Group Annual Report

Vier Gas Transport GmbH

1 January to 31 December 2016

(Translation – the German text is authoritative)

Contents

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Group Management Report

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Contents

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 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 EU and German statutory regulations.

OGE's core activities include marketing gas transport capacities (including determining quantities and billing) in the NetConnect Germany (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.

General economic development

In 2016, the German economy grew price-adjusted by 1.9 % and therefore slightly more strongly than in the previous year when economic growth was roughly 1.7 %. This development is due mainly to stronger domestic demand. By contrast, exports made a slightly smaller contribution to growth. The German labour market also developed well. Adjusted for seasonal influences, the number of people in work continued to increase, reaching over 43.8 million in November or 0.6 % more than the prior-year figure.

Primary energy consumption in Germany

Energy consumption increased in Germany by 1.6 % in 2016 and totalled roughly 13,383 petajoules (PJ) or 456.7 million tonnes of coal equivalent (mtce). According to calculations of the Working Group on Energy Balances (AGEB), this increase is due to four factors: a) cooler weather than in 2015, b) the leap day in February 2016, c) positive performance of the economy, d) population growth. At the same time improvements in energy efficiency dampened energy consumption.

Gas, oil and renewable energies increased their shares of power generation while nuclear energy, hard coal and lignite all lost shares. Adjusted for the effects of weather, energy consumption would have increased only by approx. one per cent compared with 2015. Energy-related CO_2 emissions rose by approx. 0.9 %, which further fuelled the discussion on the effectiveness of climate protection measures in Germany and the EU.

Gas consumption increased in 2016 by a good 9.5 % to 3,022 PJ or 103.1 mtce. This sharp rise was due mainly to the cooler weather compared with 2015 and the greater use of gas, particularly in power stations based on combined heat and power generation. At the same time, some new gas power plants went on stream.

Energy policy developments in Europe

Network code tariffs

As part of the second comitology meeting on 29/30 September 2016, the network code tariff (NC TAR) was confirmed by the member states and is currently being finalised. It is expected to enter into force at the end of March or early April 2017 like the network code capacity allocation mechanism (NC CAM).

In addition to the harmonisation of tariff structures in Europe, the NC TAR focuses on more stringent requirements on transparency of fees for network use. Furthermore, at five-yearly intervals comprehensive consultations on how fees are established are to be held with the market in future and there are a large number of new individual requirements to be implemented, such as the introduction of hourly prices for within-day capacities. The network operators are largely free to choose the method for calculating the fees.

The NC TAR is largely consistent with the Federal Network Agency's stipulation on the pricing of entry and exit capacities (BEATE). However, as far as the introduction of horizontal cost allocation from 1 January 2018 is concerned, the Federal Network Agency still has to make adjustments to the stipulation.

The first implementation measures are already required in 2017. They relate in particular to the publication of numerous key figures at the end of November 2017 and the preparation of the consultation on the calculation method for network fees. Fees must be calculated in accordance with NC TAR for the first time as at 31 May 2019 with validity from 1 January 2020. With

OGE's assistance, ENTSOG is drawing up a guideline for the implementation of the NC TAR. This guideline is to be finalised and published in the first quarter of 2017.

Network Code Capacity Allocation Mechanism (NC CAM)

The NC CAM will probably come into force at the end of March 2017. In addition to some small amendments such as the mandatory 5-year minimum marketing duration of annual capacities, the secondary marketing of interrupt ble capacities with a term of more than one day and the re-drafting of the auction calendar, the most drastic changes are in the Europe-wide harmonisation of the most important terms and conditions of business for bundled capacity products and the start of the process for acquiring incremental capacities. ENTSOG will coordinate and support the implementation of both requirements.

OGE reports transaction and fundamental data in accordance with REMIT to ACER

After the Agency for the Cooperation of Energy Regulators (ACER) had confirmed OGE to be a registered reporting mechanism (RRM) on 15 March 2016, OGE was entitled to transmit to the agency data that have to be reported in connection with the REMIT Regulation. For the European TSOs, the obligation to report data (above all transaction and fundamental data) began on 7 April 2016. ACER currently receives an average of more than one million transaction reports a day, much more than the agency originally expected.

European Network Development Plan 2017 (ENTSOG TYNDP 2017)

On 20 December 2016, ENTSOG published the next version of the ENTSOG TYNDP 2017 ("ten-year network development plan"), which it has to prepare every two years. The results of ENTSOG TYNDP 2017 show, among other things, the need to expand the European gas transmission pipeline infrastructure to replace declining intra-European gas production. Within this framework, the areas in Belgium, Germany, France and the Netherlands currently supplied with low-calorific gas (L gas) from Dutch and German production are to be switched over to high-calorific gas (H gas).

Furthermore, the ENTSOG TYNDP 2017 shows that South-East Europe's current dependence on Russian gas can be reduced by further development of the gas transmission infrastructure.

Overall, ENTSOG estimates that it will be necessary to invest a volume of up to € 20 billion over the next 10 years to complete integration of the European gas transmission pipeline infrastructure.

Energy policy developments in Germany

Energy policy framework

The German government pushed ahead in particular with the subject of sector linking in 2016. What is behind the term "sector linking" is the idea and the realisation that the energy transition needs to be taken from the electricity sector to the heat, mobility and industry sectors. For, despite strong growth of renewable energies, CO_2 emissions in Germany have no longer been falling in recent years. Given the ambitious international climate agreement of Paris in 2015, which Germany ratified in 2016, this is leading to growing international criticism of Germany's climate protection efforts. The German government's aim to reduce greenhouse gas emissions by 40.0 % by 2020 compared with 1990 levels is not likely to be achieved. Therefore, all sectors are to be involved in climate protection more quickly and more strongly.

In addition, the costs of the energy transition are rising. The Renewable Energy Act levy alone, that is to say the feed-in payments for renewable energies, amounted to over € 25 billion in 2016. As a result, the impact of the money spent on climate protection is being more closely scrutinised than before. This increasingly public discussion about the cost of the energy transition is being intensified by the upcoming German Bundestag election. This Bundestag election, which will be held in September 2017, was already having a distinct effect in 2016. The number of concrete decisions has fallen; the number of fundamental discussions on the broad lines of the energy transition and the energy policy guidelines for the coming years has, by contrast, increased.

The most obvious example of this is the Climate Action Plan 2050 (KSP 2050), which the German cabinet passed on 14 November 2016. The KSP 2050 specifies the German climate protection goal for 2050, defines interim targets for 2030 and also underpins them with initial proposals for action. Even though the KSP 2050 is not a law but only a cabinet decision, it is likely to have a marked influence on future climate and energy policy measures of the German government. It will be regarded as an important, jointly agreed guideline.

Concrete targets for reducing greenhouse gas emissions by 2030 were specified for the individual sectors of the economy for the first time in the KSP 2050. As part of the negotiations leading up to the adoption of the KSP 2050, proposed emission targets were eased for industry and made stricter for the building sector. Such battles between the sectors and/or their climate protection obligations are expected to increase in the years to come. Along with the KSP 2050, a commission was also set up to deal with the structural changes in Germany's coal regions from 2018 without, however, an exit from coal already being actually decided.

As regards the gas industry, on the one hand, the positive role of flexible gas power plants and gas-based combined heat and power generation was recognised, while, on the other hand, the KSP 2050 called for a timetable for the phasing-out of investments in oil and gas heating systems. Power-to-gas systems (e.g. sustainable gases which can be fed into the gas network) are, by contrast, explicitly mentioned as a poss ble way of achieving emission targets.

Furthermore, in the KSP 2050 the German government announced a review of the incentive and controlling effect of existing, state-initiated energy price components in order to achieve a configuration of key price elements (e.g. taxes, levies) which is consistent with climate protection.

The KSP 2050 also states that new investments in so-called fossil energy infrastructures and resulting lock-in effects are to be avoided and that companies are to take the medium and long-term climate protection goals into account. In this context, the gas industry is massively promoting the idea that the gas infrastructure should not be regarded as fossil per se but as an energy infrastructure which can become greener, i.e. can integrate renewable energies e.g. via Power-to-gas.

Overall it appears that politicians are, in some cases, making a distinction between fossil natural gas and the non-fossil gas infrastructure and, accordingly, are offering different prospects for the two: a transitional role in the energy transition for natural gas and a long-term role for the gas infrastructure as a storage and transport option. The energy industry associations, above all the BDEW, have also shifted their communications and lobbying work much more towards the above-mentioned argumentation and positioning themselves much more strongly to give gas and the gas infrastructure a prominent role in the energy transition.

As regards the implementation and achievement of the sector targets formulated in the KSP 2050, the concept of sector linking plays a decisive role. However, what is meant by the term sector linking is a matter of debate. Some stakeholders want sector linking in the sense of electrification of all sectors, i.e. electricity from renewable energy is, in future, also to be the energy in the heat, mobility and industry sectors. The gas industry, on the other hand, is one of a group of stakeholders that favours a technology-open approach to sector linking, i.e. better networking of the sectors while strictly monitoring their CO2 targets but with no specification and focus on a particular technology from the very outset, which would hamper competition and innovation leaps.

After the Bundestag election in 2017, the subjects of sector linking and the financing of the energy transition (levy and tax systems) are likely to dominate the agenda.

Stipulation on the conversion system

By publication of the regulation on the conversion system (Konni Gas) on 21 December 2016, the Federal Network Agency has set new rules for the conversion system and, from 1 April 2017, introduced an ex-ante system consisting of a conversion fee and levy. Although a basic cap for the conversion fee of 0.045 ct/kWh is set, this can be exceeded if "unforeseen circumstances" arise.

The argumentation of the German gas transmission network operators that a conversion fee creates positive added value, not least for the supply security of the German L gas systems, has therefore been taken into account.

Supply security in Germany – the key issues paper of the Federal Ministry for Economic Affairs and Energy (BMWi)

In order to further strengthen the level of gas supply security throughout Germany, the BMWi published a key issues paper at the end of 2015 presenting "key principles for measures to further improve the security of gas supply“. In this paper, the BMWi asked the market area managers, their shareholders and the Federal Network Agency to firstly develop a scenario where supply security has to be safeguarded and secondly to develop the balancing energy product necessary in this case (demand-side management product). In April 2016, the Federal Network Agency and the BMWi then clarified that the aim was merely to eliminate local and regional bottlenecks, which considerably reduced the potential volume of the additional balancing energy to be contracted. Since the financing risk which was initially incalculable for the gas transmission network operators became calculable as a result of this clarification, NCG kept to the implementation plan in the key issues paper and implemented the relevant products by the 2016/2017 winter deadline.

Stipulation on horizontal cost allocation

On 22 June 2016, the Federal Network Agency decided on the stipulation for horizontal cost allocation (HoKoWä). The decision is to be implemented by 1 January 2018 and provides for the introduction of a joint, standard entry fee within a market area as well as balancing payments (cost allocation amounts) between the network operators.

These balancing payments are the balance of the forecast transport revenue with the individual entry fee and the expected transport revenue with the joint entry fee. The cost allocation amounts are balanced out between the network operators in twelve equal monthly payments, the first one on 15 January 2018.

The HoKoWä stipulation permits a "second fee round" in the event of changes in the capacity booking forecast as a result of the amount of the joint fee. This second fee round is based on the same calculation method but with an adjusted capacity structure for the forecast entry bookings.

OGE basically welcomes the introduction of a joint entry fee for the NCG market area as this is a considerable reduction in complexity compared with solutions the Federal Network Agency was previously considering.

Regulation and amendment to the Incentive Regulation Ordinance

On the basis of the evaluation report already presented in January 2015, an amendment to the Incentive Regulation Ordinance (ARegV) was drafted in 2016 and finally adopted by cabinet resolution of 3 August 2016. The main focus was on improving the investment conditions for distr bution networks, which was to be achieved by eliminating the time lag between the actual investment of funds and the receipt of returns. This time lag was eliminated by introducing a cost-of-capital surcharge or deduction at the distributor level, which permits annual adjustment of the revenue cap to the investment activity or to the network operator's tangible fixed assets that decrease over time as a result of depreciation. In addition to this central amendment to the Incentive Regulation Ordinance, there were some other major new features which not only relate to the distributor level but also to the electricity transmission system and gas transmission network operators:

- Adjustment of the regulatory account mechanism: spreading of the annually determined balance over three years instead of the five years of the next regulatory period (first-time application to the balance of the 2017 financial year)
- Transparency: very comprehensive publication obligations for the Federal Network Agency, particularly with regard to the approval and composition of the annual revenue caps of the network operators
- Investment measures: introduction of a replacement share regulation for investment measures which include the (partial) replacement of existing plant
- Costs which cannot be influenced on a permanent basis: costs for supplementary wage and pension benefits may be adjusted once a year provided that they are based on a works agreement which was concluded on or before 31 December 2016

In 2016, the Federal Network Agency initiated a BNetzA cost audit procedure in accordance with article 6, par. 1 of the German Incentive Regulation Ordinance (ARegV) to determine the starting level as a basis for setting the revenue cap for the third regulatory period. OGE submitted the necessary cost information by 30 June 2016. This information comprises the costs for the 2015 financial year (base year) and the corresponding figures for the previous years 2011 to 2014 as possible comparison data. The Federal Network Agency takes the cost level determined on the basis of the 2015 calendar year as a basis for performing the efficiency comparison in accordance with article 12 ARegV.

In this regard, on 19 January 2016 the Federal Network Agency resolved on a stipulation regarding requirements for collecting data for the efficiency comparison of gas transmission network operators for the third regulatory period. OGE submitted the necessary load, structure and sales volume data to the Federal Network Agency at the beginning of April 2016. A final decision by the Federal Network Agency on the permiss ble revenue cap for the third regulatory period is expected in 2017 as it must serve as the basis for determining the specific transport fees for 2018.

Furthermore, the Federal Network Agency has already specified key regulatory parameters for the third regulatory period (2018 to 2022) or started the process for determining them:

The Federal Network Agency set the returns on equity for the next regulatory period on 5 October 2016. According to this decision, from 2018 the return on equity (before corporate tax and after trade tax) is 6.91 % for new plant and 5.12 % for old plant (capitalisation before January 2006). On balance, this means a reduction of nearly 25.0 % compared with the return on equity set and applicable until 2017.

In accordance with article 9, par. 3 ARegV, the Federal Network Agency has to determine, from the third regulatory period onwards, the general sectoral productivity factor (Xgen), in each case before the start of the regulatory period, according to state-of-the-art methods.

For this purpose, Wissenschaftliche Institut für Infrastruktur und Kommun kationsdienste GmbH (WIK) was engaged to analyse the development of the electricity and gas supply grids compared with the economy as a whole and evaluate the methods basically available for determining the Xgen. On 16 December 2016, WIK submitted a comprehensive expert report on the results for market consultation on which comments could be made up to 6 February 2017. In its expert report, WIK does not yet present any concrete results of calculations but only examines the basic Malmquist and Törnquist index methods with regard to their scientific basis, individual aspects and premises of their methodology as well as validity of the results. A final stipulation of concrete values – if necessary, separate for electricity and gas – is to be made in 2017.

Network development plans

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

In line with the Energy Industry Act (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 Gas Network Development Plan is prepared in close cooperation with all market participants affected in a public consultation process. All market participants are to be included in the process for preparing the Gas Network Development Plan by being given the opportunity to submit comments. In compliance with timetable requirements, the German transmission system operators published the draft network development plan 2016 for the national gas transmission pipeline network (NEP Gas 2016) on 1 April 2016 and submitted it to the Federal Network Agency. In this draft network development plan, the forecast gas supply sources, the identifiable requirements and resulting gas flows in the German gas network are modelled for the next ten years and the expansion of and/or potential investments in the German transmission networks determined.

The basis for this model is the scenario framework which was prepared by the transmission system operators and Prognos AG on behalf of the transmission system operators, then discussed with market participants in a public consultation process and subsequently amended accordingly. The Federal Network Agency confirmed the scenario framework for the Gas Network Development Plan 2016 on 11 December 2015 with amendments. Terranets bw and EnBW Energie Baden-Württemberg AG filed appeals with the Düsseldorf higher regional court against this confirmation of the scenario framework. Both appeals were against the removal by the Federal Network Agency of two new gas power plants planned by EnBW in Baden Württemberg. The appeals were heard together before the Düsseldorf higher regional court on 9 November 2016. In the hearing, the parties agreed on a settlement. According to this settlement, on 3 January 2017 the Federal Network Agency reversed part of the confirmation of the scenario framework issued on 11 December 2015 and issued a new decision that the above-mentioned two new gas power plants planned by EnBW are to be taken into account in the modelling of the Gas Network Development Plan 2016.

Since a new decision on part of the scenario framework has been taken, the draft of the Gas Network Development Plan 2016 dated 1 April 2016 is to be revised and submitted to a consultation process involving both the gas transmission operators and the Federal Network Agency. The Federal Network Agency has indicated that it will communicate its requirements for amendments to the Gas Network Development Plan 2016 by mid-2017.

The overarching political goal of achieving the energy transition, which is actively supported by the gas transmission network operators, must not jeopardise or even reduce the profitability of the companies. The extensive expansion obligations resulting from the annual network development plans require a massive injection of capital which can only be obtained in line with requirements and on competitive conditions if the investors consider the regulatory framework to be appropriate. This presupposes that politicians permanently ensure that the regulations in Germany offer a reliable and attractive framework to guarantee that the energy transition is achieved according to plan.

Therefore, the considerable reduction in the rates of return on equity newly set by the Federal Network Agency for the third regulatory period represents an appreciable decrease in the profitability of the investments resulting from the network development plans.

Consideration also has to be given to the existing capacity utilisation risks and the service lives of the new energy infrastructure components which may be influenced by the energy policy goals. The investments made to ensure supply security must also not be negatively impacted by disproportionate efficiency requirements – either through a comparison of the network operators or a sectoral productivity increase reset by politicians after two regulatory periods. The joint aim of all those involved should be to steer all investments towards a macroeconomic optimum and thus to strengthen Germany as an industrial location in the long term through the efficient, economic, reliable and ecologically compatible provision of energy.

Technology and environmental protection

Technical operation and expansion of the gas transmission network ran to schedule in the 2016 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 2016. These include measures of the equity investments integrated in the OGE network, Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG (MEGAL), Essen, Trans Europa Naturgas Pipeline GmbH & Co. KG (TENP), Essen, Mittelrheinische Erdgastransportleitungsgesellschaft mbH (METG), Essen, and Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG (NETG), Dortmund.

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 2015 by increasing compressor capacity by 3 x 15 MW. OGE's planning work culminated in 2016 in calls for tenders and the procurement of all major components such as gas cooler, valves and pipe material as well as the relevant construction work. The building and civil engineering work on the MEGAL Rothenstadt project started to schedule in 2016 and is progressing to plan. Pipeline construction has also begun and the area for the pipeline link-up was prepared ready for the start of that work in 2017.

For TENP, a project company of OGE and Fluxys TENP GmbH, Düsseldorf, OGE upgraded eight compressor units as part of a major project. This upgrade enables operation in accordance with the requirements of clear air legislation (13th BImSchV) and therefore also a significant reduction in NOx emissions.

At the OGE Werne compressor station, the two network development plan projects (expansion and flow reversal) are running to schedule. The BImSch approval was granted for the extension (2 x 12 MW and 1 x 25 MW). Planned station stoppages for further incorporation of the new compressors into the existing compressor station were performed and completed to schedule. The work planned for 2016 for the Werne flow reversal project was completed. Commissioning can take place from 2017.

Work started in February 2016 on the construction of the OGE compressor station in Herbstein with the terracing of the site. The structural engineering and pipeline installation work began in August with transport-relevant preliminary work. Construction of the three compressor buildings was completed and the first part of the pipeline and equipment foundations was built. The final building permit in accordance with BImSchG was granted in December 2016. The assembly work is running to schedule.

In order to ensure that the emission requirements pursuant to 13th BImSchV are met, a dry low emission system was installed in a unit in Emsbüren. Following successful completion of the 72-hour test, the unit has been available again without restriction for the transport of gas since the beginning of July 2016.

The detailed engineering for a new compressor unit with electric drive (1 x 13 MW) is progressing to plan at the OGE Krummhörn compressor station. The basic engineering was successfully completed and the compressor unit has been ordered. The project opens up the opportunity to flexibly use electricity or gas as operating energy in Krummhörn. So surplus electricity from wind power can be sens bly used and an expansion of the electricity grid is avoided. Here, the gas transmission network is making a meaningful contribution to the intelligent sector linking of electricity and gas networks.

In August 2016, the official construction permit was granted for the OGE Schwandorf-to-Forchheim gas transmission pipeline (approx. 62 km, DN 1000). Construction work has been in progress since September 2016 and is running to plan. The Forchheim-to-Finsing pipeline (approx. 77 km, DN 1000) is currently in the approval stage. The two projects were grouped together and the contract for the construction work for both projects awarded in one go.

The approval procedure for the OGE Epe to-Legden gas transmission pipeline, which has a total length of approx. 15 km (DN 1100), was handled successfully. The permit required for construction of the pipeline is expected at the beginning of 2017.

The ZEELINK project, consisting of a compressor station (3 x 13 MW) in the Aachen area and a gas transmission pipeline running from Lichtenbusch to Legden with a length of 215 km and four gas pressure regulating and metering stations, is proceeding to plan. For this purpose, Zeelink GmbH & Co. KG, Essen, was established as the company responsible. OGE has a 75.0 % share in the company and Thyssengas GmbH the other 25.0 %. The detailed engineering work for the compressor station is now being performed. The compressor units were ordered in November.

The network development plan projects to construct the first gas pressure regulating and metering stations on the OGE network necessary for the L/H gas change-over are progressing to plan. The tie-in work, which had been brought forward in Weidenhausen, was successfully completed in 2016.

The telecontrol technology reinvestment project at OGE was successfully completed in 2016. The following work was performed: set-up/expansion of a future-proof communication infrastructure for the cable/telecommunication technology in the underlying network level as well as the replacement of telecontrol technology at 408 sites and the associated central telecontrol technology by a system conforming to the latest IT safety standard. So all telecontrol transmissions in the new OGE system are encrypted and use a VPN connection, and all stations are diagnosed and updated in a low-maintenance manner via remote access.

In September 2016, OGE successfully passed the external monitoring audits and confirmed the certifications for the integrated management system according to DIN EN ISO 9001 (Quality Management), OHSAS 18001 (Occupational Health & Safety Management) and DIN EN 14001 (Environmental Management), which are valid until August/September 2017. In addition, requirements of DVGW G 1000 (Technical Safety Management) were again proved to have been met. The renewed TSM confirmation is valid until 2021. To meet new statutory requirements, an energy management system in accordance with DIN EN ISO 50001 was introduced as part of the existing integrated management system and successfully certified in December 2016.

The Group attaches very great importance to environmental protection. There were no relevant environmental incidents in the reporting year. The relevant environmental protection requirements were taken into account and complied with during construction work and the ongoing operation of the pipeline network.

The compressor stations are subject to the German Greenhouse Gas Emissions Trading Act (TEHG) and the related ordinances. All resulting obligations, such as the adjustment of monitoring plans, the recalculation and notification of changes in capacity, reports of changes in operation due to conversion measures and the annual reporting of emissions, were routinely met. The certificates for 2015 were submitted via the EU register in April 2016.

The Group works continuously on further developing procedures required for gas transportation, plant and pipeline construction and the safe operation of the transmission pipeline network.

To meet the challenges of the energy transition, the Group is particularly focusing on the intelligent linking of the electricity and gas infrastructures. The subject of "converting surplus electricity into hydrogen or further into methane" is one focus.

The intelligent use of the compressor stations as part of a demand-side management system to reduce the load on electricity grids is also of great interest and can make a contribution to intelligent sector linking.

The use of CNG/LNG in the mobility sector can be a good way of reducing emissions, particularly for the transport and delivery of goods. The Group is supporting the relevant associations and car manufacturers to promote the use of this road fuel.

Employees

At the end of 2016, the VGT Group had 1,366 employees (previous year: 1,361), excluding management and apprentices. Personnel costs during the financial year amounted to € 151.4 million (previous year: € 152.1 million).

The Group trains apprentices for technical and administrative jobs at six locations in North Rhine-Westphalia (Essen), Lower Saxony (Krummhörn), Bavaria

(Waidhaus, Wildenranna), Hesse (Gernsheim) and Rhineland Palatinate (Mitte brunn).

In 2016, the Group again focused on efforts to further increase efficiency and optimised the organisational structure. These included reducing the number of operations areas on the technical operations side of the OGE business and restructuring the regional spread. This is to ensure that assets and tasks are equally spread over the remaining operations areas despite reduced resources.

Occupational health and safety is a matter of highest priority for the Group. The Group aims to continually reduce the number of accidents and other harmful effects on the health of its employees and employees of partner companies over the long term as well as to constantly improve work ergonomics and occupational health. As a result of these efforts, the targets for the 2016 financial year were basically achieved. The number of work-related accidents, measured in terms of TRIFcomb1, is continuing to fall on a long-term average and taking account of the proportion of jobs with an increased risk (construction work). In absolute figures, the TRIFcomb increased slightly to 5.8 compared with the previous year. The external auditors of the occupational health and safety management system again noted a further improvement in the safety culture. The HSE sub-contractor management activities were extended.

Investments

As expected, the Group increased its capital expenditure significantly in the 2016 financial year, investing a total of € 357.5 million compared with € 198.9 million in 2015. Of this figure, €275.0 million was invested in property, plant and equipment (previous year: € 185.0 million).

The Group invested € 222.3 million in the expansion and upgrade of compressor stations. The installation of three new compressor units in Werne accounted for € 61.8 million and a further € 46.1 million was invested in the further expansion of the compressor station in Herbstein, construction of which started in 2015. Further major investments were the flow reversal project at the Werne compressor station (a total of € 10.8 million), the replacement of several compressor units in Waidhaus (a total of € 8.9 million) and in Wildenranna (a total of € 4.0 million) as well as the construction of a new compressor station in Rothenstadt (a total of € 52.1 million). A total of € 59.3 million was invested in the expansion and upgrade of pipelines. This work included the Schwandorf-to-Arresting loop line (a total of € 26.9 million), the expansion of the Arresting-to-Finsing loop line (€ 3.5 million) and the construction of a new pig trap in Rysumer Nacken (€ 2.2 million) as well as the re-routing of pipeline No. 2 (€ 3.4 million).

Other investments accounted for € 32.6 million and included IT projects (total of € 9.7 million) and investments in measurement and control systems (€ 6.8 million).

Investments relating to obligations under the network development plan accounted for a total of € 225.0 million (previous year: € 43.7 million).

Investments in financial assets accounted for € 71.0 million (previous year: € 0.4 million). Additions to financial assets relate mainly to € 56.1 million for a capital increase at Norddeutsche Erdgastransport Infrastruktur GmbH (formerly DEUDAN-HOLDING-GmbH), Hannover, for the acquisition of shares in jordgas Transport GmbH, Emden, and the acquisition of further shares in GasLINE Telekommun kationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, Straelen, in the amount of € 14.6 million.

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

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

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 € 165.0 million in OGE by transferring it to the company's revenue reserves.

For refinancing purposes, VGT issued two EMTN bond tranches on 12 June 2013, each in the amount of € 750.0 million and maturing in 2020 and 2025 respectively. The bond tranches bear fixed coupons of 2.0 % and 2.875 % respectively. In addition, on 10 July 2013 VGT placed a third bond tranche on the market in the amount of € 750.0 million. This bond tranche matures in 2023 and bears a fixed coupon of 3.125 %.

The syndicated loan facility for € 200.0 million concluded by VGT on 20 December 2013 and maturing in 2018 still exists. OGE is also a borrower under this loan and therefore entitled to use the credit line.

The 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 at 31 December 2016 for the issuing of bank guarantees.

The investments at the project companies TENP and MEGAL are largely financed with external borrowings. The financial liabilities totalled € 535.9 million as at 31 December 2016 (previous year: € 475.4 million) before pro-rata inclusion in the Group. The liabilities to banks and under promissory note loans and registered bonds increased compared with the previous year by € 60.5 million. In 2016, all expiring loans of MEGAL were successfully refinanced. At TENP level, loans were refinanced ahead of maturity through the issuance of promissory note loans and a registered bond. Attractive conditions were obtained for all refinancing.

In order to cover their obligations arising from pension entitlements, OGE and MEGT 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 2016 financial year, € 0.6 million was added to the plan assets for long-term working-time account obligations. Furthermore, the equivalent of the remuneration payments of € 3.5 million made in 2016 for fulfilment shortfalls in connection with part-time phased-retirement programmes was taken from the trust assets over the course of the year. No additional payments were added to the plan assets for pension obligations in the financial 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 metrics applied in this context are transport revenues, EBITDA (earnings before interest, tax, depreciation and amortisation – but including income from equity investments and income from companies accounted for using the equity method) and debt-asset ratio.

Business report

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 drivers of the Group's profits are the revenues from OGE's regulated gas transport business and other subsidiaries of the Group.

As part of the regulatory account mechanisms anchored in the incentive regulation and the regulations of the Federal Network Agency's stipulation on the pricing of entry and exit capacities ("BEATE"), which had to be implemented by 1 January 2016, OGE had adjusted the transport fees for the 2016 financial year. Compared with the previous year, this resulted in a decline of 1.6 % in entry fees and an increase of 12.1 % in exit fees.

Overall, as already forecast in the previous year, the VGT Group's revenues increased in the 2016 financial year by 7.0 % to € 947.9 million (previous year: € 885.7 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 € 827.9 million in the 2016 financial year (previous year: € 761.7 million).

Gas transport revenues were affected by higher-than-expected capacity bookings at border crossing points and network connection points as well as, with an opposite effect, lower-than-expected additional bookings at storage facilities and lower-than-expected capacity marketing at market area boundaries. 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, so revenues from the gas transport business were slightly higher than the revenue cap expected and permitted under article 4 of the Incentive Regulation Ordinance (ARegV). Owing to the revenue shortfalls in 2014 and 2015, which were in total higher, the balance on the regulatory account shows a revenue shortfall which, in accordance with the hitherto applicable Incentive Regulation Ordinance mechanism, is balanced out evenly over the duration of the third regulatory period.

At € 120.0 million, revenues from the services business were roughly on a par with the prior-year level (€ 124.0 million) and therefore slightly higher than expected.

As expected, cost of materials fell compared with the previous year by some € 62.7 million, which is due in particular to the lower cost of fuel gas, services rendered by third parties and load flow commitments.

The Group's profit on ordinary activities increased year-on-year by € 120.5 million to € 256.9 million, largely as a result of the above effects. The Group's net income amounted to € 165.4 million (previous year: € 101.7 million), showing the development forecast in 2015. At 17.5 %, the profit margin[2] remained at a high level (previous year: 11.5 %).

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

€ million	31 Dec. 2016	31 Dec. 2015
Income before financial result and taxes	319.0	197.2
Income from equity investments	-0,8	-0,5
Income from companies accounted for using the equity method	3,3	6,1
Depreciation and amortisation	163.4	153.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	484.9	356.6

At € 484.9 million, EBITDA was well above the prior year figure (€ 356.6 million) owing to the aforementioned developments and was therefore in line with the forecast.

The Group's financial result contained an interest expense of € 64.9 million (previous year: € 67.5 million), which mainly reflects interest expenses under the VGT bonds and the pro-rata interest expense of the companies MEGAL and TENP. By contrast, interest income amounted to € 0.3 million (previous year: € 1.1 million; for an exact breakdown, see the Notes to the consolidated financial statements).

Income taxes for the Group totalled € 91.5 million (previous year: € 34.7 million). Of this figure, € 0.9 million related to deferred taxes (previous year: € 2.5 million).

As of 31 December 2016, the Group's total assets amounted to € 4,466.8 million (previous year: € 4,235.7 million), resulting in a debt-asset ratio of 79.0 % (previous year: 82.0 %, detailed breakdown in the Notes to the consolidated financial statements), which is slightly

2 Definition: Consolidated net income for the year divided by revenues.

better than expected. Of the external funds, 7.8 % relate to provisions, 78.3 % to liabilities and 13.9 % to deferred tax liabilities. Financial liabilities contained within liabilities amount to € 2,569.7 million (previous year: € 2,523.8 million). The majority of these liabilities (€ 2,240.7 million) (previous year: € 2,239.2 million) related to bonds issued by VGT. Furthermore, miscellaneous financial liabilities resulted primarily from liabilities of the pipeline companies MEGAL and TENP to banks. Cash and cash equivalents amounted to € 189.4 million as of 31 December 2016, increasing by € 39.7 million year on year. The forecast amount of cash and cash equivalents was therefore moderately exceeded. Of the Group's total assets, fixed assets accounted for € 4,044.0 million as of the reporting date (previous year: € 3,850.8 million).

In the 2016 financial year, the Group generated cash flow from operating activities of € 460.8 million (previous year: € 321.8 million). Cash used for investing activities totalled € -346.9 million in 2016 (previous year: € -185.7 million).

Cash used for financing activities amounted to € -74.2 million (previous year: € -234.8 million) and mainly covered payments to the parent company, VGS, in the amount of € -49.1 million (previous year: € -154.1 million), cash interest payments under VGT bonds and loans of the companies MEGAL and TENP as well as the repayment of loans taken out by MEGAL. Cash flow therefore changed as expected.

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 Management and Supervisory Board of OGE 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 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 50.0 % 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 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 the Group is largely governed by the regulatory environment. As a regulated company, the 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: Changes in the network development plan may make additional expansion measures necessary. However, while additional funding would be required in the medium term, there are also opportunities for increasing transport revenues.

Probability of occurrence: low; net impact: medium

Information technology: The Group 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 to a total failure of the gas supply system for several days. The Group safeguards against this risks with redundant systems as well as comprehensive quality assurance and access protection systems.

Probability of occurrence: low; net impact of individual risks: medium to high

Transport business operation: To ensure fault-free operation of the transport business, the Group 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: 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. A temporary loss of revenues, a write-off of the remaining book value and the necessary installation of new plant lead to profit losses and additional financing requirements.

Furthermore, local site conditions may 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: moderate; net impact of individual risks: medium to high

Risks which are not significant

Owing to the regulatory account mechanism, 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 euro zone. 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 in principle means meeting a high proportion of financing requirements at fixed interest rates. This also involves the use of interest swaps. Furthermore, following the refinancing in 2013, the Group's financial liabilities are dominated by bonds with a fixed interest rate and long maturities.

Credit risks are managed at Group level. Credit risks 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. The Group only works with banks and financial institutions with an independent rating of the three large rating agencies of at least "BBB+" to "A-" (Standard & Poor´s, Fitch) and "Baa1" to "A3" (Moody´s), focusing, where available, on the unsecured long-term rating. The ratings of all banks and other indicators of creditworthiness (e.g. current prices of credit default swaps) are continuously monitored.

The Group generates the majority of its revenues from the marketing of transport capacities with a small number of key accounts. Key accounts are reviewed in regular credit assessments, using credit ratings from recognised credit agencies.

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 flex bility 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, par. 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 financial year 2016.

As of 31 December 2016, interest rate risks due to market interest rate fluctuations of the Eur bor from floating-rate loans at the Group company, TENP, in the amount of € 112.5 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 for the Group 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 due to 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 Group as at the reporting date and for the forecast period and considers the company's risk-bearing capability to be fully ensured.

Material legal disputes

Owing to a dispute in connection with the Gas Cooperation Agreement, a municipal utility filed a compensation claim for alleged breach of duty in an arbitration action against OGE and another network operator at the end of 2014. In its arbitration award, the court of arbitration dismissed the arbitration action in full in October 2016. The plaintiff municipal utility was ordered to pay the costs of the arbitration proceedings.

In May 2016, a shipper filed an application with the Federal Network Agency to initiate abuse proceedings aimed at obliging OGE to make intraday transport capacities available for booking to all shippers at all network entry and exit points, in particular also at power plant and storage facility points. The Federal Network Agency dismissed the application in the autumn of 2016 as unfounded. The shipper has filed an appeal against this decision with the Düsseldorf higher regional court.

Furthermore, in September 2016 a storage facility operator filed an application with the Federal Network Agency to initiate abuse proceedings against OGE for its refusal to give the storage facility operator a network connection to the OGE H gas network. The Federal Network Agency is expected to give its decision in the spring of 2017.

Moreover, in December 2016, OGE filed an appeal with the Düsseldorf higher regional court against the Federal Network Agency's decision on the setting of return on equity for the third regulatory period.

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 show continued stable growth in 2017. Although the rate of GDP growth is anticipated to slow to 1.3 %, this effect is due mainly to the smaller number of working days.

With effect from 1 January 2017, OGE charged one standard fee for entry and exit. As a result, fees for entry and exit will be some 8.0 % higher than in 2016. The system for charging authority-regulated fees remained unchanged. The higher fees are due in particular to prior capacity bookings. They reflect optimised booking behaviour of the customers who are making greater use of day-ahead and within-day booking opportunities at border crossing points and market area crossing points.

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 changeover in North Rhine-Westphalia, Lower Saxony and Hesse.

Overall, the Management is expecting transport revenues in 2017 to be on a par with the level in 2016.

Revenues of the services business are expected to be on a par with the 2016 financial year level; cost of materials is forecast to be appreciably higher than in the 2016 financial year.

In view of the above-mentioned effects, the Management therefore anticipates that EBITDA for 2017 will be slightly below the figure for the 2016 financial year.

In addition, tax liabilities are expected to be higher. Therefore, Group net income is forecast to be significantly lower than in the 2016 financial year.

Investments are expected to be significantly higher than in the reporting year, in particular as a result of increased capital expenditure on measures under the network development plan.

As a result of the high capital expenditure, cash flow of 2017 is forecast to be slightly below the 2016 level.

The debt-asset ratio is forecast to be slightly higher than in the reporting year.

In summary, the Management believes that the Group'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 2016

Contents

Consolidated Balance Sheet

in € million	Note	31 Dec. 2016	31 Dec. 2015
Assets			
Non-current assets			
Intangible assets	4.3	54.4	74.0
Goodwill	4.2	830.4	830.4
Property, plant and equipment	4.4	2,990.4	2,851.2
Financial assets	4.5	168.8	95.2
Companies accounted for using the equity method		*126.5*	*52.8*
Other financial assets		*42.3*	*42.4*
Deferred tax assets	4.11	24.5	63.7
Non-current receivables	4.6	88.6	90.2
Total		**4,157.1**	**4,004.7**
Current assets			
Inventories	4.7	32.6	31.3
Trade receivables (including advance payments made)	4.8	30.9	24.4
Receivables from tax creditors	4.8	7.8	3.0
Other receivables	4.8	49.0	22.6
Cash and cash equivalents	4.9	189.4	149.7
Total		**309.7**	**231.0**
Total assets		**4,466.8**	**4,235.7**

in € million	Note	31 Dec. 2016	31 Dec. 2015
Equity and liabilities			
Equity			
Subscribed capital	4.10	-	-
Additional paid-in capital	4.10	925.6	925.6
Retained earnings	4.10	26.2	-63.7
Accumulated other comprehensive income	4.10	-2.3	-2.4
Total		**949.5**	**859.5**
Non-current liabilities			
Provisions for pensions and similar obligations	4.12	134.3	72.0
Other provisions	4.13	97.0	97.4
Financial liabilities	4.14	2,493.1	2,435.6
Other non-current liabilities	4.14	27.0	27.4
Deferred tax liabilities	4.11	490.1	537.4
Total		**3,241.5**	**3,169.8**
Current liabilities			
Other provisions	4.13	41.3	31.2
Financial liabilities	4.14	76.6	88.2
Trade payables	4.14	54.6	10.8
Income tax liabilities	4.14	2.3	0,1
Other liabilities	4.14	101.0	76.1
Total		**275.8**	**206.4**
Total equity and liabilities		**4,466.8**	**4,235.7**

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

The notes on pages 1 to 43 are an integral part of these consolidated financial statements.

Consolidated Income Statement

in € million	Note	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2015[1]
Revenues	5.1	947.9	885.7
Changes in inventories		-0.8	0.3
Own work capitalised	5.2	26.0	23.7
Cost of materials	5.4	-286.5	-349.2
Personnel costs	5.5	-151.4	-152.1
Depreciation and amortisation	5.7	-163.4	-153.8
Other operating income	5.3	27.3	35.5
Other operating expenses	5.6	-80.1	-92.9
Income before financial result and taxes		**319.0**	**197.2**
Income from equity investments		-0.8	-0.5
Income from companies accounted for using the equity method		3.3	6.1
Interest result		-64.6	-66.4
of which interest expense		*-64.9*	*-67.5*
Financial result	**5.8**	**-62.1**	**-60.8**
Earnings before tax		**256.9**	**136.4**
Current taxes		-90.6	-32.2
of which income tax allocation		*-84.8*	*-28.5*
Deferred taxes		-0.9	-2.5
Income taxes	**5.9**	**-91.5**	**-34.7**
Net income		**165.4**	**101.7**
Share in net income attributable to the sole shareholder of the parent company		165.4	101.7

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

The notes on pages 1 to 43 are an integral part of these consolidated financial statements.

[1] The prior-year comparison figures have been adjusted for tax presentation in line with the 2016 structure.

Consolidated Statement of Comprehensive Income

in € million	Note	31 Dec. 2016	31 Dec. 2015
Net income		**165.4**	**101.7**
Other comprehensive income		**-40.8**	**34.7**
Reclassifiable OCI		0.1	-0.4
Cash flow hedges	*4.10*	*0.2*	*-0.4*
Deferred taxes	*4.10*	*-0.1*	.
Not reclassifiable OCI		-40.9	35.1
Remeasurement of defined benefit plans	*4.10*	*-50.0*	*41.4*
Deferred taxes	*4.10*	*9.1*	*-6.3*
Comprehensive income		**124.6**	**136.4**
Share in net income attributable to the sole shareholder of the parent company		124.6	136.4

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

The notes on pages 1 to 43 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. 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*
Advance profit transfer			**-25.0**		**-25.0**
Profit transferred			**-9.6**		**-9.6**
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 43 are an integral part of these consolidated financial statements.

				Change in accumulated other comprehensive income	
in € million	Subscribed capital*	Additional paid-in capital	Retained earnings	Cash flow hedges	Total
1 Jan. 2015	**.**	**1,075.6**	**-176.4**	**-2.0**	**897.2**
Comprehensive income			**136.8**	**-0.4**	**136.4**
Net income			101.7		101.7
Other comprehensive Income			35.1	-0.4	34.7
Remeasurement of defined benefit plans			*35.1*		*35.1*
Change in accumulated other comprehensive income				*-0.4*	*-0.4*
Capital reduction		**-150.0**			**-150.0**
Profit transferred			**-24.1**		**-24.1**
31 Dec. 2015	**.**	**925.6**	**-63.7**	**-2.4**	**859.5**

*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 43 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

in € million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Cash provided by operating activities	**460.8**	**321.8**
Net income	165.4	101.7
Depreciation and amortisation	163.4	153.8
Changes in provisions	19.2	12.8
Changes in deferred taxes	0.9	2.5
Dividends received[2]	16.0	21.1
changes plan assets	3.0	-39.4
Interest received	0.2	0.3
Other non-cash income and expenses	58.9	69.4
Changes in operating assets, liabilities and income tax	33.1	-1.3
Inventories	*-1.3*	*3.0*
Trade receivables	*-7.0*	*6.5*
Other operating receivables and tax claims	*-29.6*	*13.2*
Trade payables	*23.1*	*5.0*
Other operating liabilities and tax obligations	*47.9*	*-29.0*
Gain from disposal of assets	0.7	0.9
Intangible assets and property, plant and equipment	*0.7*	*0.9*
Cash used for investing activities	**-346.9**	**-185.7**
Proceeds from the disposal of intang ble assets and property, plant and equipment	0.1	11.3
Purchases of investments in intangible assets and property, plant and equipment	-261.0	-199.7
Purchases of other equity investments and equity-accounted investments	-70.7	0.0
Proceeds from / purchases of other financial investments	-15.3	2.7
Proceeds from the disposal of other financial investments	*0.5*	*3.0*
Purchases of other financial investments	*-15.8*	*-0.3*
Cash used for financing activities	**-74.2**	**-234.8**
Interest paid	-65.1	-65.1
Payments made from changes in capital	0.0	-150.0
Proceeds from financial liabilities	164.3	69.7
Repayments of financial liabilities	-119.8	-76.6
Dividends paid[3]	-53.6	-12.8
Changes in cash and cash equivalents	**39.7**	**-98.7**
Cash and cash equivalents at beginning of period	**149.7**	**248.4**
Cash and cash equivalents at end of period	**189.4**	**149.7**

[2] Including in 2016 dividends received from non-consolidated equity investments as well as the distribution from outside shareholders resulting from joint operations amounting to € 0 2 million (previous year: € 0.9 million).

[3] The dividends paid consist in particular of the transfer of the profit for the 2015 financial year in the amount of € 24.1 million and the advance profit distribution in the amount of € 25 0 million to VGS (previous year: remaining profit transfer payment for the 2014 financial year in the amount of € 4.1 million). In addition, distributions to outside shareholders resulting from joint operations in the amount of € 4.5 million are presented (previous year: € 8.7 million).

Additional information on cash provided by operating activities

in € million	31 Dec. 2016	31 Dec. 2015
Income tax paid (minus refunds)	-2.3	-7.5
Non-cash income and expenses from equity adjustment	-3.0	6.2

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 43 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 2016 to 31 December 2016

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 315a 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 2017, 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 315a (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 Reporting standards applied

All accounting standards and interpretations for which application was mandatory from the 2016 financial year have been taken into consideration.

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

Amendments to IAS 1 "Presentation of Financial Statements"

As of 1 January 2016, the Group implemented the amendments to IAS 1 made under the IASB disclosure initiative. These amendments clarify that the materiality principle is to be applied throughout the consolidated financial statements. The effectiveness of disclosures is to be increased by reducing information which is not material.

As a result of these changes, in particular new, amended or revised standards and interpretations which have no material impact on the consolidated financial statements are not explained.

The following new, amended or revised standards and interpretations which have been published but whose adoption is not yet mandatory in the financial year and could have an impact on the consolidated financial statements were not yet applied:

Standards / Interpreta-tions		Published by IASB	Adoption by EU	Effective date	Probable effects
New Standards/Interpretations					
IFRS 9	Financial Instruments: Classification and measurement	24 Jul. 2014	Yes	1 Jan. 2018	As a result of IFRS 9, changes to the classification and measurement of financial assets and financial liabilities are required. New rules and requirements regarding hedge accounting will be introduced and the previous impairment model modified. The examination of potential effects is still in progress and is expected to be finalised in the second half of the 2017 financial year. Decisions on the possible exercising of options cannot be taken at this point in time. No significant changes are expected as a result of the amended hedge accounting rules.
IFRS 15	Revenue from Contracts with Customers	28 May 2014	Yes	1 Jan. 2018	IFRS 15 will replace IAS 18 "Revenue" and IAS 11 "Construction Contracts". Contracts with customers will in future lead to revenues when control of a product or a service passes to the customer. The existing contracts have been evaluated regarding possible effects on the recognition of revenue. So far no contracts have been identified which would lead to any change in revenue recognition on introduction of IFRS 15. Basically the amendments to IFRS 15 are limited to notes disclosures and modified balance sheet disclosures.
IFRS 16	Leases	13 Jan. 2016	No	1 Jan. 2019 (IASB)	IFRS 16 replaces the previous standard on the accounting treatment of leases IAS 17 and the interpretations IFRIC 4, SIC-15 and SIC-27. In future, lessees will be required to recognise all leases in the balance sheet in the form of a right-of-use asset and a corresponding lease liability. Possible effects on the Group are currently being examined. Initial results are expected in the second half of the 2017 financial year.

Standards / Interpreta-tions		Published by IASB	Adoption by EU	Effective date	Probable effects
Amendments to Standards/Interpretations					
IAS 7	Statement of Cash Flows	29 Jan. 2016	No	1 Jan. 2017 (IASB)	Changes from the previous standard relate to additional disclosures on financial liabilities. Changes relating to the cash flow from financing activities will be shown separately in the notes.
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12 Apr. 2016	No	1 Jan. 2018 (IASB)	The clarifications to IFRS 15 confirm the investigations carried out so far under the IFRS 15 implementation project.

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 if they 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: three) 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, one new 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 attr butable 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.

Eight domestic joint arrangements (previous year: seven) 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 tele-communications 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. 2016	31 Dec. 2015
Assets		
Non-current assets		
Intangible assets	49.7	67.2
Property, plant and equipment	2,301.8	2,146.6
Deferred tax assets	10.0	27.3
Non-current receivables	2.1	0.6
Total	**2,363.6**	**2,241.7**
Current assets		
Inventories	12.7	12.7
Trade receivables (incl. advance payments made)	16.9	22.3
Receivables from tax creditors	1.3	1.0
Other receivables	25.1	3.4
Cash and cash equivalents	88.3	31.5
Total	**144.3**	**70.9**
Total assets	**2,507.9**	**2,312.6**

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 established in the 2016 financial year.

(a) GasLINE KG

In the financial year, Line WORX GmbH, Essen, acquired in three tranches a further 3.33 % 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 was taken as 1 October 2016 for all tranches. GasLINE KG will continue to be included in the consolidated financial statements as an associate and thus accounted for using the equity method.

(b) Norddeutsche Erdgastransport Infrastruktur GmbH

With effect from 13 December 2016, Norddeutsche Erdgastransport Infrastruktur GmbH ("NEI", formerly DEUDAN-HOLDING-GmbH), Hannover, acquired 100.0 % of the shares in jordgasTransport GmbH ("JGT"), Emden. JGT performs the business activities of a gas transmission network operator and is subject to supervision by the Federal Network Agency (BNetzA), the German regulatory authority. As a result of the acquisition of JGT, NEI becomes a significant investment which is included in the consolidated financial statements as a joint venture and accounted for using the equity method.

The portfolio of JGT includes shares in NETRA GmbH Norddeutsche Erdgas Transversale & Co. Kommanditgesellschaft ("NETRA"), Schneiderkrug, in the amount of 30.78 %, which were jointly acquired. NETRA is already included in the consolidated financial statements as a significant joint operation with the share directly held by OGE.

OGE has a 50 % share in NEI. Taking materiality considerations into account, initial consolidation was performed as of 31 December 2016.

(c) Zeelink GmbH & Co. KG

Zeelink GmbH & Co. KG ("Zeelink"), Essen, which was established on 15 September 2016, was included in the consolidated financial statements for the first time. The object of the company is to construct, acquire and maintain a gas transmission system between Lichtenbusch on the German-Belgian border and Legden. OGE has invested € 3.0 million in cash in Zeelink and holds 75 % of the capital shares. In addition, OGE has made a contr bution in the amount of € 33.0 million into the additional paid-in capital. In the Group, the company is a proportionally consolidated joint operation, in which OGE has direct rights in the assets and obligations for the liabilities under the consortium agreement which it has signed.

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 intangible 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.

As part of the PPA in the 2012 financial year, assets and liabilities were recognised at their fair value. The fair values of the identified intang ble assets were derived from the present value of the estimated future cash flows. Estimates of future potential benefits and useful lives were also made.

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 intang ble 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 intang ble 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.

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 2016, 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 3.2 % (previous year: 3.4 %).

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 2016, there was no objective evidence of impairment of financial assets or financial liabilities in the VGT Group.

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 percentage-of-completion method (PoC) 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 2.5 % was applied for 2016 (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 contr bution 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 contr bution 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 contributions 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 2016.

(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.

In the financing area, the Group only works with banks with an independent rating given by the three big rating agencies of at least "BBB+" to "A-" (Standard & Poor’s, Fitch) or "Baa1" to "A3" (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.

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 € 83.0 million (previous year: € 70.9 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 € 16.5 million in the reporting period (previous year: € 1.1 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. Furthermore, the liquidity risk is minimised by regular liquidity planning, the Group Finance department covering the short-term and the Group Planning department the medium and long-term perspectives.

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	2016	2015	2016	2015	2016	2015
Non-derivative financial instruments	-82.9	-103.2	-1,215.4	-1,172.8	-1,704.7	-1,706.4
Derivative financial instruments	-1.1	-1.2	-2.3	-2.8	0.0	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 less cash and cash equivalents and interest-bearing financial receivables. Non-current assets result from the values recognised as of the reporting date. As of 31 December 2016, the Group had a debt-asset ratio of 79 % (previous year: 82 %).

in € million	31 Dec. 2016	31 Dec. 2015
Financial liabilities	-2,569.7	-2,523.8
Provisions for pensions	-134.3	-72.0
Deferred tax assets on provisions for pensions[4]	80.9	54.8
Financial receivables	16.5	1.1
Cash and cash equivalents	189.4	149.7
Net debt VGT Group	**-2,417.2**	**-2,390.2**
Property, plant and equipment	2,990.4	2,851.2
Intangible assets	54.4	74.0
Debt-asset ratio	**79 %**	**82 %**

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-poss ble 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 2016, three further interest swaps were 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 expired in 2016 according to the terms of the contracts and three were terminated ahead of schedule. As of the reporting date, no foreign currency transactions existed.

As of 31 December 2016, the hedged transactions in place are included in interest cash flow hedges with maturities of up to eight-and-a-half years. The cash flows from hedged transactions secured in cash flow hedge accounting occur in the period from 2017 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 € -2.7 million (previous year: € -3.1 million).

No ineffectiveness resulted in the financial year. In the financial year, accumulated other comprehensive income before allowance for deferred taxes changed by € 0.2 million to € -2.6 million (previous year: € -2.8 million). Of this figure, income of € 0.9 million (previous year: € 0.9 million) was reclassified to the income statement.

Measurement of derivative financial instruments

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

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

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 2016. The derivatives all qualify as hedging instruments under cash flow hedge accounting in accordance with IAS 39:

	31 Dec. 2016		31 Dec. 2015	
in € million	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Interest-rate swap (fixed-rate payer)	126.2	-2.7	163.2	-3.1

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 2016 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	-4.1	4.3	0.0	0.0

The sensitivity analyses as of 31 December 2015 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	4.8	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 2016 to 31 December 2016, 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 2016:

in € million	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measurement category[1]	Fair value	Fair value (IFRS 13) 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**		**0,0**			
Trade receivables and long-term loans granted	34.0	34.0	LaR	n/a			
Derivatives with hedging relationships	0,0	0,0	0,0	0,0			
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**	

[1]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 2015:

in € million	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measure-ment category[1]	Fair value	Fair value (IFRS 13) 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	**1.1**	**1.1**		**n/a**			
Other financial receivables and financial assets	1.1	1.1	LaR	n/a			
Trade receivables and other operating assets	**98.0**	**98.0**		**0,0**			
Trade receivables and long-term loans granted	27.1	27.1	LaR	n/a			
Derivatives with hedging relationships	0,0	0,0	0,0	0,0			
Other operating assets	70.9	70.9	LaR	n/a			
Cash and cash equivalents	**149.7**	**149.7**	**LaR**	**n/a**			
Total assets	**287.9**	**287.9**		**n/a**			
Financial liabilities	**2,523.8**	**2,523.8**		**2,692.6**	**2,450.1**	**242.5**	
Bonds	2,239.2	2,239.2	AmC	2,450.1	2,450.1		
Liabilities to banks	191.4	191.4	AmC	191.1		191.1	
Other financial liabilities	93.2	93.2	AmC	51.4		51.4	
Trade payables and other operating liabilities	**110.9**	**110.9**		**3.1**		**3.1**	
Trade payables	10.8	10.8	AmC	n/a			
Derivatives with hedging relationships	3.1	3.1	n/a	3.1		3.1	
Other operating liabilities	97.0	97.0	AmC	n/a			
Total liabilities	**2,634.7**	**2,634.7**		**2,695.7**	**2,450.1**	**245.6**	

[1] 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	2016	2015
Loans and receivables	0.3	-0.2
Financial liabilities measured at amortised costs	-66.6	-66.9
Total	**-66.3**	**-67.1**

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.

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 € 16.9 million as of 31 December 2016 (previous year: € 18.6 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 2016, the Group recorded amortisation expense of € 30.5 million (previous year: € 29.8 million). There were no impairment losses or reversals of impairments. As part of the acquisition of OGE in 2012, beneficial contracts in the amount of € 89.8 million were identified and recognised at the present value of the estimated margins. The carrying amount of these intangible assets totalled € 16.7 million as of 31 December 2016. € 16.4 million have a remaining useful life up to 31 December 2017 and € 0.3 million have a remaining useful life up to 31 December 2018.

As of the reporting date, the carrying amount of intangible assets with indefinite useful lives is € 3.0 million (previous year: € 2.3 million). Of this figure, easements account for € 1.7 million (previous year: € 1.7 million) and emission rights for € 1.3 million (previous year: € 0.6 million).

In the financial year, there were additions of € 0.8 million to the internally generated intangible assets (previous year: € 0.9 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 € 4.7 million were capitalised in 2016 (previous year: € 2.9 million). Depreciation of property, plant and equipment amounts to € 132.9 million (previous year: € 120.0 million).

4.5 Financial assets

in € million	31 Dec. 2016	31 Dec. 2015
Companies accounted for using the equity method	126.5	52.8
Equity investments	39.2	39.2
Long-term loans granted	3.1	3.2
Total	**168.8**	**95.2**

The list of shareholdings is given in section 7.

The main equity investments are Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co.KG ("NETG"), Dortmund, amounting to € 29.8 million (previous year: € 29.8 million), and PLEdoc GmbH, Essen, amounting to € 4.2 million (previous year: € 4.2 million).

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 NEI 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. 2016	31 Dec. 2015
Dividends received	0.2	13.9
Current assets*	75.9	98.1
Cash and cash equivalents	*69.0*	*87.9*
Non-current assets*	326.7	326.9
Current liabilities*	46.2	89.1
Current financial liabilities	*0.3*	*0.3*
Non-current liabilities*	110.3	126.4
Non-current financial liabilities	*0.0*	*0.0*
Pro-rata equity	69.7	52.4
Other effects	0.7	0.4
Carrying amount of company accounted for using the equity method	**70.4**	**52.8**
Revenues*	85.5	90.3
Depreciation and amortisation*	13.2	12.8
Interest income / expense*	0.2	0.2
Income tax expense*	7.2	4.7
OCI*	0.0	0.0
Income statement result*	**35.6**	**43.6**
Total comprehensive income*	**35.6**	**43.6**

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

Norddeutsche Erdgastransport Infrastruktur GmbH in € million	31 Dec. 2016
Current assets*	60.6
Cash and cash equivalents	45.6
Non-current assets*	87.2
Current liabilities*	34.2
Current financial liabilities	0.0
Non-current liabilities*	1.6
Non-current financial liabilities	0.0
Pro-rata equity	56.0
Other effects	0.1
Carrying amount of company accounted for using the equity method	**56.1**

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

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.

OGE is connected with the partner of the joint venture NEI through a consortium agreement. Under this agreement, the parties have mutual guarantee obligations, 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. The companies MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG ("MEGAL"), Essen, Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG ("TENP"), Essen, NETRA and Zeelink 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	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

Carrying amounts of the joint operations in the consolidated balance sheet as of 31 December 2015:

in € million	MEGAL	TENP	NETRA
Non-current assets			
Intangible assets	-	0.0	2.5
Property, plant and equipment	292.2	217.8	108.8
Deferred tax assets	4.3	1.3	-
Current assets			
Trade receivables (including advance payments made)	-	-	-
Receivables from tax creditors	0.5	0.3	0.2
Other receivables	0.2	2.1	1.0
Cash and cash equivalents	0.8	0.9	6.6
Non-current liabilities			
Provisions for pensions and similar obligations	0.1	0.2	0.0
Other provisions	0.8	-	0.0
Financial liabilities	104.6	91.8	0.0
Other non-current liabilities	1.0	22.0	-
Deferred tax liabilities	21.9	14.5	11.7
Current liabilities			
Other provisions	-	-	0.0
Financial liabilities	40.9	5.3	-
Trade payables	0.5	0.1	0.0
Other liabilities	0.5	7.5	-

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

As in the previous year, non-current receivables include receivables of € 50.5 million from the two proportionately consolidated pipeline companies MEGAL and TENP from accounting for the one-sided capital increase. The financial statements of these pipeline companies reflected this by recognising the capital contributions as borrowings in accordance with IAS 32. Receivables from the application of the percentage-of-completion method (PoC method) with a remaining term of two to five years account for € 34.1 million (previous year: € 36.8 million). The costs incurred and profits recognised from these construction contracts total € 77.0 million (previous year: € 66.3 million). Advance payments of € 25.6 million (previous year: € 13.3 million) received for these construction contracts are shown under other operating liabilities.

4.7 Inventories

Inventories break down as follows:

in € million	31 Dec. 2016	31 Dec. 2015
Raw materials and supplies	14.5	14.8
Work in progress	2.5	3.2
Gas inventories	15.6	13.3
Total	**32.6**	**31.3**

4.8 Trade receivables and other current receivables

Receivables and other assets break down as follows:

in € million	31 Dec. 2016	31 Dec. 2015
Trade receivables	30.8	23.9
Other current operating receivables	41.4	26.1
Trade receivables and other current operating receivables	**72.2**	**50.0**
Financial receivables	15.5	-
Total	**87.7**	**50.0**

All receivables contained in this item have a maturity of less than one year. Other receivables comprise mainly receivables from joint operations included on a pro-rata basis in the amount of € 11.3 million (previous year: € 0.8 million), input tax refund receivables from tax creditors in the amount of € 7.8 million (previous year: € 3.0 million), receivables from market area changeover and biogas levies in the amount of € 5.8 million (previous year: € 0.0 million), receivables from taxes chargeable to VGS in the amount of € 2.9 million (previous year: € 3.1 million) as well as prepaid expenses in the amount of € 2.6 million (previous year: € 1.4 million).

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

in € million	31 Dec. 2016	31 Dec. 2015
Not yet due	28.8	18.5
0 to 30 days past-due	0.3	2.5
31 to 60 days past-due	0.3	0.7
61 days to one year past-due	2.6	1.7
Over one year past-due	2.8	4.7
Gross trade receivables excl. valuation allowances	**34.8**	**28.1**
Doubtful debts	4.6	5.5
Valuation allowances	4.0	4.3
Net value of trade receivables	**30.8**	**23.9**

The written-down receivables are due from a large number of customers from whom it is unlikely 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	2016	2015
Start of financial year	**4.3**	**3.6**
Utilisation / Reversal	-0.3	-0.2
Net addition	0.0	0.9
End of financial year	**4.0**	**4.3**

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 € 26.2 million (previous year: € -63.7 million). The change results from the consolidated net income for the year of € 165.4 million (previous year: € 101.7 million) and the remeasurement of defined benefit plans amounting to € -50.0 million (previous year: € 41.4 million) as well as the deferred taxes thereon of € 9.1 million (previous year: € -6.3 million), reduced by the advance profit distribution of € 25.0 million and the remaining profit transfer of € 9.6 million (previous year: profit transfer of € 24.1 million).

Other Comprehensive Income

Accumulated OCI totals € -2.3 million (previous year: € -2.4 million) and results from the measurement of derivatives amounting to € -2.6 million (previous year: € -2.8 million) and the deferred taxes thereon of € 0.3 million (previous year: € 0.4 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	**2016**	**2015**	**2016**	**2015**
Intangible assets	8.3	8.5	8.4	12.6
Goodwill	5.2	5.8	0.0	0.0
Property, plant and equipment	16.3	2.1	513.1	490.5
Financial assets	0.1	0.1	52.8	49.3
Other assets	15.0	18.9	10.8	42.1
Special reserve items	0.0	0.0	0.0	4.0
Provisions	81.1	54.8	22.1	18.1
Liabilities	4.8	37.7	2.7	3.4
Loss carryforward	13.5	18.4	n/a	n/a
Deferred taxes before netting	**144.3**	**146.3**	**609.9**	**620.0**
Netting	-119.8	-82.6	-119.8	-82.6
Deferred taxes after netting	**24.5**	**63.7**	**490.1**	**537.4**

In 2016, current deferred tax assets of € -0.6 million (previous year: € -2.4 million) and non-current deferred tax assets of € -119.2 million (previous year: € -80.2 million) were netted against deferred tax liabilities.

The Group has trade tax loss carryforwards of € 89.8 million (previous year: € 122.9 million). Deferred tax assets of € 13.5 million (previous year: € 18.4 million) were recognised on these loss carryforwards.

The maturity structure of the deferred taxes is as follows:

	31 Dec. 2016		31 Dec. 2015	
in € million	**Current**	**Non-current**	**Current**	**Non-current**
Deferred tax assets	15.2	9.3	51.0	12.7
Deferred tax liabilities	-0.8	-489.3	-0.4	-537.0
Net amount	**14.4**	**-480.0**	**50.6**	**-524.3**

Of the deferred tax assets shown, € 9.0 million (previous year: € -6.3 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. 2016		
in € million	**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

	1 Jan. - 31 Dec. 2015		
in € million	**Before tax**	**Income tax**	**After tax**
Changes from the remeasurement of defined benefit plans	41.4	-6.3	35.1
Cash flow hedges	-0.4	0.0	-0.4
Other comprehensive income	41.0	-6.3	34.7

No deferred taxes were recognised on temporary differences of € 8.4 million (previous year: € 14.0 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 contribution 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 contr bution 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	2016	2015
Present value at start of financial year	**369.6**	**387.4**
Service cost	14.1	15.4
Past service cost	0.0	1.8
Interest cost	10.1	8.7
Gains/losses from plan settlements	-0.1	-0.1
Payments from plan settlements	-0.2	-0.2
Remeasurement of defined benefit plans	58.9	-40.9
Pension benefits paid	-3.4	-2.5
Present value at end of financial year	**449.0**	**369.6**

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 changes to the financial assumptions (€ 63.1 million; previous year: € -40.1 million) and experience adjustments (€ -4.2 million; previous year: € -0.8 million).

The weighted average duration of the obligation is 22.5 years (previous year: 23.1 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	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Expected pay-outs for pension benefits	5.1	4.0	6.8	5.3	27.0	23.4	73.4	67.2

Actuarial assumptions

The following parameters were used for measurement:

	31 Dec. 2016	31 Dec. 2015
Discount rate	2.00 %	2.75 %
Expected salary increase rate	2.50 %	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:

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 %

2015	+0.25 %p or +10 %	-0.25 %p or -10 %
Discount rate	-4.88 %	+5.24 %
Future salary increase rate	+1.40 %	-1.36 %
Future pension increase rate	+3.06 %	-2.91 %
Mortality	-2.34 %	+2.60 %

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	2016	2015
Start of financial year	**297.6**	**250.2**
Interest income from plan assets	8.2	5.6
Remeasurement of defined benefit plans	8.9	0.5
Transfers	0.0	0.0
Payments into plan assets	0.0	41.3
End of financial year	**314.7**	**297.6**

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. 2016	31 Dec. 2015
Bonds	62.5	59.5	57.1
Equity funds	23.8	25.9	19.7
Real estate funds	13.7	10.3	8.2
Cash and money market instruments	0.0	4.3	15.0

All assets are traded in an active market.

The expected return on plan assets for the subsequent year amounts to € 6.3 million. The expected payments into plan assets for the subsequent year amount to € 30.2 million.

Presentation of provisions for pensions

Provisions for pensions changed as follows:

in € million	2016	2015
Start of financial year	**72.0**	**137.2**
Service cost	14.1	15.4
Past service cost	0.0	1.8
Net interest expense	1.9	3.1
Plan settlement gain/loss	-0.1	-0.1
Transfers/payments from plan settlements	-0.2	-0.2
Remeasurement effects	50.0	-41.4
Pension benefits paid	-3.4	-2.5
Payments into plan assets	**0.0**	**-41.3**
End of financial year	**134.3**	**72.0**

Pension cost

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

in € million	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Current cost (incl. plan settlement gain/loss)	14.0	15.3
Past service cost	-	1.8
Interest cost	10.1	8.7
Interest income from plan assets	-8.2	-5.6
Total	**15.9**	**20.2**

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	2016	2015
Accumulated remeasurement recognised in equity at start of financial year	**-38.8**	**-80.2**
Remeasurement of the current financial year recognised in equity	-50.0	41.4
Accumulated remeasurement recognised in equity at end of financial year	**-88.8**	**-38.8**

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	**128.6**	**36.3**	**-1.4**	**1.9**	**0.0**	**3.0**	**-30.1**	**138.3**
Provisions – production sector	**0.1**	**0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.7**
Provisions for emission rights – current	0.1	0.7	0.0	0.0	0.0	0.0	-0.1	0.7
Provisions – pipeline sector	**70.3**	**6.9**	**-0.2**	**0.0**	**0.0**	**0.0**	**-0.1**	**76.9**
Provisions for miscellaneous in the pipeline sector - current	10.6	6.9	0.0	0.0	0.0	0.0	0.0	17.5
Provisions for miscellaneous in the pipeline sector - non-current	59.7	0.0	-0.2	0.0	0.0	0.0	-0.1	59.4
Provisions – sales sector	**0.8**	**0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.7**	**0.1**
Provisions for miscellaneous in the sales sector - current	0.8	0.1	-0.1	0.0	0.0	0.0	-0.7	0.1
Provisions – personnel sector	**55.0**	**24.6**	**-0.9**	**1.9**	**0.0**	**3.0**	**-27.8**	**55.8**
Provisions for early-retirement obligations and part-time phased retirement - non-current	15.9	0.2	-0.4	0.0	0.0	3.6	-7.0	12.3
Provisions for annual and special bonuses etc. – current	15.8	15.7	-0.5	0.0	0.0	0.0	-15.3	15.7
Provisions for annual and special bonuses etc. - non-current	3.1	1.3	0.0	0.2	0.0	0.0	-1.8	2.8
Provisions for long-service anniversary obligations - non-current	6.4	0.8	0.0	0.2	0.0	0.0	-0.6	6.8
Provisions for gas allowance obligations - non-current	7.7	1.2	0.0	0.2	0.0	0.0	0.0	9.1
Provisions for other personnel expenses – current	3.0	2.7	0.0	0.0	0.0	0.0	-2.7	3.0
Provisions for other personnel expenses - non-current	3.1	2.7	0.0	1.3	0.0	-0.6	-0.4	6.1
Provisions for environmental protection and site remediation	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.8**	**0.0**
Provisions for rehabilitation/decontamination work (site remediation) - non-current	0.8	0.0	0.0	0.0	0.0	0.0	-0.8	0.0
Provisions for other risks	**0.1**	**3.5**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**3.5**
Provisions for litigation cost risks and compensation obligations – current	0.1	3.5	-0.1	0.0	0.0	0.0	0.0	3.5
Miscellaneous other provisions	**1.5**	**0.5**	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.6**	**1.3**
Provisions for external annual financial statement audit cost /review – current	0.2	0.3	-0.1	0.0	0.0	0.0	0.0	0.4
Miscellaneous other provisions – current	0.6	0.2	0.0	0.0	0.2	0.0	-0.6	0.4
Miscellaneous other provisions – non-current	0.7	0.0	0.0	0.0	-0.2	0.0	0.0	0.5
Total – current	**31.2**	**30.1**	**-0.8**	**0.0**	**0.2**	**0.0**	**-19.4**	**41.3**
Total - non-current	**97.4**	**6.2**	**-0.6**	**1.9**	**-0.2**	**3.0**	**-10.7**	**97.0**

VGT expects the complete amount of current provisions (€ 41.3 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 same amount as the previous year of € 59.4 million which are recognised under provisions for the pipeline sector and for which, according to current estimates, utilisation can be expected from 2025 onwards.

The following obligations are grouped under personnel obligations:

Obligations for bonus payments amounting to € 18.5 million (previous year: € 18.9 million)

Early retirement obligations and other restructuring measures in the amount of € 11.5 million (previous year: € 13.8 million)

Obligations for part-time phased-retirement arrangements amounting to € 0.8 million (previous year: € 2.1 million)

Obligations for gas allowance payments amounting to € 9.1 million (previous year: € 7.7 million)

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

Obligations for long-term working-time accounts amounting to € 6.1 million (previous year: € 3.1 million)

Other current obligations amounting to € 3.3 million (previous year: € 3.2 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 (€ 18.2 million; previous year: € 16.7 million) are netted with the present value of the obligations for long-term working-time accounts (€ 24.3 million; previous year: € 19.7 million) and the remaining amount (€ 6.1 million; previous year: € 3.0 million) is recognised as a liability. Plan assets relating to obligations for part-time phased retirement (€ 3.5 million; previous year: € 5.5 million) are netted with the present value of the share of the obligations for part-time phased retirement attributable to the performance arrears (€ 3.5 million; previous year: € 5.5 million). The share of the obligations for part-time phased retirement attr butable to the top-up amount (€ 0.8 million; previous year: € 2.1 million) is also 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	2016	2015
Utilisation within 1 year	0.2	0.2
Utilisation between 1 and 5 years	1.7	1.3
Utilisation after 5 years	20.1	15.7

Utilisation of the remaining other provisions amounting to € 15.6 million (previous year: € 20.4 million) is expected within the next two to five years.

4.14 Liabilities

The following table provides a breakdown of the liabilities:

	31 Dec. 2016		31 Dec. 2015	
in € million	**Current**	**Non-current**	**Current**	**Non-current**
Bonds	0.0	2,240.7	0.0	2,239.2
Liabilities to banks	20.4	160.6	46.0	145.4
Liabilities to proportionately consolidated companies	15.4	0.0	3.3	0.0
Other financial liabilities	40.8	91.8	38.9	51.0
Financial liabilities	**76.6**	**2,493.1**	**88.2**	**2,435.6**
Trade payables	54.6	0.7	10.8	0.8
Investment grants / construction cost grants	0.0	4.7	0.0	3.4
Liabilities to proportionately consolidated companies	23.0	0.0	12.2	0.0
Liabilities to affiliated companies	22.8	0.0	11.0	0.0
Income tax liabilities	2.3	0.0	0.1	0.0
Accruals	9.0	0.0	6.8	0.0
Liabilities from derivative financial instruments	0.0	2.7	0.0	3.1
Payments received on account of orders	14.4	0.0	15.2	0.0
Other operating liabilities	31.8	18.9	31.0	20.1
Trade payables and other operating liabilities	**157.9**	**27.0**	**87.1**	**27.4**
Total	**234.5**	**2,520.1**	**175.3**	**2,463.0**

The three bonds issued in 2013, each for € 750.0 million and maturing in 2020, 2023 and 2025 and the revolving credit facility for € 200.0 million concluded in December 2013 and maturing in 2018 all still exist. 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: € 51.0 million) and registered bonds in the amount of € 15.6 million (previous year: € 0.0 million).

Other operating liabilities mainly result from obligations to other shareholders of joint operations amounting to € 6.9 million (previous year: € 4.6 million). There are also liabilities to E.ON 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 deferred income items amounting to € 7.0 million (previous year: € 5.3 million) and liabilities from taxes amounting to € 7.0 million (previous year: € 5.4 million).

5 Information on the Income Statement

5.1 Revenues

Of the revenues generated in 2016, € 809.1 million result from the gas transmission business (previous year: € 741.4 million) and € 18.8 million from transport-related services (previous year: € 20.3 million). € 120.0 million result from technical and commercial services (previous year: € 124.0 million). This includes revenue from construction contracts of € 25.0 million (previous year: € 27.8 million).

5.2 Own work capitalised

Own work capitalised amounts to € 26.0 million (previous year: € 23.7 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 € 10.0 million (previous year: € 29.7 million) from the purchase price adjustment due to the tax clause agreed between VGT and E.ON on the acquisition of OGE, income from market area changeover and biogas levies in the amount of € 5.8 million (previous year: € 0.0 million) as well as income in the amount of € 2.2 million (previous year: € 0.0 million) from a subsidy for the construction of a new pig trap as part of the re-routing of a pipeline.

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. 2016	1 Jan. – 31 Dec. 2015
Expenses for raw materials and supplies	189.0	229.3
Expenses for purchased goods	97.5	119.9
Total	**286.5**	**349.2**

Expenses for raw materials and supplies mainly comprise expenses for fuel energy, usage fees and load flow commitments. This item also includes expenses for biogas, 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. 2016	1 Jan. – 31 Dec. 2015
Wages and salaries	118.3	117.8
Social security contributions	17.8	17.4
Pension costs and other employee benefits	15.3	16.9
Total	**151.4**	**152.1**

Of the pension costs and other employment benefits totalling € 15.3 million, no expense was incurred for defined contribution plans (previous year: € 0.4 million).

In the reporting period, the Group employed an average of 1,434 employees (previous year: 1,437), of which 322 were industrial workers (previous year: 328), 1,036 were salaried employees (previous year: 1,033), 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. 2016	1 Jan. – 31 Dec. 2015
IT costs	33.7	38.3
Expenses for services rendered by third parties	5.8	4.7
Market area changeover and biogas levies	5.8	0.0
Vehicle costs	4.7	5.0
Insurance premiums	3.6	3.5
Travelling costs	3.1	3.2
External audit and consulting costs	2.6	2.0
Rental and lease costs	2.2	3.8
Fees and contr butions	2.1	2.8
Miscellaneous other operating expenses < € 2 million	16.5	29.6
Total	**80.1**	**92.9**

5.7 Depreciation and amortisation

in € million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Amortisation of intangible assets	30.5	29.8
Depreciation of property, plant and equipment	132.9	124.0
Total	**163.4**	**153.8**

5.8 Financial result

in € million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Income/loss (-) from equity investments	**-0.8**	**-0.5**
Income from company accounted for using the equity method	**3.3**	**6.1**
Interest income	**0.3**	**1.1**
Interest expenses	**-64.9**	**-67.5**
Interest share of the addition to provisions	*-3.0*	*-3.5*
Tax-related interest expense	*-0.1*	*-*
Other interest expenses	*-61.8*	*-64.0*
Financial result	**-62.1**	**-60.8**

The interest share of the addition to provisions is mainly the interest cost from pension provisions (€ 10.1 million) – after deduction of the expected return on plan assets (€ 9.0 million) – as well as the unwinding of discounting of the other non-current personnel provisions totalling € 1.9 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 € 4.7 million (previous year: € 2.9 million).

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, Essen, Open Grid Regional GmbH, Essen ("OGR"), PLEdoc Gesellschaft für Dokumentations-erstellung und -pflege mbH, Essen ("PLE"), 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. 2016	1 Jan. – 31 Dec. 2015
Income taxes for current financial year	3.7	3.7
Income tax allocations	84.8	28.5
Income taxes for prior financial years	2.1	0.0
Deferred taxes for current financial year	-13.3	6.8
Deferred taxes for prior financial years	14.2	-4.3
Income taxes	**91.5**	**34.7**

The pro-rata trade tax of proportionately consoldiated partnerships is shown as an effective tax expense for the current year. Income 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. 2016		1 Jan. – 31 Dec. 2015	
		in € million	%	in € million	%
	Profit before tax in accordance with IFRS	256.9		136.4	
	Group income tax rate		31.0		31.0
	Expected income tax expense	79.6		42.3	
1	Permanent effects	-3.1	-1.2	-4.9	-3.6
2	Difference due to the trade tax assessment basis	-0.9	-0.4	2.8	2.1
3	Taxes not relating to the period	16.4	6.4	-4.3	-3.2
4	Effect from measurement using the equity method	-2.4	-0.9	1.9	1.4
5	Change in deferred taxes on loss carryforwards	2.7	1.1	-1.3	-1.0
6	Other	-0.9	-0.4	-1.8	-1.2
	Effective tax expense / rate	**91.5**	**35.6**	**34.7**	**25.5**

The difference between the calculated tax expense and the actual tax expense is due in particular 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.

6 Other Information

6.1 Information on the cash flow statement

Cash provided by operating activities amounted to € 460.8 million in the reporting year (previous year: € 321.8 million). The increase of € 139.0 million is largely due to an increase of € 63.7 million in consolidated net income, the withdrawals from plan assets of € 3.0 million (previous year: pay-outs of € -39.4 million) and the changes in working capital in the amount of € 33.1 million (previous year: € -1.3 million).

The reduction in working capital is in particular due to receipt of payment of prior-year group tax receivables from VGS in the amount of € 13.1 million and the increase in trade payables of € 23.1 million.

The cash used for investing activities changed in the financial year by € -161.2 million to € -346.9 million. This sharp increase is due mainly to the acquisition of shares in GasLINE KG and the payment into the capital reserve of NEI on the acquisition of the shares in JGT. Furthermore, the cash outflows for investments rose largely as a result of the new build and expansion measures by € 61.3 million to € 261.0 million. Of the total additions to property, plant and equipment and intangible assets in the amount of € 286.5 million, € 25.5 million were non-cash.

In the financial year, cash used for financing activities totalled € -74.2 million (previous year: € -234.8 million). The refinancing of the project companies MEGAL and TENP resulted in cash inflows of € 30.9 million, while cash outflows were in particular interest payments (€ -65.1 million) and dividend payments (€ -53.6 million).

For the purposes of the cash flow statement, cash and cash equivalents comprise exclusively cash at banks totalling € 189.4 million (previous year: € 149.7 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 2016, the total amount of bank guarantees in favour of third parties was € 1.0 million (previous year: < € 50k).

6.3 Other financial obligations

The other financial obligations which cannot be seen from the balance sheet amount to € 68.8 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. 2016	31 Dec. 2015
Purchase commitment for investments in intang ble assets	2.9	3.5
Purchase commitment for investments in property, plant and equipment	476.1	219.7
Purchase commitment for maintenance work (incl. inventory materials)	151.8	229.2
Total purchase commitment	**630.8**	**452.4**

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	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Pipeline networks	12.3	12.3	0.0	12.3	0.0	0.0
Buildings	1.5	1.9	5.3	6.1	0.0	2.5
Vehicles, IT and others	4.0	4.9	5.4	6.7	0.0	0.0
Minimum lease payments	**17.8**	**19.1**	**10.7**	**25.1**	**0.0**	**2.5**

In the 2016 financial year, payments under leases of € 18.5 million were recognised in income (previous year: € 21.1 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	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Buildings	0.7	1.5	0.6	0.0	0.0	0.0
IT and others	0.1	0.2	0.3	0.3	0.0	0.0
Minimum lease pay-ins	**0.8**	**1.7**	**0.9**	**0.3**	**0.0**	**0.0**

In the 2016 financial year, payments under leases of € 1.1 million were recognised in income (previous year: € 1.9 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	2016	2015
Transport business	827.9	761.7
Other Services business	120.0	124.0
Total	**947.9**	**885.7**

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 € 166.5 million with one customer in 2016 (previous year: € 162.0 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 € 34.6 million to VGS (previous year: € 24.1 million) and to pay € 84.7 million (previous year: € 28.5 million) to VGS under the income tax allocation agreement with VGS. An advance payment of € 95.0 million (previous year: € 40.0 million) was already made to VGS on the basis of these two agreements. On the reporting date, the total remaining amount of € 24.4 million (previous year: € 12.6 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, DEUDAN - 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	2016	2015
Receivables	3.8	13.3
Liabilities	1.8	1.3
revenues	17.1	17.9
Cost of materials	15.5	17.1

Most of the revenues (€ 13.5 million; previous year: € 15.2 million) were generated with technical and commercial services. At € 11.9 million (previous year: € 13.2 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. 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 attribute 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 of the members of the OGE Management for their services as employees (in line with IAS 24.17) breaks down as follows:

in € million	2016	2015
Salaries and other current benefits	1.8	2.1
Post-termination benefits		-
Other benefits due in the long term	0.9	1.4
Total remuneration	**2.7**	**3.5**

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

6.7 Events after the balance sheet date

Up to the date of the preparation of the consolidated financial statements, no business transactions of material significance had taken place which have an effect on the presentation of the net assets, financial position and results of operations of the Group in the reporting period.

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.

in € million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Financial statement audits	0.4	0.5
Other services	0.2	0.3
Total	**0.6**	**0.8**

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

The managing directors are not employees of the Company.

7 List of Shareholdings as of 31 December 2016

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	1,318,236	244,961
Open Grid Regional GmbH	Essen	HRB 19964	100.00	500	-473
Mittelrheinische Erdgastransportleitungs-gesellschaft mbH	Essen	HRB 24567	100,00	64,150	53,896
Line WORX GmbH	Essen	HRB 23536	100.00	80,725	444
Proportionately consolidated					
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG	Essen	HRA 8536	51.00	85,106	23,554
NETRA GmbH Norddeutsche Erdgas Trans-versale & Co. Kommanditgesellschaft	Schneiderkrug	HRA 150471	40.55	100,410	39,349
Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG	Essen	HRA 8548	51.00	96,401	11,653
Zeelink GmbH & Co. KG	Essen	HRA 10610	75.00	47,851	-169
Equity-accounted					
GasLINE Telekommun kationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft [2]	Straelen	HRA 1805	28.33	0	44,282
Norddeutsche Erdgastransport Infrastruktur GmbH (formerly DEUDAN-HOLDING-GmbH) [2]	Hannover	HRB 214	50.00	20	-1
Non-consolidated companies due to immaterial importance					
caplog-x GmbH [2] [5]	Leipzig	HRB 23614	31.33	668	468
DEUDAN - Deutsch/Dänische Erdgastransport-Gesellschaft mbH & Co. Kommanditgesellschaft [2] [3]	Handewitt	HRA 3848 FL	24.99	5,728	1,237
DEUDAN-Deutsch/Dänische Erdgastransport-Gesellschaft mbH [2] [3]	Handewitt	HRB 3531 FL	24.99	70	2
GasLINE Telekommun kationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH [2] [5]	Straelen	HRB 4812	28.33	64	1
LIWACOM Informationstechn k GmbH [2] [5]	Essen	HRB 7829	33.33	629	304
MEGAL Verwaltungs-GmbH [3]	Essen	HRB 18697	51.00	47	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	72	3
NETRA GmbH-Norddeutsche Erdgas Trans-versale [2] [3]	Schneiderkrug	HRB 150783	33.33	109	2
Nordrheinische Erdgastransportleitungs-gesellschaft mbH & Co. KG [2] [3]	Dortmund	HRA 17834	50.00	28,612	5,092
Nordrheinische Erdgastransportleitungs-Verwaltungs-GmbH [3]	Dortmund	HRB 26278	50.00	37	1
Open Grid Service GmbH [4]	Essen	HRB 22210	100.00	128	537
PLEdoc Gesellschaft für Dokumentations-erstellung und -pflege mbH [4]	Essen	HRB 9864	100.00	589	1,831
PRISMA European Capacity Platform GmbH [2] [6]	Leipzig	HRB 21361	1.33	376	114
Trans Europa Naturgas Pipeline Verwaltungs-GmbH [3]	Essen	HRB 18708	50.00	45	2
Zeelink-Verwaltungs-GmbH [3]	Essen	HRB 27607	75.00	27	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. 2016

							Accumulated depreciation and amortisation					Carrying amounts
	1 Jan. 2016	Additions	Appreciation	Disposals	Re-classifications	31 Dec. 2016	1 Jan. 2016	Additions	Disposals	Re-classifications	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	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	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	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	0.0	11.4
	171.8	**11.5**	**0.0**	**-0.6**	**0.0**	**182.7**	**-97.8**	**-30.5**	**0.0**	**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**	**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	0.0	-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	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	0.0	-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	0.0	-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	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**	**0.0**	**-520.9**	**2,990.4**
Financial assets												
Equity investments	101.4	70.7	0.0	3.0	0.0	175.1	-9.4	0.0	0.0	0.0	-9.4	165.7
Long-term loans granted	3 2	0.3	0.0	-0.4	0.0	3.1	0.0	0.0	0.0	0.0	0.0	3.1
	104.6	**71.0**	**0.0**	**2.6**	**0.0**	**178.2**	**-9.4**	**0.0**	**0.0**	**0.0**	**-9.4**	**168.8**
	4,348.0	**357.5**	**0.0**	**-2.9**	**0.0**	**4,702.6**	**-497.3**	**-163.4**	**2.1**	**0.0**	**-658.6**	**4,044.0**

Consolidated Statement of Changes in Non-current Assets of the VGT Group as of 31 Dec. 2015

							Accumulated depreciation and amortisation					Carrying amounts
	1 Jan. 2015	Additions	Appreciation	Disposals	Re-classifications	31 Dec. 2015	1 Jan. 2015	Additions	Disposals	Re-classifications	31 Dec. 2015	31 Dec. 2015
	in € million	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	2.0	0.3	0.0	0.0	0.6	2.9	-0.6	-0.5	0.0	0.0	-1.1	1.8
Purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets	147.6	10.5	0.0	-2.8	5.8	161.1	-70.1	-29 3	2.7	0.0	-96.7	64.4
Advance payments	13.4	2.7	0.0	-2.2	-6.1	7.8	0.0	0.0	0.0	0.0	0.0	7.8
	163.0	**13.5**	**0.0**	**-5.0**	**0.3**	**171.8**	**-70.7**	**-29.8**	**2.7**	**0.0**	**-97.8**	**74.0**
Goodwill	**830.4**	**0.0**	**0.0**	**0.0**	**0.0**	**830.4**	**0.0**	**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	159.6	4.2	0.0	0.0	2.7	166.5	-11.4	-4.9	0.0	0.0	-16.3	150.2
Pipeline system	2,061.3	34.7	0.0	-9.6	16.3	2,102.7	-160.1	-68.1	0.6	0.0	-227.6	1,875.1
Technical plant, equipment and machinery	658.4	61.8	0.0	-0.1	80.0	800.1	-83 3	-40 8	0.0	0.0	-124.1	676.0
Other equipment, fixtures, furniture and office equipment	38.6	6.4	0.0	-0.3	0.7	45.4	-12.0	-6.2	0.1	0.0	-18.1	27.3
Advance payments and construction in progress	149.2	77.9	0.0	-0.6	-100.0	126.5	0.0	-4.0	0.0	0.0	-4.0	122.6
	3,067.1	**185.0**	**0.0**	**-10.6**	**-0.3**	**3,241.2**	**-266.8**	**-124.0**	**0.7**	**0.0**	**-390.1**	**2,851.2**
Financial assets												
Equity investments	107.7	0.0	0.0	-6.3	0.0	101.4	-9.4	0.0	0.0	0.0	-9.4	92.0
Long-term loans granted	3 3	0.4	0.0	-0.5	0.0	3.2	0.0	0.0	0.0	0.0	0.0	3.2
	111.0	**0.4**	**0.0**	**-6.8**	**0.0**	**104.6**	**-9.4**	**0.0**	**0.0**	**0.0**	**-9.4**	**95.2**
	4,171.5	**198.9**	**0.0**	**-22.4**	**0.0**	**4,348.0**	**-346.9**	**-153.8**	**3.4**	**0.0**	**-497.3**	**3,850.8**

Essen, 14 March 2017

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

Auditor's Report

We have audited the consolidated financial statements prepared by Vier Gas Transport GmbH, Essen, comprising the balance sheet, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a (1) HGB [Handelsgesetzbuch - German Commercial Code] are the responsibility of the Company's Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, March 14, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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