargeable to VGS is recorded in current operating liabilities to affiliated companies.

Apart from the above, no significant business transactions were performed in the reporting period with controlling companies.

Associates and joint arrangements

The list of shareholdings is given in section 7. Significant business relations only exist with NETG, DAN - Deutsch/Dänische Erdgastransport-Gesellschaft mbH & Co. Kommanditgesellschaft, Handewitt, GasLINE KG and NetConnect Germany GmbH & Co., Ratingen. The individual business transactions were as follows:

in € million	2017	2016
Receivables	3.9	3.8
Liabilities	1.7	1.8
revenues	18.0	17.1
Cost of materials	14.9	15.5

Most of the revenues (€ 13.6 million; previous year: € 13.5 million) were generated with technical and commercial services. At € 11.4 million (previous year: € 11.9 million), fees for usage contracts for the pipeline network account for most of the cost of materials.

Related parties

In line with IAS 24, the remuneration of key management personnel (Management of VGT as well as Management and members of the Supervisory Board of OGE) is to be disclosed. With one exception, the managing directors of VGT are employed at the member companies of the controlling investor consortium and receive no remuneration from VGT for their work. As the managing directors perform similar pipeline and monitoring activities for a large number of companies and the costs are not allocated to the individual companies, it is not possible to attr bute the individual remunerations to their VGT management work.

The Supervisory Board of OGE received remuneration totalling € 0.1 million in the reporting period, the same as in the previous year. The remuneration received by the members of the OGE Management Board and by the managing director employed at VGT for their services as employees (in line with IAS 24.17) breaks down as follows:

in € million	2017	2016
Salaries and other current benefits	2.7	1.8
Post-termination benefits	-	-
Other benefits due in the long term	0.8	0.9
Total remuneration	**3.5**	**2.7**

Otherwise, no transactions took place with members of the Management in key positions.

6.7 Events after the balance sheet date

From 1 January 2018, JGT no longer markets transport capacities itself but has transferred this activity completely to its shareholders. This has not resulted in a change to companies included in the consolidated financial statements.

In order to give the Group greater funding flexibility, a European Commercial Paper (ECP) Programme was set up which had a total aggregate volume of € 500.0 million on the date of implementation 5 March 2018. The value date of the first note issued under the ECP Programme in the amount of € 60.0 million was 13 March 2018.

6.8 Independent auditors' fees

The auditors of the VGT consolidated financial statements are PricewaterhouseCoopers GmbH WPG, Essen. The fees for financial statement audits include in particular fees for statutory auditing of the consolidated financial statements and the annual financial statements of the Group companies of VGT. The fees for other services mainly comprise fees for project-related advisory services.

in € million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Financial statement audits	0.5	0.4
Other services	0.2	0.2
Total	**0.7**	**0.6**

6.9 Management

The following persons have been appointed to the Management and as representatives of the Company:

Hilko Cornelius Schomerus, Darmstadt, Managing Director, Macquarie Infrastructure & Real Assets

John Benedict McCarthy, Abu Dhabi/United Arab Emirates, Global Head, Infrastructure Division, ADIA

Lincoln Hillier Webb, Victoria, British Columbia/Canada, Vice President, Private Placements, British Columbia Investment Management Corp.

Dominik Damaschke, Munich, Senior Investment Manager, Private Equity & Infrastructure, MEAG MUNICH ERGO Asset Management GmbH

Cord von Lewinski, Frankfurt, Managing Director, Macquarie Infrastructure & Real Assets

Richard W. Dinneny, Victoria, British Columbia/Canada, Portfolio Manager, Private Placements, British Columbia Investment Management Corp.

Guy Lambert, Abu Dhabi/United Arab Emirates, Head of Utilities, Infrastructure Division, ADIA

Stephan Kamphues, Chairman of the VGT Board of Management, since 1 July 2017

With the exception of Stephan Kamphues, the managing directors are not employees of the Company.

7 List of Shareholdings as of 31 December 2017

Name	Seat	Trade register number	Share in %	Equity in € k(1)	Net income in € k(1)
Consolidated					
Open Grid Europe GmbH	Essen	HRB 17487	100.00	1,621,144	222,908
Open Grid Regional GmbH	Essen	HRB 19964	100.00	500	-790
Mittelrheinische Erdgastransportleitungs-gesellschaft mbH	Essen	HRB 24567	100.00	64,150	55,852
Line WORX GmbH	Essen	HRB 23536	100.00	84,725	11,115
Proportionately consolidated					
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG	Essen	HRA 8536	51.00	88,334	26,783
NETRA GmbH Norddeutsche Erdgas Trans-versale & Co. Kommanditgesellschaft	Schneiderkrug	HRA 150471	40.55	63,754	37,693
Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG	Essen	HRA 8548	51.00	86,542	1,793
Zeelink GmbH & Co. KG	Essen	HRA 10610	75.00	127,948	-403
Equity-accounted					
GasLINE Telekommun kationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft (2)	Straelen	HRA 1805	29.24	36,213	36,213
jordgasTransport GmbH (formerly Norddeut-sche Erdgastransport Infrastruktur GmbH) (2)	Hanover	HRB 214	50.00	112,188	4
Non-consolidated companies due to immaterial importance					
caplog-x GmbH (2) (5)	Leipzig	HRB 23614	31.33	653	453
DEUDAN - Deutsch/Dänische Erdgastransport-Gesellschaft mbH & Co. Kommanditgesellschaft (2) (3)	Handewitt	HRA 3848 FL	24.99	5,752	1,237
DEUDAN-Deutsch/Dänische Erdgastransport-Gesellschaft mbH (2) (3)	Handewitt	HRB 3531 FL	24.99	77	2
e-loops GmbH	Essen	HRB 28610	49.00	25	n/a
GasLINE Telekommun kationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH (2) (5)	Straelen	HRB 4812	29.24	65	2
LIWACOM Informationstechn k GmbH (2) (5)	Essen	HRB 7829	33.33	486	157
MEGAL Verwaltungs-GmbH (3)	Essen	HRB 18697	51.00	49	2
NEL Beteiligungs GmbH (4)	Essen	HRB 23527	100.00	25	1
NetConnect Germany GmbH & Co. KG (2) (5)	Ratingen	HRA 20201	35.00	5,000	0
NetConnect Germany Management GmbH (2) (5)	Ratingen	HRB 59556	35.00	75	3
NETRA GmbH-Norddeutsche Erdgas Trans-versale (2) (3)	Schneiderkrug	HRB 150783	33.33	111	2
Nordrheinische Erdgastransportleitungs-gesellschaft mbH & Co. KG (2) (3)	Dortmund	HRA 17834	50.00	28,383	4,864
Nordrheinische Erdgastransportleitungs-Verwaltungs-GmbH (3)	Dortmund	HRB 26278	50.00	38	1
Open Grid Service GmbH (4)	Essen	HRB 22210	100.00	153	-316
PLEdoc Gesellschaft für Dokumentations-erstellung und -pflege mbH (4)	Essen	HRB 9864	100.00	589	2,314
PRISMA European Capacity Platform GmbH (2) (6)	Leipzig	HRB 21361	1.33	374	112
Trans Europa Naturgas Pipeline Verwaltungs-GmbH (3)	Essen	HRB 18708	50.00	46	2
Zeelink-Verwaltungs-GmbH (3)	Essen	HRB 27607	75.00	28	2

(1) Equity and net income are based on country-specific accounting policies
(2) Equity and net income refer to the previous year
(3) Joint arrangement (not consolidated pro rata/measured using the equity method)
(4) Non-consolidated affiliated company
(5) Associate (not measured using the equity method)
(6) Other equity investments

8 Statement of Changes in Non-current Assets

Consolidated Statement of Changes in Non-current Assets of the VGT Group as of 31 Dec. 2017

							Accumulated depreciation and amortisation				Carrying amounts
	1 Jan. 2017	Additions	Appreciation	Disposals	Re-classifications	31 Dec. 2017	1 Jan. 2017	Additions	Disposals	31 Dec. 2017	31 Dec. 2017
	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million
Intangible assets											
Internally generated industrial property rights and similar rights and assets	3.7	0.4	0.0	0.0	0.3	4.4	-1.8	-0.8	0.0	-2.6	1.8
Purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets	167.6	3.3	0.0	-0.7	0.5	170.7	-126.5	-26.9	0.1	-153.3	17.4
Advance payments	11.4	12.0	0.0	0.0	-0.8	22.6	0.0	0.0	0.0	0.0	22.6
	182.7	**15.7**	**0.0**	**-0.7**	**0.0**	**197.7**	**-128.3**	**-27.7**	**0.1**	**-155.9**	**41.8**
Goodwill	**830.4**	**0.0**	**0.0**	**0.0**	**0.0**	**830.4**	**0.0**	**0.0**	**0.0**	**0.0**	**830.4**
Property, plant and equipment											
Land, leasehold rights and buildings including buildings on third-party land	172.2	3.4	0.0	-0.1	0.5	176.0	-21.8	-5.6	0.0	-27.4	148.6
Pipeline system	2,124.9	84.2	0.0	-1.4	40.3	2,248.0	-296.9	-69.9	0.3	-366.5	1,881.5
Technical plant, equipment and machinery	858.1	41.4	0.0	-0.8	41.6	940.3	-175.5	-45.7	0.0	-221.2	719.1
Other equipment, fixtures, furniture and office equipment	48.6	3.9	0.0	-1.0	4.2	55.7	-22.7	-6.2	1.0	-27.9	27.8
Advance payments and construction in progress	307.5	353.0	0.0	-0.6	-86.6	573.3	-4.0	0.0	0.0	-4.0	569.3
	3,511.3	**485.9**	**0.0**	**-3.9**	**0.0**	**3,993.3**	**-520.9**	**-127.4**	**1.3**	**-647.0**	**3,346.3**
Financial assets											
Companies accounted for using the equity method	126.5	7.5	0.0	-18.0	5.0[7]	121.0	0.0	0.0	0.0	0.0	121.0
Equity investments	48.6	0.2	0.0	0.0	0.0	48.8	-9.4	-9.9	0.0	-19.3	29.5
Long-term loans granted	3.1	0.4	.	-0.5	0.0	3.0	0.0	0.0	.	0.0	3.0
	178.2	**8.1**	**0.0**	**-18.5**	**5.0**	**172.8**	**-9.4**	**-9.9**	**0.0**	**-19.3**	**153.5**
	4,702.6	**509.7**	**0.0**	**-23.1**	**5.0**	**5,194.2**	**-658.6**	**-165.0**	**1.4**	**-822.2**	**4,372.0**

[7] Under financial assets, effects from at-equity adjustments are presented within reclassifications.

Consolidated Statement of Changes in Non-current Assets of the VGT Group as of 31 Dec. 2016

							Accumulated depreciation and amortisation				Carrying amounts
	1 Jan. 2016	Additions	Appreciation	Disposals	Re-classifications	31 Dec. 2016	1 Jan. 2016	Additions	Disposals	31 Dec. 2016	31 Dec. 2016
	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million	in € million
Intangible assets											
Internally generated industrial property rights and similar rights and assets	2.9	0.8	0.0	0.0	0.0	3.7	-1.1	-0.7	0.0	-1.8	1.9
Purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets	161.1	5.2	0.0	-0.6	1.9	167.6	-96.7	-29.8	0.0	-126.5	41.1
Advance payments	7.8	5.5	0.0	0.0	-1.9	11.4	0.0	0.0	0.0	0.0	11.4
	171.8	**11.5**	**0.0**	**-0.6**	**0.0**	**182.7**	**-97.8**	**-30.5**	**0.0**	**-128.3**	**54.4**
Goodwill	**830.4**	**0.0**	**0.0**	**0.0**	**0.0**	**830.4**	**0.0**	**0.0**	**0.0**	**0.0**	**830.4**
Property, plant and equipment											
Land leasehold rights and buildings including buildings on third-party land	166.5	3.5	0.0	-0.9	3.1	172.2	-16.3	-5.8	0.3	-21.8	150.4
Pipeline system	2,102.7	17.4	0.0	-0.1	4.9	2,124.9	-227.6	-69.3	0.0	-296.9	1,828.0
Technical plant, equipment and machinery	800.1	27.7	0.0	-3.0	33.3	858.1	-124.1	-52.3	0.9	-175.5	682.6
Other equipment, fixtures, furniture and office equipment	45.4	4.1	0.0	-0.9	0.0	48.6	-18.1	-5.5	0.9	-22.7	25.9
Advance payments and construction in progress	126.5	222.3	0.0	0.0	-41.3	307.5	-4.0	0.0	0.0	-4.0	303.5
	3,241.2	**275.0**	**0.0**	**-4.9**	**0.0**	**3,511.3**	**-390.1**	**-132.9**	**2.1**	**-520.9**	**2,990.4**
Financial assets											
Companies accounted for using the equity method	52.8	70.7	0.0	0.0	3.0[8]	126.5	0.0	0.0	0.0	0.0	126.5
Equity investments	48.6	0.0	0.0	0.0	0.0	48.6	-9.4	0.0	0.0	-9.4	39.2
Long-term loans granted	3.2	0.3	0.0	-0.4	0.0	3.1	0.0	0.0	0.0	0.0	3.1
	104.6	**71.0**	**0.0**	**-0.4**	**3.0**	**178.2**	**-9.4**	**0.0**	**0.0**	**-9.4**	**168.8**
	4,348.0	**357.5**	**0.0**	**-5.9**	**3.0**	**4,702.6**	**-497.3**	**-163.4**	**2.1**	**-658.6**	**4,044.0**

[8] Adjustment: Under financial assets, effects from at-equity adjustments are presented within reclassifications.

Essen, 14 March 2018

Vier Gas Transport GmbH

The Management

Hilko Cornelius Schomerus

John Benedict McCarthy

Lincoln Hillier Webb

Dominik Damaschke

Cord von Lewinski

Richard W. Dinneny

Guy Lambert

Stephan Kamphues

INDEPENDENT AUDITOR'S REPORT

To Vier Gas Transport GmbH, Essen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Vier Gas Transport GmbH, Essen, 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 Vier Gas Transport GmbH for the financial year from January 1 to December 31, 2017. We have not audited the content of the non-financial group statement pursuant to § [Article] 315b Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] 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. 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 non-financial group statement 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 the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") 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 European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. 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.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

Recoverability of goodwill

Our presentation of this key audit matter has been structured as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matter:

Recoverability of goodwill

① Goodwill amounting in total to € 830.4 million (17.7% of total assets) is reported under the "Goodwill" balance sheet item in the consolidated financial statements of Vier Gas Transport GmbH, Essen. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating unit to which the relevant goodwill has been allocated. The carrying amount of the cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally calculated on the basis of fair value less costs of disposal. The present value of the future cash flows from the cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the Group's projections prepared by the executive directors forms the starting point in particular for future projections based on assumptions about long-term regulatory developments. The discount rate used is the weighted average cost of capital for the cash-generating unit.

The impairment test determined that no write-downs were necessary.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the cash-generating unit, the discount rate used, the growth rate and other assumptions about the long-term margin development and the development of the relevant regulatory factors, and is therefore subject to considerable uncertainty. Against this background and due to the highly complex nature of the measurement, this matter was of particular significance during our audit.

② As part of our audit, we reviewed, among other things, the method used for performing the impairment test and assessed the calculation of the weighted average cost of capital. Furthermore, we satisfied ourselves as to the appropriateness of the future cash flows used in the measurement in particular by comparing this data with the budget projections and assessing the data on the basis of sector-specific and regulatory market expectations, and in the process of doing so, making use of the executive directors' explanations regarding key planning value drivers. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure. We performed sensitivity analyses in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amounts of the cash-generating unit, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Taking into consideration the information available, in our view the measurement parameters and assumptions used by the executive directors were properly derived for conducting impairment tests.

③ The Company's disclosures on impairment testing and on the "Goodwill" balance sheet item are contained in sections 2.6 and 4.2 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the non-financial group statement pursuant to § 315b Abs. 1 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 doing so, 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 Audit Committee 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 audit committee 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 the EU Audit Regulation 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 controls.

- 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.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the shareholders' meeting on April 4, 2017. We were engaged by the management on August 28, 2017. We have been the group auditor of Vier Gas Transport GmbH, Essen, without interruption since the financial year 2012.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Bernhard Klinke.

Essen, March 14, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Bernhard Klinke) Wirtschaftsprüfer (German Public Auditor)	(sgd. ppa. Dr. Robert Vollmer) Wirtschaftsprüfer (German Public Auditor)