Group Annual Report

Vier Gas Transport GmbH

1 January to 31 December 2014

(Translation – the German text is authoritative)

Contents

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Group Management Report

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Introduction

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

VGT largely performs a holding function for Open Grid Europe. 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 European Union (EU) and German statutory regulations.

OGE's core activities include constructing high-pressure gas pipelines, operating, maintaining and repairing the pipeline system as well as controlling and monitoring the network and storage stations. Furthermore, core activities include marketing gas transport capacities and customer support as well as determining quantities, allocation and billing.

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

General economic development

According to the annual report by the German Council of Experts assessing overall economic development, the German economy experienced a significant slowdown in 2014 after a surprisingly good start to the year. The geopolitical risks and the unfavourable development in the euro zone may well have played a role here. The German Council of Experts indicated a GDP growth rate of 1.2% for 2014 and forecast growth of 1.0% for 2015.

Primary energy consumption in Germany

According to initial calculations, energy consumption in Germany in 2014 totalled some 13,100 petajoules (PJ). That is 4.8% less than in the previous year. Therefore, primary energy consumption in 2014 reached its lowest level since reunification. The mild weather had the greatest impact on the sharp decrease in energy consumption. Even without weather influences, consumption would have been about 1% down on the prior-year level.

Gas consumption fell by about 14%, again mainly due to the much warmer weather compared with 2013. Gas use decreased both for heating purposes and for power generation. In addition, declining production in the chemical raw materials industry also had an impact.

Energy policy developments in Europe

The implementation of the third EU internal energy market package is far advanced. Work on the Network Code provided for by the EU Commission in its 3-year plan has been largely completed.

The Commission Regulation (EU) 984/2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems came into force in November 2013 and regulates the marketing of transport capacities. The implementation deadline for this regulation is 1 November 2015. Even before the effective date, OGE already took important steps in preparation for implementation by establishing and structuring the European capacity marketing platform PRISMA European Capacity Platform GmbH (PRISMA), Leipzig, in January 2013.

The Network Code on Gas Balancing of Transmission Networks has also entered into force. The balancing processes are to be brought into line with the Code by 1 October 2015. The Federal Network Agency has already made relevant stipulations on the revision of the national standards.

The comitology procedure of the Network Code on Interoperability and Data Exchange was terminated at the end of 2014. The publication of the code in the Official Journal of the European Union is expected at the beginning of 2015. It is likely that the rules from the Network Code will have to be implemented by 1 April 2016.

In December 2014, the European Network of Transmission System Operators for Gas (ENTSOG) finalised the draft proposal for an amendment to the Network Code on Capacity Allocation Mechanisms and submitted it to the Agency for the Cooperation of Energy Regulators (ACER). The document contains rules on network expansion on the basis of market signals and on the marketing of resulting new capacities. ACER will consult on the draft in early 2015.

ENTSOG also completed the draft of the Network Code on Transport Fees in December 2014 and submitted it to ACER. This network code is to harmonise the fee system in the EU and may, in certain circumstances, have major effects on the fee calculation processes in Germany. At the end of March 2015, ACER will comment on ENTSOG's draft and may require amendments.

The aim of creating a European single market by the end of 2014 has not yet been achieved as the network codes largely still have to be implemented. Irrespective of this fact, in 2014 ACER developed a vision and a new goal for the period up to 2025 in the consultation "Bridge to 2025". This draft was submitted to the EU Commission and the EU Parliament as a recommendation for action. This document may lead to further legal obligations for the European network operators and their joint undertakings such as ENTSOG or PRISMA. OGE is already preparing today for the expected changes resulting from further regulatory requirements on the road to a European single market.

Energy policy developments in Germany

In 2014, the German government defined the energy policy focal points in the current 18th legislative period with the "10 Point Energy Agenda“ of the Federal Ministry for Economic Affairs and Energy (BMWi) and the "Action Programme on Climate Protection 2020" of the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).

In addition, after intensive discussions in the first half of 2014, the amended Renewable Energy Act entered into force on 1 August 2014. The aim is to promote the expansion of renewable energies while ensuring the affordability of the energy turnaround for people in Germany and businesses and limiting the burden on the entire system.

For the gas industry, the Ukraine crisis in particular meant increased political attention. As a result of the crisis, politicians again became much more aware of supply security. The need for regulation is being increasingly expressed.

In Germany, one of the responsibilities of the Federal Network Agency is to ensure compliance with the Energy Act (EnWG) including its accompanying ordinances. It thereby guarantees the liberalisation and deregulation of the energy market through non-discriminatory network access and efficient network usage fees.

In accordance with section 33 para. 1 of the German Incentive Regulation Ordinance (ARegV), the Federal Network Agency had the statutory mandate to submit a report containing an evaluation of the incentive regulation and proposals for its further development ("evaluation report"). This report was published on 21 January 2015. The aim, among others, was to analyse the effects of the current regulatory framework on the investment behaviour of the network operators, to develop possible improvements in the methods applied in the efficiency comparison process and, if necessary, to further develop the fundamental concept of incentive regulation. In the findings of the evaluation report, the Federal Network Agency concludes that the current regulatory framework contains no discernible investment obstacles and, at the same time, offers the network operators adequate economic conditions in which to operate. The Federal Network Agency's recommendation is therefore to maintain the current system of incentive regulation with its current core elements but to make amendments in order to eliminate certain shortcomings ascertained during the evaluation. It is currently impossible to estimate which concrete amendments to the statutory framework will follow from the evaluation report and what implications this will have for OGE.

In 2013 and 2014 rulings at the highest judicial level were made in favour of the network operators by the Federal Court of Justice in major, legally disputed questions of cost determination by the Federal Network Agency. These relate to the price indices stipulated by the Federal Network Agency for determining the current value of fixed assets as well as the calculation of the interest for the share of equity exceeding the maximum allowed equity quota of 40%. As a consequence of the court rulings, on 12 November 2014 OGE signed a settlement agreement with the Federal Network Agency, regulating the commercial effects of the aforementioned matters for the period up to and including 2012 for OGE. Thus a final positive clarification of these unsettled legal issues was achieved for OGE. The meanwhile amended rules of the German Incentive Regulation Ordinance (ARegV) and the German Gas Network Changes Ordinance (GasNEV) apply in this respect to the 2nd regulatory period starting from 2013.

The Federal Network Agency met the need to adjust the stipulations in its basic model for balancing services and rules on the German gas market of 28 May 2008 (GABi Gas) to the requirements of the EU Regulation No. 312/2014 with its final decision (GABi Gas 2.0) on 19 December 2014. There is a consequent need for gas transmission network operators to act in particular as a result of the requirements to provide intraday information. A further amendment which is positive for gas transmission network operators is the so-called intraday obligations which prevent extreme intraday time deviations of gas entries and exits. Further adjustments beyond the above are in the control energy procurement system. With the exception of the regulations on the intraday obligation and the provision of information (both from 1 October 2016), the decision is to be applied from 1 October 2015.

The Federal Network Agency has initiated a formal procedure for pricing entry and exit capacities. The amendment focuses on the fees for intra-year capacities, interruptible capacities as well as for capacity rights to gas storage facilities. In particular, according to the amendment, capacity contracts with shorter terms are to be priced significantly higher. By contrast, the fee for the use of capacity rights to gas storage facilities is to be reduced. In OGE's opinion, this amendment is only justified for the network-benefitting use of gas storage facilities. OGE already recognised at an early stage that the network-benefitting use of gas storage facilities offers optimisation potential and has taken action by introducing a temperature-dependent capacity product (TdC). So injection in the low-load summer months is promoted in order to ensure supply security in the winter months. Implementation for the OGE fees took place on 1 January 2015.

As part of the market area cooperation, the free-of-charge provision of load flows between upstream and downstream network operators (in terms of flow mechanics) to supply end customers has been agreed. However, in the Federal Network Agency's opinion the free-of-charge provision contradicts the principle of cost causality under section 15 paras 1 to 3 GasNEV, as the costs are not allocated on the fee side where they are incurred. On the contrary, the costs are borne by the end consumers in the respective network of the upstream (in terms of flow mechanics) network operator. The costs of the gas industry service provided are, in the Federal Network Agency's view, in future to be priced between the network operators. On this point, several models are currently under discussion, the Federal Network Agency tending in favour of a vertical passing-on of costs from the upstream (in terms of flow mechanics) to the relevant downstream network operator. The introduction of such a mechanism for passing on costs will, in OGE's opinion, have a stabilising effect on the gas transmission business and the fees.

Network development plans

The expansion of the network is particularly important for the turnaround in energy policy which has been decided by the Federal Government. Both European as well as national regulations oblige transmission system operators to draw up plans which contain a forecast of future network expansion requirements.

The Energy Industry Act specifies that natural gas transmission system operators shall jointly submit a ten-year network development plan every year, starting from 1 April 2012. Preparation of the network development plan is performed in close cooperation with all market participants affected in a public consultation process. All market participants are to be integrated into the preparation process of the Gas Network Development Plan by being provided with the opportunity to submit comments. In compliance with timetable requirements, the German transmission system operators published the draft network development plan 2014 for the national gas pipeline network (NEP Gas) on 1 April 2014 and submitted it to the Federal Network Agency. In this draft, gas flows in the German gas network are modelled for the next ten-year period in order to establish the expansion of and/or potential investments in the German transmission networks. The basis for this model is the scenario framework developed by Prognos AG on behalf of the transmission system operators, then revised as part of a public consultation process with market participants and subsequently amended accordingly.

On 17 November 2014, the Federal Network Agency published an amendment request in respect of the Network Development Plan Gas 2014 as submitted by the transmission system operators on 1 April 2014. With the exception of the advance details (provided for information purposes) on future projects for the change-over of the areas currently supplied with low-calorific gas (L gas) to high-calorific gas (H gas), the Federal Network Agency confirmed the measures proposed by OGE. The transmission system operators have to incorporate the requested changes by February 2015. The transmission system operators published the final Network Development Plan Gas 2014 on 28 January 2015. Parallel to this, the transmission system operators are required to have already drawn up and conducted consultations on the Network Development Plan 2015 by 1 April 2015. The overlapping of these two processes highlights the urgent need to extend the time given for preparing the annual plans. The legislator is requested to synchronise the timing, for example with the European Gas Network Development Plan, which is drawn up every two years.

In July 2014, the transmission system operators published the scenario framework for the Gas Network Development Plan 2015 and made it available for consultation. At the end of the submission period, all comments received were passed on to the Federal Network Agency pursuant to section 15a EnWG for the evaluation of the scenario framework. On 6 November 2014, the Federal Network Agency confirmed the scenario framework with amendments. As in the previous year's scenario framework, the primary focus of the gas network modelling was placed on various options for the future demand of downstream network operators.

In the 2013 financial year, ENTSOG published its European Network Development Plan for 2013 to 2022 for the EU-wide development of the gas grid. This plan has to be prepared every two years and is considered in the scenario framework for the Gas Network Development Plan 2015.

The overarching political goal of achieving the energy turnaround, 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 has in part to be obtained on the capital market in competition to alternative investments. This presupposes that politicians permanently ensure that investors provide the necessary capital to realise the energy turnaround. In addition to setting an appropriate return on equity – above all with a view to the 3rd regulatory period – this also presupposes adequate allowance for the business risk with regard to capacity utilisation risks and the service lives of the new energy infrastructure which are limited by the energy policy goals. The investments made to ensure supply security must also not be burdened with disproportionate efficiency requirements – either through a comparison of the network operators or a sectoral productivity gain set by politicians. The joint aim of all those involved should be to subordinate all investments to an overall economic optimum and thus to strengthen Germany as an industrial location in the longterm through the efficient, economic and ecologically suitable provision of energy.

Business review of 2014

The first months of the 2014 financial year were mainly influenced by an above-average mild winter and a consequent decline in gas sales. This led to much lower short-term capacity bookings than expected, particularly in the winter months.

Owing to this booking situation, OGE recorded a revenue shortfall of approx. 3% in 2014 compared with the approved revenue cap permitted in accordance with section 4 of the German Incentive Regulation Ordinance. This revenue shortfall is recognised in the regulator's account, bears interest and is balanced out through an adjustment of the calendar-year revenue cap for the following regulatory period.

Owing to the mild winter, the amount of energy required in 2014 was also well below the figure for the previous year and expectations. Transport operations ran to schedule without any unusual occurrences.

To increase supply security and enhance efficient network use, OGE continuously works on the introduction of new products. Agreement was reached with a gas storage operator in 2014 with regard to the future provision of temperature-dependent firm transport capacities. The agreement delivers an efficient and market-oriented solution and takes account of the variations in gas storage use over the seasons - both in the summer (injection) and in the winter (withdrawal).

The VGT Group continued to make extensive investments in new and existing plant in the 2014 financial year with respect to supply security. Furthermore, the Group strengthened the equity base of the proportionally consolidated pipeline companies Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG (MEGAL) and Trans Europa Naturgas Pipeline GmbH & Co. KG (TENP).

The Group's business was stable in the reporting period without any special influencing factors.

Technology and environmental protection

The reliability of the technical equipment, including compliance with all statutory requirements relating to environmental protection and occupational health and safety, is a major factor determining OGE’s operational activities. Occupational health and safety have top priority at OGE.

The Group performed various measures to modernise and expand its technical infrastructure in 2014. These include measures of the equity investments integrated in the OGE network, MEGAL, TENP, Mittelrheinische Erdgastransportleitungsgesellschaft mbH (METG) and Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG (NETG):

- TENP, a joint venture of OGE and Fluxys TENP GmbH, is conducting an ambitious project in its system to implement the requirements of the 13th Ordinance for the Implementation of the Federal Immission Control Act for a total of nine compressor units by 2015. The engineering services for this project are performed for TENP by OGE. Two compressor units (Stolberg ME1 and Schwarzach ME3) were successfully commissioned by OGE in 2014 and the commissioning of three further compressor units (Stolberg ME2, Hügelheim ME1 and Hügelheim ME2) is planned for 2015.
- At MEGAL, a joint venture of OGE and GRTgaz Deutschland, the ME5 compressor unit in Gernsheim and the ME3 compressor unit in Waidhaus were successfully commissioned in 2014. The engineering services for these projects were performed for MEGAL by OGE.
- At the OGE compressor station Werne, the ME4 compressor unit (L-gas compression) was provisionally taken over in 2014 and has been available for natural gas transport since then. In addition, the two network development plan projects in Werne (expansion and flow reversal) are running to schedule. The concept study was completed in mid-2014. Basic engineering has been in progress since August 2014. Initial preparatory measures have already been specified in detail and orders placed so work will start in the spring of 2015. At the OGE Waidhaus station, compressor unit 4 was successfully commissioned after completion of the BImschV project (BImschV = Ordinance for the Implementation of the Federal Immission Control Act).
- At the Porz compressor station of METG, the gas turbine drive of compressor unit 5 was replaced by a unit with lower emission levels. Commissioning took place at the beginning of 2014. Replacement of compressor unit 6 in Porz was completed to schedule and the unit was handed over to the station in the autumn.
- Planning continued on the construction of a catalytic exhaust gas cleaner on one compressor unit of the NETG Elten compressor station. Use of this technology is new in the European gas transport sector. Construction work will start in spring 2015.
- In a project headed by OGE, construction of a 350-metre tunnel with an outside diameter of 2.1 metres under the Weser near Bremen was completed in 2014 and the natural gas pipelines with a nominal width of DN 300 (operator OGE) and two with a nominal width of DN 400 (operator Gasunie Deutschland) were run through the tunnel. The link-ins to the existing pipeline systems and the commissioning of the new pipeline sections will probably take place in early 2015.

The external recertification audits were successfully passed in July and August 2014 and new 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) were issued for three years. The additional confirmation to DVGW G 1000 (Technical Safety Management) is still valid until October 2016.

Gas transmission compressor stations continue to be subject to the German Greenhouse Gas Emissions Trading Act (TEHG) and the related ordinances. With a view to the start of the new trading period, in the autumn of 2012 application was made in good time for emission rights in accordance with the Allocation Ordinance (ZuV 2020). The allocation notices arrived at the beginning of 2014 and were as expected. The certificates for 2013 were submitted via EU register in April 2014.

The VGT Group works continuously on developing procedures required for gas transportation, plant and pipeline construction and the safe operation of the transmission network. One of the focuses of this work remains the challenge connected with the energy turnaround of linking the gas and electricity grids. In this connection, OGE is actively supporting the conversion of surplus renewable electricity into methane (SNG) via the intermediate product hydrogen. A further focus is to clarify the question of how the OGE transmission system can be integrated into a demand-side management system by doubling the gas-driven compressor drives and pre-heaters with electric components. The load on the power grids could be reduced by alternative modes of operation either with electricity or gas as the source of energy.

Employees

At the end of 2014, the Group had 1,355 employees (excluding management and apprentices). Personnel costs during the financial year amounted to € 148.7 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) und Rhineland Palatinate (Mittelbrunn)

As in previous years, efficiency enhancement measures were again implemented in 2014, including the continuation of existing early-retirement programmes as well as the further optimisation of the company's organisational structure.

In the fields of occupational health and safety, 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 as well as to constantly improve work ergonomics and occupational health. As a result of these efforts, the number of work accidents as well as the number of working days lost due to work-related accidents were significantly reduced throughout the Group in the 2014 financial year.

Investments

The Group invested a total of € 210.2 million during the 2014 financial year (previous year: € 199.4 million). € 145.6 million was invested in property, plant and equipment (previous year: € 195.9 million). OGE invested a total of € 29.4 million in the expansion and modernisation of compressor stations. Of this figure, the improvement in redundancy in Werne and Krummhörn accounted for € 9.7 million and the construction of a new compressor unit in Werne for another € 3.4 million. A total of € 32.9 million was invested in the expansion and modernisation of pipelines, including the rehabilitation of the Hanover pipeline in Seelze at a cost of € 2.6 million. Other investments accounted for € 52.3 million. Major individual measures in this field relate to reinvestments in PCM systems (cable-based transmission networks) and CCM systems (switching and control elements for data transmission between network nodes) of € 6.5 million, in telecontrol technology (€ 2.2 million) as well as investments in measurement and control systems (€ 9.7 million).

Financial investments amounted to € 47.7 million and were largely due to equity injections at the pipeline companies MEGAL (€ 35.3 million) and TENP (€ 12.2 million). The remaining financial investments relate exclusively to loans.

In the 2014 financial year, investments at MEGAL amounted to € 48.9 million and those at TENP to € 19.6 million, each before pro-rata consolidation in the Group. Significant projects at MEGAL were in particular the replacement of several compressor units in Waidhaus (totalling € 20.1 million) and the construction of the new compressor unit 5 in Gernsheim to realise the MEGAL-MIDAL network connection (totalling € 6.8 million). At TENP, the main investment was the replacement of compressor unit 3 in Schwarzach (€ 11.2 million). In 2014, METG invested a total of € 13.5 million. One major project at METG was the reinvestment of compressor units 5 and 6 in Porz (€ 9.5 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 unity for corporate and trade tax purposes, with VGT as the controlling company and OGE as the controlled company. OGE and VGT 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 shows an income tax expense that OGE would have incurred without having formed a single fiscal unit with VGT.

By way of deviation from the existing profit-and-loss transfer agreement and in view of considerable future pending investments, the shareholders of OGE resolved, after thorough examination, to transfer OGE's net income reported under commercial law for the year (€ 260.0 million) to revenue reserves.

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.

Of this credit line, € 1.5 million is reserved for guarantees. As of 31 December 2014, neither the syndicated credit line nor the guarantee line had been used and therefore the full amount is freely available.

The investments at the project companies TENP and MEGAL are largely financed with external borrowings. The liabilities to banks amounted to € 462.1 million as of 31 December 2014 before pro-rata consolidation. Liabilities to banks were significantly reduced by € 150.8 million compared to the previous year's level (previous year: € 612.9 million). In 2014, all expiring loans were successfully refinanced with attractive conditions.

In order to cover its obligations under pension entitlements, OGE and METG use a Contractual Trust Agreement (CTA). The trust fund set up in this connection is managed on a fiduciary basis by Helaba

Pension Trust e.V. (Helaba), Frankfurt am Main. In December 2014, € 18.1 million was added to the plan assets for pension obligations and € 0.5 million for long-term working-time account obligations. Furthermore, the equivalent of the remuneration payments of € 5.0 million made in 2014 for performance arrears in connection with part-time phased-retirement programmes was taken from the trust assets.

Disclosures in accordance with section 315 para. 2 No. 2 HGB

As of 31 December 2014, interest rate risks due to market interest rate fluctuations of the Euribor from floating-rate loans at TENP totalling € 145 million (principal amount) and at MEGAL totalling € 205 million (principal amount) are hedged by swap agreements for separate valuation units as defined by section 254 HGB. The interest swaps are micro-hedges, whose prospective effectiveness is ensured by matching maturities and volumes. The net hedge presentation method (Einfrierungsmethode) is used in the measurement of financial instruments.

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 reporting, which is used for (Group) management purposes. Key metrics applied in this context are transport sales, EBITDA (earnings before financial result, tax, depreciation and amortisation – but including income from equity investments) and debt-to-equity ratio.

Net assets, financial position and results of operations

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

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

Overall, the VGT Group recorded a slight decrease in sales of 1.6% to € 1,017.2 million (previous year: € 1,033.4 million). Therefore, sales are also slightly below the development forecast in the previous year. Total sales comprise sales from the gas transport business and the services business. Sales from the gas transport business as well as transport-related services amounted to € 893.5 million in the 2014 financial year (previous year: € 908.5 million). The slight decrease is particularly due to a slight fall in capacity bookings. The revenue shortfall of OGE expected due to the fall in sales totals some € 24 million (3%) for the 2014 financial year and, in accordance with the ruling Incentive Regulation Ordinance requirements, is recognised in the regulator's account, bears interest and is balanced out through an adjustment of the calendar-year revenue cap for the following regulatory period. Sales from the services business amounted to € 123.8 million in the 2014 financial year and were therefore on a par with the 2013 level (previous year: € 124.9 million). The Management had expected a slight decrease in the services business.

The increase of € 30.9 million in other operating income and the increase of € 7.2 million in own work capitalised contributed to a rise in total revenue compared with the previous year. The decrease of € 1.9 million in inventories compared with the previous year had an opposite effect. The increase in other operating income is due in particular to effects from purchase price adjustments at VGT level connected with the acquisition of the OGE equity investment in 2012.

Cost of materials rose year-on-year by some € 24.3 million, which was due in particular to higher biogas levies. Personnel costs rose slightly in 2014 by € 1.0 million compared with the figure for 2013.

The Group's profit on ordinary activities increased year-on-year by € 73.6 million to € 292.9 million, largely as a result of the above facts. The Group's net income amounted to € 225.2 million (previous year: € 86.5 million), showing the increase forecast in 2013. At 28.8% (previous year: 21.2%), the return on sales remained at a high level.

At € 506.1 million, earnings before interest, tax, depreciation and amortisation (EBITDA) were slightly above the figure for the previous year (€ 484.5 million) and the forecast due to the aforementioned developments.

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

€ million	**2014**	**2013**
Earnings before financial result and tax	**353.8**	**339.7**
Income from equity investments	5.9	6.5
Depreciation and amortisation	146.4	138.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**506.1**	**484.5**

The Group's financial result contained an interest expense of € 69.3 million (previous year: € 123.4 million), which mainly reflects the cash interest payments under the VGT bonds as well as the pro-rata interest expense of the companies MEGAL and TENP. By contrast, interest income amounted to € 2.4 million (for an exact breakdown see the Notes to the consolidated financial statements). The substantial improvement in the financial result is in line with the forecast made in 2013.

Income taxes for the Group totalled € 67.7 million (previous year: € 132.8 million). Of this figure, € 12.1 million related to deferred taxes (previous year: € 120.1 million).

As of 31 December 2014, the Group's total assets amounted to € 4,321.3 million, resulting in a debt-to-equity ratio of 81.5% (previous year: 82.8%, detailed breakdown in the Notes to the consolidated financial statements). Of the external funds, 7.8% relate to provisions, 77.7% to liabilities and 14.5% to deferred tax liabilities. Financial liabilities contained within liabilities amount to € 2,533.5 million (previous year: € 2,603.2 million). The majority of these liabilities (€ 2,237.8 million) (previous year: € 2,236.3 million) related to bonds issued by VGT. Furthermore, miscellaneous financial liabilities resulted primarily from liabilities to banks of the pipeline companies MEGAL, TENP und NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG (NETRA), Schneiderkrug. Cash and cash equivalents amounted to € 248.4 million as of 31 December 2014, falling by € 45.0 million year on year. Of the Group's total assets, fixed assets accounted for € 3,824.6 million (previous year: € 3,815.7 million) as of the reporting date.

In the 2014 financial year, the Group generated cash flow from operating activities of € 428.7 million (previous year: € 476.7 million). Cash outflows for investments in intangible and tangable assets in 2014 totalled € -172.6 million (previous year: € -193.9 million). In 2014, all investments were again funded from current year profits.

Cash used for financing activities amounted to € -274.3 million (previous year: € -317.7 million) and mainly covered the profit of € -140.3 million (previous year: € -320.9 million) distributed to the parent company, VGS, 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 and TENP.

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 balance-sheet date.

Report on opportunities and risks

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

As part of risk controlling, the opportunity and risk situation of OGE, as the main company in the Group, as well as its equity investments is assessed and documented every quarter in the form of a standardised process. As part of this process, the Management and the Supervisory Board are regularly informed. The aim of the process is to recognise main opportunities and risks at an early stage and – wherever possible and necessary – take action to exploit opportunities or mitigate risks.

With effect from 1 January 2014, a new binding Opportunity and Risk Policy entered into effect for OGE and its subsidiaries, replacing the previous procedural instructions. In the main, this policy regulates the process, those responsible and the terms and definitions. Risk reporting is integrated in the internal control system, thus ensuring continuous identification and assessment of the main opportunities and risks. Potential opportunities and risks are assessed with regard to the amount of damage and the likelihood of occurrence. Risks from a net loss of € 10.0 million over a period of 5 years are generally reportable. Basically significant risks are considered starting at € 100.0 million during the period. These are the risks resulting from the regulatory environment, from the IT, from the fault-free operation of the transport business as well as the temporary risk of reduced revenues due to the termination of capacity bookings.

The risk situation of OGE as of 31 December 2014 is largely governed by the regulatory environment. As a regulated company, OGE's earnings situation and prospects are directly dependent upon decisions made by the regulatory authorities. Important parameters of the regulated sales are the approval of the cost base, return on equity as well as general sectoral and company-specific efficiency targets. The decisions of the authorities in this respect directly affect the company's sales as well as its earnings and liquidity situation.

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

In addition, OGE also uses complex information technology (IT) to operate and control the pipeline network. As a consequence, As a consequence, there is fundamentally a very low risk of the failure of parts of the IT systems leading to temporary impairments to business activities. OGE safeguards against this risk with redundant systems and further quality assurance methods. The probability of occurrence in this case is considered less than 1% due to the extensive validation. The amount of damage is stated up to € 80.0 million based on a fiscal year.

Due to the regulator's account system, terminations of long-term capacity bookings only lead to temporary declines in sales. Resulting revenue shortfalls in comparison to the approved revenue cap are recognised in the so-called regulator's account, bear interest and are balanced out through an adjustment of the calendar-year revenue cap for the following regulatory period. There is therefore no sustained risk from fluctuations in demand. In the short term, fluctuations in demand may lead to an increase or decrease in sales and therefore impact the net assets, financial position and results of operations. Any short-term strains on liquidity can be balanced out by the syndicated credit line.

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 shareholder. 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.

Besides the refinancing risk of expiring debt financing 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 Group regularly analyses its interest rate exposure. The effects of interest rate changes on profit and loss are determined on the basis of these analyses, taking existing interest-rate hedges into account.

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, 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 vast majority of its sales with a small number of key accounts.

Key accounts are internally 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 flexibility at all times. Such forecasts take into account the Group financing plans, compliance with loan agreements, the meeting of internal target balance sheet figures as well as, where applicable, external statutory or official requirements.

In summary, on this basis the Management recognises no risks threatening the existence of the Group as of the closing date and for the forecast period and considers that the Group is fully able to bear the risks it is exposed to.

Significant environmental risks are also not known.

The main opportunities for OGE are through additional increases in efficiency compared with the approved revenue cap. However, due to the regulatory framework these are only temporary. In principle, further opportunities and risks for OGE are possible, as the regulatory framework may change.

From the Management's point of view, the significant opportunities and risks with the highest probability of occurrence come from the regulatory environment. In this context, the probability of occurrence is between 10% and 15%.

Major legal disputes

A storage operator had filed capacity expansion claims for a gas storage facility with OGE pursuant to sections 38 and 39 of the German Gas Network Access Ordinance (GasNZV). OGE was of the opinion that the preconditions for the claims did not exist and therefore rejected these claims. Subsequently, the storage operator had instituted proceedings for abuse against OGE with the Federal Network Agency. OGE filed an appeal with the Düsseldorf Higher Regional Court against the decision of the authorities on capacity expansion. Before a decision was made in this court case, a settlement was reached with the storage operator which finally settled the matter.

Owing to a dispute in connection with the Cooperation Agreement Gas, 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. The proceedings are currently still in the arbitration court constitution phase.

Events after the balance-sheet date

No events of particular importance occurred after the balance-sheet date.

Forecast report

According to the German Council of Economic Experts' forecast on the overall economic situation, the German economy is expected to show rather moderate growth in 2015. Gross domestic product (GDP) is forecast to grow by an average of 1% in 2015.

The future earnings situation of the VGT Group will be largely determined by the development of OGE's business.

With effect from 1 January 2015, OGE changed the transport fees over to the so-called "stamp fee". In future, there will only be one fee for entry into the OGE transmission system and one fee for exit. The only exception will be at storage points with temperature-dependent firm transport capacities (TDC) where the relevant fee will be reduced by 50%. The change-over of the fee system will not affect total sales.

Nevertheless, the network fees will, on average, be lower in 2015 than in 2014. The fee reduction is largely due to the mechanisms of the regulator's account, as stipulated in the Incentive Regulation Ordinance, pursuant to which excess and shortfall income from previous years leads to an adjustment of the fees in subsequent years. In this specific case, excess income generated in 2013 has led to a slight reduction in the fees in 2015.

Due to the fee reduction, the Management is expecting transport sales in 2015 to be slightly below the figure for the reporting year.

In 2015, sales of the services business are expected to be slightly below the level of the reporting year.

Furthermore, the 2014 financial year benefited from positive one-time effects within other operating income as well as within operating costs. Such effects are not expected in 2015.

Owing to the aforementioned effects, the Management anticipates that EBITDA for 2015 will be significantly lower than in 2014. The Management is expecting a similar development for net income in 2015.

Investments in property, plant and equipment are expected to be slightly higher than in the reporting year. Furthermore, the Management is anticipating the debt-to-equity ratio in 2015 to be roughly at the level of the 2014 financial year.

Overall, the Management believes that the Group's liquidity situation will be stable and sound.

In the field of occupational safety, the Management's aim is to achieve a further reduction in the figures of workplace accidents in the longterm. In order to achieve this, appropriate measures have been either put in place or continued, also in cooperation with partner companies.

viergas

Vier Gas Transport GmbH

Consolidated Financial Statements

1 January to 31 December 2014

Contents

Consolidated Balance Sheet

€ million	Note	31 Dec. 2014	31 Dec. 2013
Assets			
Non-current assets			
Intangible assets	4.3	92.3	107.1
Goodwill	4.2	830.4	830.4
Property, plant and equipment	4.4	2,800.4	2,769.8
Financial assets	4.5	101.5	108.4
Companies accounted for at equity		*59.1*	*65.8*
Other financial assets		*42.4*	*42.6*
Deferred tax assets	4.11	30.4	16.0
Non-current receivables	4.6	88.1	38.6
Total		**3,943.1**	**3,870.3**
Current assets			
Inventories	4.7	34.3	35.2
Trade receivables (including advance payments made)	4.8	30.5	46.7
Income tax receivables	4.8	6.8	4.2
Other receivables	4.8	58.2	95.7
Cash and cash equivalents	4.9	248.4	293.4
Total		**378.2**	**475.2**
Total assets		**4,321.3**	**4,345.5**

€ million	Note	31 Dec. 2014	31 Dec. 2013
Equity and liabilities			
Equity			
Subscribed capital	4.10	.	.
Additional paid-in capital	4.10	1,075.6	1,075.6
Retained earnings	4.10	-176.4	-304.9
Accumulated other comprehensive income	4.10	-2.0	1.3
Total		**897.2**	**772.0**
Non-current liabilities			
Provisions for pensions and similar obligations	4.12	137.2	40.4
Other provisions	4.13	95.2	94.3
Financial liabilities	4.14	2,418.9	2,414.8
Other non-current liabilities	4.14	20.7	10.0
Deferred tax liabilities	4.11	495.2	502.3
Total		**3,167.2**	**3,061.8**
Current liabilities			
Other provisions	4.13	36.2	38.1
Financial liabilities	4.14	114.6	188.4
Trade payables	4.14	10.5	55.0
Income tax liabilities	4.14	5.8	36.3
Other liabilities	4.14	89.8	193.9
Total		**256.9**	**511.7**
Total equity and liabilities		**4,321.3**	**4,345.5**

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

The notes on pages 1 to 69 are an integral part of these consolidated financial statements.

Consolidated Income Statement

€ million	Note	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Sales	5.1	1017.3	1,033.4
Changes in inventories		-1.9	-3.8
Own work capitalised	5.2	21.5	14.3
Cost of materials	5.4	-379.2	-354.8
Personnel costs	5.5	-148.7	-147.7
Depreciation and amortisation	5.7	-146.4	-138.3
Other operating income	5.3	56.0	25.1
Other operating expenses	5.6	-64.8	-88.5
Income before financial result and taxes		**353.8**	**339.7**
Income from equity investments		-0.4	2.0
Income from companies accounted for at equity		6.4	4.5
Interest result		-66.9	-117.5
of which interest expense		*-69.2*	*-123.5*
Impairment on financial assets		0.0	-9.4
Financial result	**5.8**	**-60.9**	**-120.4**
Profit before tax		**292.9**	**219.3**
Income taxes		-1.0	-7.7
Deferred taxes		-12.1	-120.1
Income tax allocation		-54.6	-5.0
Income taxes	**5.9**	**-67.7**	**-132.8**
Net income		**225.2**	**86.5**
Share in net income attributable to the sole shareholder of the parent company		225.2	86.5

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

The notes on pages 1 to 69 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

€ million	Note	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Net income		**225.2**	**86.5**
Other comprehensive income		**-75.9**	**35.0**
Reclassifiable OCI		-3.3	18.3
Cash flow hedges	*4.10*	*-4.3*	*26.4*
Deferred taxes	*4.10*	*1.0*	*-8.1*
Not reclassifiable OCI		-72.6	16.7
Remeasurement of defined benefit plans	*4.10*	*-105.1*	*24.3*
Deferred taxes	*4.10*	*32.5*	*-7.6*
Comprehensive income		**149.3**	**121.5**
Share in net income attributable to the sole shareholder of the parent company		149.3	121.5

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

The notes on pages 1 to 69 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

€ million	Subscribed capital*	Additional paid-in capital	Retained earnings	Change in accumulated other comprehensive income: Cash flow hedges	Total
1 Jan. 2014	**.**	**1,075.6**	**-304.9**	**1.3**	**772.0**
Comprehensive income			**152.6**	**-3.3**	**149.3**
Net income			225.2		225.2
Other comprehensive Income			-72.6	-3.3	-75.9
Remeasurement of defined benefit plans			*-72.6*		*-72.6*
Change in accumulated other comprehensive income				*-3.3*	*-3.3*
Advance profit transfer			**-20.0**		**-20.0**
Profit transferred			**-4.1**		**-4.1**
31 Dec. 2014	**.**	**1,075.6**	**-176.4**	**-2.0**	**897.2**

*The subscribed 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 69 are an integral part of these consolidated financial statements.

€ million	Subscribed capital*	Additional paid-in capital	Retained earnings	Change in accumulated other comprehensive income	Total
				Cash flow hedges	
1 Jan. 2013	**.**	**1,075.6**	**33.1**	**-17.0**	**1,091.7**
Comprehensive income			**103.2**	**18.3**	**121.5**
Net income			86.5		86.5
Other comprehensive Income			16.7	18.3	35.0
Remeasurement of defined benefit plans			*16.7*		*16.7*
Change in accumulated other comprehensive income				*18.3*	*18.3*
Profit distributed			**-164.9**		**-164.9**
Profit transferred			**-276.3**		**-276.3**
31 Dec. 2013	**.**	**1,075.6**	**-304.9**	**1.3**	**772.0**

*The subscribed 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 69 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

€ million	1 Jan. - 31 Dec. 2014	1 Jan. - 31 Dec. 2013
Cash provided by operating activities	**428.7**	**476.7**
Net income	225.2	86.5
Depreciation and amortisation	146.4	147.7
Changes in provisions	4.8	0.1
Changes in deferred taxes	12.1	120.1
Dividend received[1]	19.4	9.5
Payments into plan assets	-13.6	-6.5
Interest received	1.1	2.3
Other non-cash income and expenses	70.9	122.5
Changes in operating assets, liabilities and income tax	-37.7	-4.2
Inventories	*0.9*	*12.9*
Trade receivables	*8.1*	*8.1*
Other operating receivables and tax claims	*-0.2*	*-30.7*
Trade payables	*-31.5*	*7.9*
Other operating liabilities and tax	*-15.0*	*-2.4*
Gain from disposal of assets	0.1	-1.3
Intangible assets and property, plant and equipment	*0.1*	*-1.3*
Cash used for investing activities	**-199.4**	**-191.7**
Proceeds from the disposal of intangible assets and property, plant and equipment	8.4	2.0
Purchases of investments in intangible assets and property, plant and equipment	-172.6	-193.9
Proceeds from the disposal of other equity investments	0.1	0.0
Purchases of / Proceeds from the disposal of other financial investments	-35.3	0.2
Proceeds from the disposal of other financial investments	*12.6*	*5.9*
Purchases of other financial investments	*-47.9*	*-5.7*
Cash used for financing activities	**-274.3**	**-317.7**
Interest paid	-69.3	-28.6
Proceeds from issuing bonds	0.0	2,235.6
Proceeds from other financial liabilities	72.5	123.1
Repayments of syndicated loans	0.0	-2,215.8
Repayments of other financial liabilities	-133.6	-107.5
Dividends paid[2]	-143.9	-324.5
Changes in cash and cash equivalents	**-45.0**	**-32.7**
Cash and cash equivalents at beginning of period	**293.4**	**326.1**
Cash and cash equivalents at end of period	**248.4**	**293.4**

[1)] Including in 2014 dividends received from non-consolidated equity investments as well as the distribution from outside shareholders resulting from joint operations amounting to € 1 9 million.
[2] In addition to the profit transfer of € 120 3 million for the 2013 financial year to VGS, this item includes in 2014 the advance profit of € 20 million as well as distributions of € 3.7 million to outside shareholders resulting from joint operations.

Additional information on cash provided by operating activities

€ million	1 Jan. - 31 Dec. 2014	1 Jan. - 31 Dec. 2013
Income tax paid (minus refund)	-7.4	-34.7
Non-cash income and expenses from equity adjustment	6.8	6.3

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

The notes on pages 1 to 69 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 2014 to 31 December 2014

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 financial statements and a management report. VGS is invoking this exemption. It is a publicly traded corporation within the meaning of Section 264d HGB. As the publicly traded 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.

During the short financial year of 2012, the Group acquired Open Grid Europe GmbH ("OGE"), Essen, including its equity investments ("OGE Group") with effect from 23 July 2012. Open Grid Europe performs the activities of a gas transmission network operator.

On 13 March 2015, these consolidated financial statements were approved by the Management for publication.

2 Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

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, the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), the interpretations of the International Accounting Standards Boards (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 (€ million).

2.2 Reporting standards applied

All accounting standards and interpretations for which application was mandatory from the 2014 financial year have been taken into consideration.

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

The standards IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosures of Interests in Other Entities), IAS 27 (Separate Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) as well as the transition guidance to IFRS 10, IFRS 11 and IFRS 12, were already adopted early in the short financial year of 2012. The change to IAS 36 (Impairment of Assets) was adopted early on a voluntary basis in the 2013 financial year. The change concerns clarifications and corrections of unwanted changes in relation to disclosure requirements for the recoverable amount in accordance with IFRS 13.

IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities"

In December 2011, the IASB published (alongside amendments to IFRS 7) an amendment to the application guidance in IAS 32. The amendment relates to a clarification of the rules for offsetting financial assets and financial liabilities. The date of initial application is financial years beginning on or after 1 January 2014. The amendment has been adopted by the EU into European law. There are no effects on the consolidated financial statements of VGT.

IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"

In June 2013, the IASB published amendments to IAS 39. They relate to OTC derivatives that were designated as hedging instruments and as a result of legislation or regulation are transferred from one counterparty to a central counterparty. The adjustments to the standard allow the continuation of hedge accounting. The new regulations are mandatory and applicable retrospectively to financial years beginning on or after 1 January 2014. Additional not disclosures are not necessary in this context. The amendments have been adopted by the EU into European law. There are no effects on the consolidated financial statements of VGT.

IFRS 10, IFRS 12 and IAS 27 "Investment Entities"

In October 2012, the IASB published amendments to IFRS 10, IFRS 12 and IAS 27. According to these amendments, investment entities which are parent companies are not to fully consolidate their investments in subsidiaries in accordance with IFRS 10 but to measure these investments at fair value through profit or loss in accordance with IFRS 9 or IAS 39. In this connection, there are new disclosure requirements under IFRS 12 (Disclosure of Interests in Other Entities) and IAS 27 (Separate Financial Statements). The amendments have been adopted by the EU into European law. The new regulations are to be applied for financial years beginning on or after 1 January 2014. There are no effects on the consolidated financial statements of VGT.

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

Standard / Interpretation		Published by IASB	Adoption by EU	Effective date	Probable effects
New Standards/Interpretations					
IFRS 9	Financial Instruments: Classification and measurement	24 Jul. 2014	No	1 Jan. 2018 (IASB)	Possible effects on the Group are being examined
IFRS 14	Regulatory Deferral Accounts	30 Jan. 2014	No	1 Jan. 2016 (IASB)	No effects on the Group are expected
IFRS 15	Revenue from Contracts with Customers	28 May 2014	No	1 Jan. 2017 (IASB)	Possible effects on the Group are being examined
Amendments to Standards/Interpretations					
IAS 1	Disclosure Initiative (Amendments to IAS 1)	18 Dec. 2014	No	1 Jan. 2016 (IASB)	Possible effects on the Group are being examined
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	12 May 2014	No	1 Jan. 2016 (IASB)	No effects on the Group are expected
IAS 16 and IAS 41	Bearer Plants	30 Jun. 2014	No	1 Jan. 2016 (IASB)	No effects on the Group are expected
IAS 19	Employee Contributions to Defined Benefit Plans	21 Nov. 2013	Yes	1 Feb. 2015	No material effects on the Group are expected
IAS 27	Equity Method in Separate Financial Statements	12 Aug. 2014	No	1 Jan. 2016 (IASB)	No effects on the Group are expected

IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11 Sep. 2014	No	1 Jan. 2016 (IASB)[3]	Possible effects on the Group are being examined
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	18 Dec. 2014	No	1 Jan. 2016 (IASB)	No effects on the Group are expected
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	6 May 2014	No	1 Jan. 2016 (IASB)	No effects on the Group are expected
IFRIC 21	Levies	20 May 2013	Yes	17 Jun. 2014	No material effects on the Group are expected
Miscellaneous	Improvements to International Financial Reporting Standards, 2010-2012 cycle [4]	12 Dec. 2013	Yes	1 Feb. 2015 (IASB)	No material effects on the Group are expected
Miscellaneous	Improvements to International Financial Reporting Standards, 2011-2013 cycle[5]	12 Dec. 2013	Yes	1 Jan. 2015 (IASB)	No material effects on the Group are expected
Miscellaneous	Improvements to International Financial Reporting Standards, 2012-2014 cycle[6]	25 Sep. 2014	No	1 Jan. 2016 (IASB)	No material effects on the Group are expected

[3] First-time application date has been postponed indefinitely.

[4] Changes to a large number of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24).

[5] Changes to a large number of IFRS (IFRS 1, IFRS 3, IFRS 13, IAS 40).

[6] Changes to a large number of IFRS (IFRS 5, IFRS 7, IAS 19, IAS 34).

2.3 Consolidation policies

(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.

Acquired subsidiaries are accounted for by applying the acquisition method. The acquisition costs of the acquiree are considered to be the fair value of the assets given, the equity instruments issued and the liabilities incurred and/or assumed at the transaction date. Furthermore, they include the fair values of all assets or liabilities recognised which arise out of a contingent consideration agreement. Assets, liabilities and contingent liabilities identifiable as part of a business combination are measured on initial consolidation at their fair value at the acquisition date. For each company acquisition, the Group decides on a case-by-case basis whether the non-controlling shares in the acquiree are recognised at their fair value or by means of the pro-rata interest in the net assets of the acquiree.

Acquisition-related costs incurred are recognised directly as expense.

Goodwill is measured as the excess of the sum of the cost of acquisition, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest at the acquisition date over the fair value of the net assets.

If the fair value of the net assets of the acquired subsidiary exceeds the cost of acquisition, after a second appraisal of the measurement the difference is recognised directly in the income statement under the item “other operating income”.

All material transactions, balances and unrealised gains from transactions between companies included in the consolidated financial statements of VGT are eliminated.

In accordance with IFRS 10, the financial statements of the domestic subsidiaries included in the consolidation are prepared using uniform accounting and measurement methods. Accordingly, accounting and measurement methods of subsidiaries were adjusted as necessary.

(b) Joint arrangements

Joint arrangements are accounted for in accordance with the requirements of IFRS 11. 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 in the investment owing to the immaterial differences to inclusion on the basis of percentage of use, 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 these companies and other affiliated companies that are included in the consolidated financial statements of VGT are proportionately eliminated.

In accordance with the requirements of IFRS 11, joint ventures are accounted for using the equity method. Gains or losses from the sale of the Group's own assets to joint ventures are recognised in the amount of the proportion of the gain or loss attributable to the interests of the other joint venturers. However, the full amount of any loss on such transactions is recognised immediately if the loss provides reliable evidence of a reduction in the net realisable value of assets to be sold or an impairment loss.

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

(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 at equity. Interests in associates accounted for accounted for at equity 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. Losses that might potentially exceed the Group’s interest in an associate when attributable long-term loans granted are taken into consideration are not recognised. Any goodwill resulting from the acquisition of an associate is included in the carrying amount of the associate.

Unrealised gains and losses arising from transactions with associates accounted for at equity are eliminated in the consolidation process on a pro-rata basis if and insofar as they are material.

Companies accounted for at equity are tested for impairment by comparing the carrying amount with the recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount is adjusted for this difference (impairment). If the reasons for previously recognised impairment losses no longer exist, such impairment losses are reversed accordingly.

The financial statements of the equity investment accounted for at equity are generally prepared using accounting that is uniform within the Group.

2.4 Scope of consolidation

As of the reporting date, 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 as of the reporting date.

As of the reporting date, three domestic joint operations 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.

Seven domestic joint arrangements 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.

As of the reporting date, six associates were identified. Five of them are also 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 at equity is GasLINE GmbH & Co. KG ("GasLINE KG"), Straelen, whose business is the construction, acquisition, rental, maintenance and grant of use particularly of fibre-optic cables and cable ducts for telecommunications purposes. OGE and GasLINE KG provide services for each other.

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

There are regulatory restrictions on the transfer of assets between the companies within the Group. They relate to the following assets of the affiliates OGE and METG within the consolidated balance sheet:

in € million	31 Dec. 2014	31 Dec. 2013
Assets		
Non-current assets		
Intangible assets	81.8	91.3
Property, plant and equipment	2,125.2	2,104.5
Deferred tax assets	16.2	6.3
Non-current receivables	0.3	1.2
Total	**2,223.5**	**2,203.3**
Current assets		
Inventories	15.4	12.4
Trade receivables (incl. advance payments made)	21.3	28.3
Income tax receivables	3.6	1.2
Other receivables	2.1	20.2
Cash and cash equivalents	50.0	120.1
Total	**92.4**	**182.2**
Total assets	**2,315.9**	**2,385.5**

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

2.5 Segment reporting

Reporting on the business segment is performed in the same manner as internal reporting to the main decision-maker. The main decision-maker is responsible for decisions on the allocation of resources and for reviewing profitability. The management of OGE has been determined to be the main decision-maker.

2.6 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 in 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.

2.7 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.

As part of the purchase price allocation (PPA), assets and liabilities were recognised at their fair value. The fair values of the non-current assets were derived from the present value of the estimated future cash flows taking the regulatory framework into consideration. Estimates of future potential benefits and useful lives were also made.

Subsequent costs are only recognised as part of the acquisition or production cost of the asset, or - if relevant - recognised as a separate asset if it is probable that the Group will receive a future economic benefit and the cost can be determined reliably. Repair and maintenance costs that do not constitute significant replacement capital expenditure (day-to-day servicing) are expensed as incurred.

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that an asset may be impaired. In such a case, property, plant and equipment are tested for impairment under IAS 36 according to the principles described for intangible assets. If an impairment loss is determined, the remaining useful life of the asset may also be subject to adjustment, where applicable. If the reasons for previously recognised impairment losses no longer exist, such impairment losses are reversed and recognised in income. Such reversal shall not cause the carrying amount to exceed the amount that would have resulted had no impairment taken place during the preceding periods.

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.

2.8 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.

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. Unlike 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 2014, 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%; 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 3.4% (previous year: 4.0%).

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

Intangible assets not subject to amortisation are measured at cost of acquisition or production and tested for impairment annually or more frequently if events or changes in circumstances indicate that such assets may be impaired. Moreover, such assets are reviewed annually to determine whether an assessment of indefinite useful life remains applicable.

In accordance with IAS 36, the carrying amount of an intangible asset, whether subject to amortisation or not, 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. A reversal shall not cause the carrying amount of an intangible asset subject to amortisation to exceed the amount that would have been determined, net of amortisation, had no impairment loss been recognised during the period.

Under IFRS, emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Since emission rights are not depleted as part of the production process, they are reported as intangible assets not subject to amortisation.

Emission rights are capitalised at cost when issued for the respective reporting period as (partial) fulfilment of the notice of allocation from the national authorities responsible, or upon acquisition.

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

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

2.10 Research and development costs

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

2.11 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 attributable 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 held 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 a financial liability, 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 debt instrument 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.

In 2014, in the VGT Group there was no objective evidence of impairment of financial assets or financial liabilities.

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.

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.

Changes in 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 income.

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, the Group uses the percentage-of-completion method (PoC) to determine the contract revenue to be recognised in a particular financial year. 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. 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 2.6% was applied for 2014 (previous year: 2.3%). 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 balance-sheet 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 accounting profit/loss nor taxable profit/loss (so-called initial differences). IAS 12 further requires that deferred tax assets be recognised for unused tax loss carry forwards 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 deductible temporary differences and unused tax losses 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 changes in tax rates and tax law is generally recognised in income. Equity is adjusted for deferred taxes that had previously been recognised directly in equity. The adjustment is generally made in the period in which the legislation mandating the change is substantively enacted.

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

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

2.17 Employee benefits

(a) Pension obligations

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

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

In accordance with IAS 19, “Employee Benefits”, the provisions for defined benefit obligations are determined on the basis of actuarial computations using the projected unit credit method, with actuarial valuations performed at year-end. The valuation encompasses both pension obligations and pension entitlements that are known on the balance-sheet date, as well as economic trend assumptions made in order to reflect realistic expectations.

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.

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. 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 Group has applied IAS 19 (rev. 2011) since the short financial year 2012. According to this standard, the expected return on plan assets is to be 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.

As part of the PPA, contingent liabilities were identified for the removal of decommissioned pipelines as well as the back-filling of pipeline trenches. The obligations were measured at their fair value on the date of acquisition (31 July 2012) and have been adjusted for changes in accordance with IFRS 3.56.

2.19 Recognition of income

The Company recognises sales revenue 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.

Sales revenues are shown net of sales taxes, returns, rebates and discounts, and after elimination of intragroup sales.

Interest income is recognised pro rata using the effective interest method. Dividend income is recognised when the right to receive the distribution 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 in conjunction with IFRIC 4.

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 the service provider, OGE, and by the Investment Controlling department of the shareholder. 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 risks

(i) Foreign currency risks

Foreign currency risks 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.

(ii) Interest rate risks

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 Group regularly analyses its interest rate exposure. The effects of interest rate changes on profit and loss are determined on the basis of these analyses.

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 risks

Credit risks are managed at Group level. Credit risks result 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 sales 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 sales 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 € 62.1 million (previous year: € 30.5 million). The financial receivables are also neither impaired nor past due. They totalled € 3.6 million in the reporting period (previous year: € 15.7 million). The age structure analysis of trade receivables is to be found in section 4.8.

(c) Liquidity risks

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:

in € million	Cash outflows 2015	Cash outflows 2016-2019	Cash outflows from 2020
Non-derivative financial instruments	**-114.5**	**-430.5**	**-2.488.1**
Derivative financial instruments	**-0.8**	**-2.9**	**0.0**

For financial liabilities with floating interest rates, the floating-interest rates on the balance-sheet 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 balance-sheet 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 net debt-equity 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 2014, the Group had a net debt-to-equity ratio of 81% (previous year: 83%).

in € million	31 Dec. 2014	31 Dec. 2013
Financial liabilities	-2,533.5	-2,603.2
Financial receivables	3.6	15.7
Cash and cash equivalents	248.4	293.4
Net debt of VGT Group	**-2,281.5**	**-2,294.1**
Property, plant and equipment	2,800.4	2,769.8
Net debt-to-equity ratio	**81 %**	**83 %**

4 Information on the Balance Sheet

4.1 Categories of financial instruments

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

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

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

Derivative financial instruments and hedging transactions

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 2014, two further interest rate swaps were concluded to hedge interest rate risks. The parameters of these interest cash flow hedges were agreed in line with the parameters of the underlying transactions. Of the previous year's derivatives, two cash flow hedges expired in 2014 as contractually agreed. Another cash flow hedge was closed out ahead of schedule as a result of the early repayment of the underlying transaction. As of the reporting date, there were no foreign currency hedges in place.

As of 31 December 2014, the hedged transactions in place are included in interest cash flow hedges with maturities of up to five years. The cash flows from hedged transactions secured in cash flow hedge accounting occur in the period from 2015 to 2019 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 interest hedging instrument, closed out ahead of maturity as a result of the early repayment of the relevant underlying transaction, was released to profit or loss. The resulting expense totalled € 0.1 million and is reported in the financial result.

The fair values of the derivatives used in cash flow hedges total € -3.0 million (previous year: € -0.1 million).

No ineffectiveness resulted in the financial year. In the financial year, accumulated other comprehensive income changed by € 4.3 million to € -2.4 million (previous year: income of € 26.4 million). Of this figure, income of € 0.1 million (previous year: expense of € 13.2 million) was reclassified from other comprehensive income 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 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 2014. The derivatives all qualify as hedging instruments under cash flow hedge accounting in accordance with IAS 39:

	31 Dec. 2014		31 Dec. 2013	
in € million	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
FX swaps	-	-	4.5	-0.1
Interest rate swaps (Fixed-rate payer)	178.5	-3.0	193.8	0.0
Total	**178.5**	**-3.0**	**198.3**	**-0.1**

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. With the foreign currency risk, a shift of all exchange rates between the local currency and the hedged currency on the balance-sheet date of -/+ 10% in each case is assumed. The interest analysis assumes a shift in the interest structure curve on the balance-sheet date by -/+ 100 basis points (bp) in each case.

The sensitivity analyses of the interest rate swaps and FX swaps as of 31 December 2014 are as follows:

	Equity sensitivity		Income statement sensitivity	
in € million	**Interest curve -1%/curency curve -10%**	**Interest curve +1%/ curency curve +10%**	**Interest curve -1%/curency curve -10%**	**Interest curve +1%/curency curve +10%**
Interest-rate swaps	-5.7	6.1	0.0	0.0
FX swaps[7]	-	-	-	-

As of 31 December 2013, the sensitivity analyses were as follows:

	Equity sensitivity		Income statement sensitivity	
in € million	**Interest curve -1%/curency curve -10%**	**Interest curve +1%/ curency curve +10%**	**Interest curve -1%/curency curve -10%**	**Interest curve +1%/ curency curve +10%**
Interest-rate swaps	-4.9	4.8	0.0	0.0
FX swaps	0.4	-0.4	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 2014 to 31 December 2014, 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

[7] As of 31 December 2014 no FX swaps exist.

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 2014:

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	**3.6**	**3.6**		**n/a**			
Other financial receivables and financial assets	3.6	3.6	LaR	n/a			
Trade receivables and other operating assets	**95.8**	**95.8**					
Trade receivables and long-term loans granted	33.7	33.7	LaR	n/a			
Derivatives with hedging relationships	-	-	-	-			
Other operating assets	62.1	62.1	LaR	n/a			
Cash and cash equivalents	**248.4**	**248.4**	**LaR**	**n/a**			
Total assets	**386.9**	**386.9**		**n/a**			
Financial liabilities	**2,533.5**	**2,533.5**		**2,757.9**	**2,521.8**	**236.1**	
Bonds	2,237.8	2,237.8	AmC	2,521.8	2,521.8		
Liabilities to banks	235.7	235.7	AmC	236.1		236.1	
Other financial liabilities	60.0	60.0	AmC	n/a			
Trade payables and other operating liabilities	**99.2**	**99.2**		**3.0**		**3.0**	
Trade payables	10.8	10.8	AmC	n/a			
Derivatives with hedging relationships	3.0	3.0	n/a	3.0		3.0	
Other operating liabilities	85.4	85.4	AmC	n/a			
Total liabilities	**2,632.7**	**2,632.7**		**2,760.9**	**2,521.8**	**239.1**	

[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 and fair values in line with the measurement levels of the financial instruments as of 31 December 2013:

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	15.7	15.7		n/a			
Other financial receivables and financial assets	15.7	15.7	LaR	n/a			
Trade receivables and other operating assets	81.6	81.6		1.1		1.1	
Trade receivables and long-term loans granted	50.1	50.1	LaR	n/a			
Derivatives with hedging relationships	1.1	1.1	n/a	1.1		1.1	
Other operating assets	30.5	30.5	LaR	n/a			
Cash and cash equivalents	**293.4**	**293.4**	**LaR**	**n/a**			
Total assets	**429.8**	**429.8**		**1.1**		**1.1**	
Financial liabilities	**2,603.2**	**2,603.2**		**2,555.9**	**2,242.0**	**313.9**	
Bonds	2,236.3	2,236.3	AmC	2,242.0	2,242.0		
Liabilities to banks	312.7	312.7	AmC	313.9		313.9	
Other financial liabilities	54.2	54.2	AmC	n/a			
Trade payables and other operating liabilities	**222.7**	**222.7**		**1.2**		**1.2**	
Trade payables	55.3	55.3	AmC	n/a			
Derivatives with hedging relationships	1.2	1.2	n/a	1.2		1.2	
Other operating liabilities	166.2	166.2	AmC	n/a			
Total liabilities	**2,825.9**	**2,825.9**		**2,557.1**	**2,242.0**	**315.1**	

[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 both derivative interest rate hedging contracts and foreign currency transactions, 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 balance-sheet 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 include derivative foreign currency transactions/interest rate hedging contracts. The fair values of foreign currency transactions 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 shareholdings in unlisted companies and of debt instruments that are not actively traded, such as loans received and long-term loans granted, is determined by discounting future cash flows, which corresponds to the 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 (excluding at-equity interests) as cash flows could not be reliably determined for them. Fair values could not be derived on the basis of comparable transactions.

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	2014	2013
Loans and receivables	0.8	-0.2
Available for sale	0.0	-9.4
Financial liabilities measured at amortised cost	-69.7	-33.8
Total	**-68.9**	**-43.4**

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 2.8.

The tax deductible goodwill amounted to € 20.3 million as of 31 December 2014 (previous year: € 22.0 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 2014, the Group recorded amortisation expense of € 31.8 million (previous year: € 28.5 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 € 49.7 million as of 31 December 2014. € 49.3 million have a remaining useful life up to 31 December 2017 and € 0.4 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 € 2.4 million (previous year: € 2.4 million). Of this figure, easements account for € 1.7 million (previous year: € 1.7 million) and emission rights for € 0.7 million (previous year: € 0.7 million).

In the financial year, there were additions of € 0.4 million to the internally generated intangible assets (previous year: € 1.5 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 € 3.1 million were capitalised in 2014 (previous year: € 1.6 million).

Depreciation of property, plant and equipment amounts to € 114.6 million (previous year: € 109.8 million). There were no impairment losses or reversals of impairments.

4.5 Financial assets

in € million	31 Dec. 2014	31 Dec. 2013
Companies accounted for at equity	**59.1**	**65.8**
Equity investments	39.1	39.1
Long-term loans granted	3.3	3.5
Total	**101.5**	**108.4**

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).

In the 2013 financial year, on the basis of the Company's medium-term planning an impairment of € 9.4 million was recognised on the equity investment in DEUDAN – Deutsch/Dänische Erdgas-transportgesellschaft mbH & Co. KG ("DEUDAN"), Handewitt.

The following table provides information in accordance with IFRS 12.B12 ff. on the company accounted for at equity:

in € million	31 Dec. 2014*	31 Dec. 2013*
Dividends received	10.7	6.4
Current assets	146.4	125.4
Cash and cash equivalents	*124.8*	*116.9*
Non-current assets	333.0	404.2
Current liabilities	98.2	93.4
Current financial liabilities	-	-
Non-current liabilities	146.7	174.8
Non-current financial liabilities	-	-
Pro-rata equity	58.6	65.4
Other effects	0.5	0.4
Carrying amount of company accounted for at equity	**59.1**	**65.8**
Sales	22.4	89.3
Depreciation and amortisation	12.5	-19.1
Interest income / expense	0.9	1.2
Income tax expense	3.6	-3.9
OCI	0.0	-
Income statement result	**0.0**	**17.5**
Total	**0.0**	**17.5**

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

The companies MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG ("MEGAL"), Essen, Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG ("TENP"), Essen, und NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG ("NETRA"), Schneiderkrug, 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:

€ million	MEGAL	TENP	NETRA
Non-current assets			
Intangible assets	.	0.0	3.4
Property, plant and equipment	283.7	194.4	112.4
Deffered tax assets	4.5	0.4	0.0
Current assets			
Trade receivables (including advance payments made)	.	.	1.4
Income tax receivables	0.0	0.0	1.1
Other receivables	0.3	2.1	2.5
Cash and cash equivalents	7.0	1.8	22.3
Non-current liabilities			
Provisions for pensions and similar obli-gations	0.1	0.2	0.0
Financial liabilities	89.3	91.8	0.0
Other non-current liabilities	0.8	17.7	0.0
Deferred tax liabilities	18.6	9.7	11.3
Current liabilities			
Financial liabilities	54.5	0.2	0.0
Trade payables	1.0	.	0.0
Other liabilities	2.2	5.9	0.1

Carrying amounts of the joint operations in the consolidated balance sheet as of 31 December 2013:

€ million	MEGAL	TENP	NETRA
Non-current assets			
Intangible assets	.	0.0	4.3
Property, plant and equipment	272.3	192.4	116.3
Deffered tax assets	4.5	0.2	.
Non-current receivables	0.0	1.1	0.0
Current assets			
Trade receivables (including advance payments made))	2.8	3.9	2,5
Income tax receivables	0.4	0.2	1,3
Other receivables	0.5	2.1	15,0
Cash and cash equivalents	13.7	11.3	1,4
Non-current liabilities			
Provisions for pensions and similar obli-gations	0,1	0.2	0.0
Financial liabilities	86,7	91.8	0.0
Other non-current liabilities	1,1	6.5	0.0
Deferred tax liabilities	17,7	7.5	10.7
Current liabilities			
Other provisions	0.1	0.0	.
Financial liabilities	90.6	43.5	0.0
Trade payables	2.1	0.6	.
Income tax liabilities	6.1	1.7	1.8
Other liabilities	2.6	2.3	0.1

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

The non-current receivables include receivables of € 50.5 million (previous year: € 3.0 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 € 34.5 million (previous year: € 30.6 million). The costs incurred and profits recognised from these construction contracts total € 65.5 million (previous year: € 38.6 million). Advance payments of € 15.5 million (previous year: € 7.7 million) received for these construction contracts are shown under other operating liabilities.

4.7 Inventories

Inventories break down as follows:

in € million	31 Dec. 2014	31 Dec. 2013
Raw materials and supplies	13.8	14.4
Work in progress	2.9	4.8
Gas inventories	17.6	16.0
Total	**34.3**	**35.2**

In accordance with IAS 2.34, reversals of write-downs of warehouse materials of € 0.6 million were performed in the reporting period (previous year: € 0.0 million). There were no write-downs of inventories in the reporting period (previous year: € 0.1 million).

4.8 Trade receivables and other current receivables

Receivables and other assets break down as follows:

in € million	31 Dec. 2014	31 Dec. 2013
Trade receivables	30.4	46.6
Other current operating receivables	62.5	85.4
Trade receivables and other current operating receivables	**92.9**	**132.0**
Financial receivables	**2.6**	**14.6**
Total	**95.5**	**146.6**

All receivables contained in this item have a maturity of less than one year. The other receivables mainly comprise receivables from E.ON of € 30.0 million (previous year: € 0.0 million) as a result of a subsequent reduction in the purchase price for OGE, income tax and input tax refund receivables from tax creditors of € 6.8 million (previous year: € 4.2 million), prepaid expenses of € 2.8 million (previous year: € 0.5 million) as well as receivables from taxes chargeable to VGS of € 1.3 million (previous year: € 29.1 million).

When OGE was acquired in 2012, tax obligations of € 16.8 million were assumed after retirement from the Contractual Trust Arrangement (CTA) with MEON Pensions GmbH & Co.KG, Grünwald ("MEON KG"). As part of the purchase price allocation, an indemnification asset in the same amount was recognised and compounded. On the basis of the notice of tax assessments in 2014 regarding the above-mentioned matter, these receivables were concretised in line with the SPA between VGT and E.ON AG on the acquisition of OGE. Furthermore, the tax assessments contain the changed opinion of the tax authorities regarding the recognition of the provision for excess revenue disgorgement in the tax balance sheet. VGT has also recognised these claims against E.ON under the SPA in the reimbursement claims.

The financial receivables are mainly € 2.5 million (previous year: € 12.8 million) relating to short-term cash deposits of NETRA at its non-Group companies.

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

in € million	31 Dec. 2014	31 Dec. 2013
Not yet due	18.8	29.0
0 to 30 days past-due	6.0	9.4
31 to 60 days past-due	0.2	3.8
61 days to one year past-due	4.5	1.1
Over one year past-due	4.5	7.0
Gross trade receivables excl. valuation adjustments	***34.0***	***50.4***
Doubtful debts	***4.4***	***4.5***
Valuation adjustments	***3.6***	***3.8***
Net value of trade receivables	***30.4***	***46.6***

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 adjustment for trade receivables has changed as shown in the following table:

in € million	2014	2013
Start of financial year	***3.8***	***3.7***
Utilisation / Reversal	-0.5	-0.7
Net addition	0.3	0.8
End of financial year	**3.6**	**3.8**

All write-downs were recognised as individual valuation adjustments.

4.9 Cash and cash equivalents

Cash and cash equivalents relate solely to balances at banks which are mainly invested as overnight money and one-week 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 development of equity and other comprehensive income is shown separately in the statement of changes in equity and in the statement of total comprehensive income.

Additional paid-in capital

The additional paid-in capital remains unchanged from the previous year and amounts to € 1,075.6 million.

Retained earnings

Retained earnings total € -176.4 million (previous year: € -304.9 million). The change results from the net income for the year of € 225.2 million (previous year: € 86.5 million) and the remeasurement of defined benefit plans amounting to € -105.1 million (previous year: € 24.9 million) as well as the deferred taxes thereon of € 32.5 million (previous year: € -7.7 million), reduced by the advance transfer of profits of € 20.0 million (previous year: profit distribution of € 164.9 million) and profit transfer of € 4.1 million (previous year: € 276.3 million).

Other comprehensive income

Accumulated OCI totals € -2.0 million (previous year: € 1.3 million) and results from the measurement of derivatives amounting to € -2.4 million (previous year: € 1.8 million) and the deferred taxes thereon of € 0.4 million (previous year: € -0.5 million). In the current financial year, € 1.3 million (previous year: € 11.7 million) was reclassified as part of an interest derivative.

4.11 Deferred taxes

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

	Deferred tax assets		Deferred tax liabilities	
in € million	**2014**	**2013**	**2014**	**2013**
Intangible assets	8.9	9.3	15.5	19.8
Goodwill	6.3	6.8	0.0	0.0
Property, plant and equipment	3.0	2.6	469.4	428.1
Financial assets	0.1	0.2	43.6	38.7
Other assets	16.1	15.1	16.1	45.6
Special reserve items	0.0	0.0	0.2	0.0
Provisions	65.9	32.0	36.0	58.9
Liabilities	3.0	33.3	2.8	3.3
Loss carryforward	15.5	8.9	n/a	n/a
Deferred taxes before netting	***118.8***	***108.1***	***583.6***	***594.4***
Netting	-88.4	-92.1	-88.4	-92.1
Deferred taxes after netting	***30.4***	***16.0***	***495.2***	***502.3***

In 2014, current deferred tax assets of € -0.2 million (previous year: € -43.2 million) and non-current deferred tax assets of € -88.2 million (previous year: € -48.9 million) were netted against deferred tax liabilities.

The Group has trade tax loss carryforwards of € 105.2 million (previous year: € 60.0 million). Deferred tax assets of € 15.5 million (previous year: € 8.9 million) were recognised on these loss carryforwards.

The maturity structure of the deferred taxes is as follows:

	31 Dec. 2014		31 Dec. 2013	
in € million	**Current**	**Non-current**	**Current**	**Non-current**
Deferred tax assets	16.7	13.7	2.1	13.9
Deferred tax liabilities	-0.5	-494.7	-3.2	-499.1
Net amount	**16.2**	**-481.0**	**-1.1**	**-485.2**

Of the deferred tax assets shown, € 33.5 million (previous year: € -15.7 million) are 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. 2014		
in € million	**Before tax**	**Income tax**	**After tax**
Changes from the remeasurement of defined benefit plans	-105.1	32.5	-72.6
Cash flow hedges	-3.1	1.0	-3.3
Other comprehensive income	**-109.4**	**33.5**	**-75.9**

	1 Jan. - 31 Dec. 2013		
in € million	**Before tax**	**Income tax**	**After tax**
Changes from the remeasurement of defined benefit plans	24.3	-7.6	16.7
Cash flow hedges	26.4	-8.1	18.3
Other comprehensive income	**50.7**	**-15.7**	**35.0**

No deferred taxes were recognised on temporary differences of € 103.8 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.

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

Individual contractual pension benefit commitments

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

Defined benefit plans

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

Scope of obligations for pension commitments

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

in € million	2014	2013
Present value at start of financial year	**256.3**	**259.8**
Service cost	10.7	12.3
Past service cost	0.4	0.8
Interest cost	10.2	9.1
Gains/losses from plan settlements	-0.2	-0.1
Payments from plan settlements	-0.3	-0.3
Remeasurement of defined benefit plans	112.6	-24.4
Pension benefits paid	-2.3	-0.9
Present value at end of financial year	**387.4**	**256.3**

Plan settlements in the reporting period mainly relate to transfers of obligations at the commercial balance sheet carrying amount resulting from employees moving to a subsidiary not included in the consolidated financial statements.

The remeasurement of defined benefit plans in the financial year is due to changes to the financial assumptions (€ 115.6 million) and experience adjustments (€ -3.0 million). The remeasurement of defined benefit plans in the previous year is due solely to experience-based adjustments.

The weighted average duration of the obligation is 24.2 years (previous year: 23.9 years) as of the reporting date. In the following 10 years, the following pay-outs for pension benefits are expected:

in € million	31 Dec. 2014
2015	2.7
2016	4.2
2017	5.6
2018	6.8
2019	7.3
2020	9.2
2021	10.2
2022	11.6
2023	13.2
2024	14.1

Actuarial assumptions

The following parameters were used for measurement:

	31 Dec. 2014	31 Dec. 2013
Discount rate	2.25 %	4.00 %
Expected salary increase rate	2.50 %	2.50 %
Expected pension increase rate	2.00% or in line with agreed guaranteed increase	2.00% or in line with agreed guaranteed increase
Biometric data	Dr Klaus Heubeck 2005G mortality tables with invalidity probability reduced to 80% of the table values	Dr Klaus Heubeck 2005G mortality tables with invalidity probability reduced to 80% of the table values

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:

2014	+ 0.25%p or +10%	- 0.25%p or -10%
Discount rate	-5.23%	+5.63%
Future salary increase rate	+1.6%	-1.55%
Future pension increase rate	+3.23%	-3.07%
Mortality	-2.51%	+2.79%

2013	+ 0.25%p or +10%	- 0.25%p or -10%
Discount rate	-4.7%	+5.1%
Future salary increase rate	+1.5%	-1.5%
Future pension increase rate	+2.9%	-2.8%
Mortality	-2.0%	+2.2%

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 the plan assets

The fair value of the plan assets developed as follows:

in € million	2014	2013
Start of financial year	**215.9**	**203.9**
Interest income from plan assets	8.6	6.9
Remeasurement of defined benefit plans	7.6	-0.1
Transfers	**0.1**	**-7.4**
Payments into plan assets	**18.0**	**12.6**
End of financial year	**250.2**	**215.9**

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 balance-sheet date, the trustee has invested the plan assets in the following asset classes:

%	Target allocation	31 Dec. 2014	31 Dec. 2013
Bonds	70.0	63.2	62.3
Equity funds	20.0	19.5	20.1
Real estate funds	10.0	8.6	0.5
Cash and money market instruments	0.0	8.7	17.1

All assets are traded in an active market.

The expected return on plan assets for the subsequent year amounts to € 5.6 million. The expected payments into plan assets for the subsequent year amount to € 28.1 million.

Presentation of provisions for pensions

The provision developed as follows:

in € million	2014	2013
Start of financial year	**40.4**	**55.9**
Service cost	10.7	12.3
Past service cost	0.4	0.8
Net interest expense	1.5	2.2
Plan settlement gain/loss	-0.2	-0.1
Transfers/payments from plan settlements	-0.2	7.1
Remeasurement effects	105.0	-24.3
Pension benefits paid	-2.3	-0.9
Payments into plan assets	**-18.0**	**-12.6**
End of financial year	**137.2**	**40.4**

Pension cost

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

in € million	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Current cost (incl. plan settlement gain/loss)	10.7	12.2
Past service cost	0.4	0.8
Interest cost	10.2	9.1
Interest income from plan assets	-8.6	-6.9
Total	12.7	15.2

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	2014	2013
Accumulated remeasurement recognised in equity at start of financial year	24.9	0.6
Remeasurement of the current financial year recognised in equity	-105.0	24.3
Accumulated remeasurement recognised in equity at end of financial year	**-80.2**	**24.9**

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 developed 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	**132.4**	**32.7**	**-8.8**	**1.2**	**0.0**	**4.1**	**-30.2**	**131.4**
Provisions – production sector	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Provisions for emission rights – current	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
Provisions – pipeline sector	**77.2**	**1.9**	**-2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**76.2**
Provisions for repayments – current	*1.2*	*0.0*	*-1.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Provisions for miscellaneous in the pipeline sector - current	*13.2*	*1.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*14.9*
Provisions for miscellaneous in the pipeline sector - non-current	*62.8*	*0.2*	*-1.7*	*0.0*	*0.0*	*0.0*	*0.0*	*61.3*
Provisions – sales sector	**0.3**	**0.0**	**-0.2**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**
Provisions for miscellaneous in the sales sector - current	*0.3*	*0.0*	*-0.2*	*0.0*	*0.0*	*0.0*	*-0.1*	*0.0*
Provisions – personnel sector	**48.2**	**29.9**	**0.0**	**1.2**	**0.0**	**4.1**	**-29.4**	**54.0**
Provisions for early-retirement obligations and part-time phased-retirement - non-current	17.0	2.8	0.0	0.1	0.0	*4.6*	*-10.1*	*14.4*
Provisions for annual and special bonuses etc. – current	15.6	17.2	0.0	0.0	0.0	*0.0*	*-15.7*	*17.1*
Provisions for annual and special bonuses etc. - non-current	0.7	1.0	0.0	0.0	0.0	*0.0*	*0.0*	*1.7*
Provisions for long-service anniversary obligations - non-current	5.7	1.3	0.0	0.2	0.0	*0.0*	*-0.5*	*6.7*
Provisions for gas allowance obligations - non-current	5.8	2.4	0.0	0.2	0.0	*0.0*	*-0.1*	*8.3*
Provisions for other personnel expenses – current	2.5	3.2	0.0	0.0	0.0	*0.0*	*-2.6*	*3.1*
Provisions for other personnel expenses - non-current	0.9	2.0	0.0	0.7	0.0	*-0.5*	*-0.4*	*2.7*
Provisions for other risks	**3.9**	**0.5**	**-3.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.5**
Provisions for litigation cost risks and compensation obligations – current	3.9	0.5	-3.9	0.0	0.0	*0.0*	*0.0*	*0.5*
Miscellaneous other provisions	**2.7**	**0.4**	**-1.8**	**0.0**	**0.0**	**0.0**	**-0.7**	**0.6**
Provisions for external annual financial statement audit cost /review – current	*0.3*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.3*	*0.2*
Miscellaneous other provisions – current	*1.0*	*0.2*	*-0.6*	*0.0*	*0.1*	*0.0*	*-0.4*	*0.3*
miscellaneous other provisions – non-current	*1.4*	*0.0*	*-1.2*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.1*
Total – current	**38.1**	**23.0**	**-5.9**	**0.0**	**0.1**	**0.0**	**-19.1**	**36.2**
Total - non-current	**94.3**	**9.7**	**-2.9**	**1.2**	**-0.1**	**4.1**	**-11.1**	**95.2**

VGT expects the complete amount of current provisions (€ 36.2 million) to be utilised within the year.

As part of the acquisition of OGE, contingent liabilities were identified, measured and accounted for as provisions in 2012. These are, on the one hand, provisions for restoration obligations for the decommissioned pipeline network (€ 59.5 million) which are shown under provisions for the pipeline sector and for which, according to current estimates, utilisation can be expected from 2024 onwards.

The following obligations are grouped under personnel obligations:

- obligations for bonus payments amounting to € 18.8 million (previous year: € 16.3 million)
- early retirement obligations amounting to € 9.9 million (previous year: € 11.0 million)
- obligations for part-time phased-retirement arrangements amounting to € 4.5 million (previous year: € 6.0 million)
- obligations for gas allowance payments amounting to € 8.3 million (previous year: € 5.8 million)
- obligations for long-service anniversary payments amounting to € 6.7 million (previous year: € 5.7 million)
- obligations for long-term working-time accounts amounting to € 2.7 million (previous year: € 0.9 million)
- other current obligations amounting to € 3.1 million (previous year: € 2.5 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 (€ 13.6 million; previous year: € 12.1 million) are netted with the present value of the obligations for long-term working-time accounts (€ 16.3 million; previous year: € 13.0 million) and the remaining amount (€ 2.7 million; previous year: € 0.9 million) is recognised as a liability. Plan assets relating to obligations for part-time phased retirement (€ 10.3 million; previous year: € 15.2 million) are netted with the present value of the share of the obligations for part-time phased retirement attributable to the performance arrears (€ 10.6 million; previous year: € 14.8 million) and the remaining amount (€ 0.4 million; previous year: € 0.4 million) is recognised as a liability. The share of the obligations for part-time phased retirement attributable to the top-up amount (€ 4.1 million; previous year: € 6.0 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	2014	2013
Utilisation within 1 year	0.1	0.2
Utilisation between 1 and 5 years	1.1	1.0
Utilisation after 5 years	16.5	11.2

Utilisation of the remaining other provisions amounting to € 16.2 million (previous year: € 22.4 million) is expected within the next two to five years.

4.14 Liabilities

The following table provides a breakdown of the liabilities:

	31 Dec. 2014		31 Dec. 2013	
in € million	**Current**	**Non-current**	**Current**	**Non-current**
Bonds	0.0	2,237.8	0.0	2,236.3
Liabilities to banks	54.6	181.1	134.2	178.5
Liabilities to proportionately consolidated companies	20.4	0.0	14.5	0.0
Other financial liabilities	39.6	0.0	39.7	0.0
Financial liabilities	**114.6**	**2,418.9**	**188.4**	**2,414.8**
Trade payables	10.5	0.3	55.0	0.3
Investment grants / construction cost grants	0.0	1.7	0.0	1.1
Liabilities to proportionately consolidated companies	10.9	0.0	17.3	0.0
Liabilities to affiliated companies	33.6	0.0	125.5	0.0
Income tax liabilities	5.8	0.0	36.3	0.0
Accruals	5.4	0.0	20.4	0.0
Liabilities from derivative financial instruments	0.0	3.0	0.0	1.2
Other operating liabilities	39.9	15.7	30.7	7.4
Trade payables and other operating liabilities	**106.1**	**20.7**	**285.2**	**10.0**
Total	**220.7**	**2,439.6**	**473.6**	**2,424.8**

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 operating liabilities mainly result from obligations to other shareholders of joint ventures amounting to € 8.3 million (previous year: € 3.7 million), liabilities from the application of the percentage-of-completion method (PoC method) amounting to € 0.2 million (previous year: € 1.1 million) as well as deferred income items amounting to € 5.6 million (previous year: € 1.3 million) and liabilities from other taxes amounting to € 4.9 million (previous year: € 9.1 million).

Furthermore, tax obligations amounting to € 16.8 million were assumed with the acquisition of OGE in 2012. As part of the purchase price allocation, an indemnification asset in the same amount was recognised (see section 4.8). As of 31 December 2014, the tax liability was mostly settled.

5 Information on the Income Statement

5.1 Sales

Of the sales generated in 2014, € 809.5 million result from the gas transmission business (previous year: € 834.2 million) and € 83.9 million from transport-related services (previous year: € 74.3 million). € 123.9 million result from technical and commercial services (previous year: € 124.9 million). This includes revenue from construction contracts of € 20.1 million (previous year: € 28.8 million).

5.2 Own work capitalised

Own work capitalised amounts to € 21.5 million (previous year: € 14.3 million) and results primarily from engineering services in the network sector and in connection with new construction projects.

5.3 Other operating income

The other operating income mainly includes € 34.5 million (previous year: € 0.0 million) from the purchase price adjustment due to the tax clause agreed between VGT and E.ON on the acquisition of OGE as well as various income not relating to the period of € 10.0 million (previous year: € 14.8 million), including income of € 7.3 million from the reversal of provisions (previous year: € 12.8 million).

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

5.4 Cost of materials

in € million	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Expenses for raw materials and supplies	284.4	267.7
Expenses for purchased goods	94.8	87.1
Total	**379.2**	**354.8**

The expenses for raw materials and supplies mainly comprise expenses for load flow commitments and fuel energy as well as usage fees. 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 expenses

The personnel costs contain the following components:

in € million	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Wages and salaries	117.6	117.8
Social security contributions	17.5	17.2
Pension costs and other employee benefits	13.6	12.7
Total	**148.7**	**147.7**

Of the pension costs and other employment benefits totalling € 13.6 million, € 0.2 million relate to defined contribution plans (previous year: € 0.2 million).

In the reporting period, the Group employed an average of 1,427 employees (previous year: 1,494), of which 333 were industrial workers (previous year: 351), 1,022 were salaried employees (previous year: 1,063), 68 were apprentices (previous year: 76) 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. 2014	1 Jan. – 31 Dec. 2013
IT costs	30.0	33.4
Expenses from derivative financial instruments	0.0	14.2
Vehicle costs	5.3	5.5
Expenses for services rendered by third parties	4.8	4.9
Insurance premiums	3.4	3.9
Social security contributions	3.2	1.9
Travelling costs	3.1	3.5
Rental and lease costs	3.0	3.1
External audit and consulting costs	2.7	3.0
Fees and contributions	1.3	1.5
Other taxes	0.6	1.0
Write-downs on receivables	0.3	0.8
Losses from currency derivatives	0.0	0.3
Miscellaneous other operating expenses	7.1	11.5
Total	**64.8**	**88.5**

The miscellaneous other operating expenses contain realised exchange rate losses and expenses from foreign currency translation on the balance-sheet date of an insignificant amount (< € 20 k).

5.7 Depreciation and amortisation

in € million	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Depreciation of property, plant and equipment	114.6	109.8
Amortisation of intangible assets	31.8	28.5
Total	**146.4**	**138.3**

5.8 Financial result

in € million	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013
Income/loss (-) from equity investments	**-0.4**	**2.0**
Income from company accounted for at equity	**6.4**	**4.5**
Interest income	**2.3**	**5.9**
Interest share of the addition to provisions	-2.6	-4.4
Tax-related interest expense	-0.1	.
Other interest expenses	-66.5	-119.0
Interest expenses	**-69.2**	**-123.4**
Impairment of financial assets	**0.0**	**9.4**
Financial result	**-60.9**	**-120.4**

The interest share of the addition to provisions is almost exclusively the interest cost from pension provisions of € 10.2 million – after deduction of the expected return on plan assets (€ 9.5 million) – as well as the unwinding of discounting of the other non-current personnel provisions totalling € 1.6 million.

The other interest expenses are largely interest on debt in connection with the bonds (€ 60.0 million; previous year: € 113.2 million). In 2013, this item also included expense for the write-back of the discount in connection with the loan repaid in the 2013 financial year.

An interest expense of € 1.5 million (previous year: € 0.8 million) resulted from the effective interest rate of the bonds.

The other interest expenses are reduced by the capitalised interest on debt amounting to € 3.1 million (previous year: € 1.6 million).

Information on impairment of financial assets is provided in section 4.5 “Financial assets”.

5.9 Income taxes

A profit-and-loss transfer agreement has existed since 1 January 2013 with OGE as the controlled company and VGT as the controlling company which provides the reason for the establishment of a fiscal entity for income tax purposes between VGT and OGE. The conclusion of a further profit-and-loss transfer agreement at the same time established a further fiscal entity for income tax purposes 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 Mittelrheinische Erdgastransportleitungsgesellschaft mbH, Haan (Rhld) ("METG"), Open Grid Regional GmbH, Essen ("OGR"), PLEdoc Gesellschaft für Dokumentationserstellung 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. 2014	1 Jan. – 31 Dec. 2013
Income taxes for current financial year	3.9	2.9
Income tax allocations	54.5	5.0
Income taxes for prior financial years	-2.8	4.8
Deferred taxes for current financial year	13.7	72.5
Deferred taxes for prior financial years	-1.6	47.6
Income taxes	**67.7**	**132.8**

The pro-rata trade tax of a partnership is shown as an effective tax expense for the current year. Income taxes for prior financial years include trade tax expense from partnerships as well as income tax income of OGE.

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. 2014		1 Jan. – 31 Dec. 2013	
		€ million	%	€ million	%
	Profit before tax in accordance with IFRS	**292.9**		**219.3**	
	Group income tax rate		31.0		31.0
	Expected income tax expense	**90.8**		**68.0**	
1.	Permanent effects	-17.1	-5.8	0.0	0.0
2.	Difference due to the trade tax assessment basis	5.1	1.7	7.9	3.6
3.	Taxes not relating to the period	-4.3	-1.5	52.4	23.9
4.	Effect from measurement at equity	2.1	0.7	2.0	0.9
5.	Valuation adjustment for deferred tax on loss carryforwards	0.0	0.0	10.7	4.9
6.	Other	-8.9	-3.0	-8.2	-3.7
	Effective tax expense / rate	**67.7**	**23.1**	**132.8**	**60.6**

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

For the purposes of the cash flow statement, the cash and cash equivalents comprise exclusively cash at banks totalling € 248.4 million (previous year: € 293.4 million).

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.

6.3 Other financial obligations

The other financial obligations which cannot be seen from the balance sheet amount to € 89.1 million per annum (previous year: € 89.7 million) as of the balance-sheet 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 balance-sheet date:

in € million	31 Dec. 2014	31 Dec. 2013
Purchase commitment for investments in intangible assets	1.9	3.0
Purchase commitment for investments in property, plant and equipment	109.8	138.4
Purchase commitment for maintenance work (incl. inventory materials)	159.4	174.0
Total purchase commitment	**271.1**	**315.4**

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	2014	2013	2014	2013	2014	2013
Pipeline networks	12.1	12.1	18.4	30.5	0.0	0.0
Buildings	1.8	2.5	0.3	1.9	0.0	0.0
Vehicles, IT and others	5.2	5.3	7.1	7.1	0.0	0.0
Minimum lease payments	**19.1**	**19.9**	**25.8**	**39.5**	**0.0**	**0.0**

In the 2014 financial year, payments under leases of € 20.4 million were recognised in income (previous year: € 20.7 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 as follows:

	Due within 1 year		Due in 1 to 5 years		Due in more than 5 years	
in € million	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Buildings	1.9	1.9	0.3	0.3	0.0	0.0
IT and others	0.1	0.1	0.1	0.2	0.0	0.0
Minimum lease payments	**2.0**	**2.0**	**0.4**	**0.5**	**0.0**	**0.0**

In the 2014 financial year, payments under leases of € 2.0 million were recognised in income (previous year: € 2.0 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 sales 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 sales, the sales 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 sales break down as follows:

in € million	2014	2013
Transport business	893.5	908.5
Other Services business	123.8	124.9
Total	**1,017.3**	**1,033.4**

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 € 191.0 million with one customer in 2014 (previous year: € 254.8 million). That is more than 10% of total sales.

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 € 24.1 million to VGS (previous year: € 276.3 million) and to pay € 29.5 million (previous year: 5.0 million) to VGS under the income tax allocation agreement with VGS. As part of an advance profit transfer in 2014, € 20.0 million (previous year: € 156.0 million) was transferred. On the balance-sheet date, the total remaining amount of € 4.1 million (previous year: €125.3 million) is part of the 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, GasLINE KG and NetConnect Germany GmbH & Co., Ratingen. The individual business transactions were as follows:

in € million	2014	2013
Receivables	16.4	15.5
Liabilities	1.2	4.4
Sales	30.4	15.3
Cost of materials	15.2	15.1

Most of the sales (€ 15.8 million; previous year: € 14.2 million) were generated with technical and commercial services. At € 11.2 million (previous year: € 11.7 million), fees for usage contracts for the pipeline network account for most of the cost of materials.

In addition to the open receivables and liabilities from these business relations on the balance-sheet date, total receivables also include a receivable of € 13.4 million from pro-rata profit distributions of associates (previous year: € 11.0 million).

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	2014	2013
Salaries and other current benefits	1.9	1.6
Post-termination benefits	.	.
Other benefits due in the long term	1.7	0.7
Total remuneration	**3.6**	**2.3**

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 AG 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. 2014	1 Jan. – 31 Dec. 2013
Financial statement audits	0.5	0.5
Other services	0.6	0.1
Total	**1.1**	**0.6**

6.9 Management

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

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

John Benedict McCarthy, Abu Dhabi/United Arab Emirates, Global Head,
Infrastructure Division, ADIA, from 23 February 2014

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

Frank Rothäusler, Munich, Senior Investment Manager, Private Equity & Infrastructure, MEAG MUNICH ERGO Asset Management GmbH, from 10 April 2014

Cord von Lewinski, Frankfurt, Managing Director, Macquarie Infrastructure & Real Assets, from 18 November 2014

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

Guy Lambert, Abu Dhabi/United Arab Emirates, Senior Fund Manager, Infrastructure Division, ADIA

Alice Forster, Munich, Senior Investment Manager, Private Equity & Infrastructure, MEAG MUNICH ERGO Asset Management GmbH, until 10 April 2014

Frank Heiß, Wiesbaden, Senior Vice President, Macquarie Infrastructure & Real Assets, until 17 November 2014

Simon Richard Eaves, Dubai/ United Arab Emirates, Regional Head, Infrastructure Division, ADIA, until 4 December 2014

The managing directors are not employees of the Company.

7 List of Shareholdings as of 31 December 2014

a) Fully consolidated

Name	Seat	Trade register number	Share in %	Equity in € k[1]	Net income in € k[1]
Vier Gas Transport GmbH	Essen	HRB 24299	100.00	1,075,623	24,088
Open Grid Europe GmbH	Essen	HRB 17487	100.00	1,049,504	330,035
Open Grid Regional GmbH	Essen	HRB 19964	100.00	500	-1,178
Mittelrheinische Erdgastransportleitungsgesellschaft mbH	Essen	HRB 24567	100.00	64,150	57,236
Line WORX GmbH	Essen	HRB 23536	100.00	80,725	12,861

b) Proportionately consolidated

Name	Seat	Trade register number	Share in %	Equity in € k	Net income in € k
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG	Essen	HRA 8536	51.00	124,170	30,119
NETRA GmbH Norddeutsche Erdgas Transversale & Co. Kommanditgesellschaft	Schneiderkrug	HRA 150471	40.55	146,301	63,261
Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG	Essen	HRA 8548	51.00	90,732	11,942

c) Associated – at equity

Name	Seat	Trade register number	Share in %	Equity in € k	Net income in € k
GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft [2]	Straelen	HRA 1805	25.00	0	39,464

d) Non-consolidated companies due to immaterial importance

Name	Seat	Trade register number	Share in %	Equity in € k	Net income in € k
Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG [2] [3]	Dortmund	HRA 17834	50.00	30,009	6,490
MEGAL Verwaltungs-GmbH [3]	Essen	HRB 18697	51.00	43	2
PLEdoc Gesellschaft für Dokumentationserstellung und -pflege mbH [4]	Essen	HRB 9864	100.00	589	2,673
Open Grid Service GmbH [4]	Essen	HRB 22210	100.00	80	440
NEL Beteiligungs GmbH [4]	Essen	HRB 23527	100.00	25	0
Trans Europa Naturgas Pipeline Verwaltungs-GmbH [3]	Essen	HRB 18708	50.00	42	2
Nordrheinische Erdgastransportleitungs-Verwaltungs-GmbH [3]	Dortmund	HRB 26278	50.00	35	1

DEUDAN - Deutsch/Dänische Erdgastransport-Gesellschaft mbH & Co. Kommanditgesellschaft (2) (3)	Handewitt	HRA 3848 FL	24.99	4,781	266
DEUDAN-HOLDING-GmbH (2) (3)	Hanover	HRB 214	49.00	22	-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	66	3
NETRA GmbH-Norddeutsche Erdgas Transversale (2) (3)	Schneiderkrug	HRB 150783	33.33	105	3
caplog-x GmbH (2) (5)	Leipzig	HRB 23614	31.33	593	393
GasLINE Telekommunikationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH (2) (5)	Straelen	HRB 4812	25.00	61	3
PRISMA European Capacity Platform GmbH (2) (6)	Leipzig	HRB 21361	1.41	209	168
EuroHub GmbH (in Liquidation) (6)	Haan (Rhld.)	HRB 14398	16.67	-	-
LIWACOM Informationstechnik GmbH (2) (5)	Essen	HRB 7829	33.33	559	228

(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 at equity)
(4) Unconsolidated affiliated company
(5) Associate (not measured at equity)
(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. 2014

							Accumulated depreciation and amortisation					Carrying amounts
	1 Jan. 2014	Additions	Appreciation	Disposals	Reclassifications	31 Dec. 2014	1 Jan. 2014	Additions	Disposals	Reclassifications	31 Dec. 2014	31 Dec. 2014
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Intangible assets												
Internally generated industrial property rights and similar rights and assets	1.6	0.2	0.0	0.0	0 2	2.0	-0.2	-0.4	0.0	0.0	-0.6	1.4
Purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets	130.1	10.0	0.0	0.0	7 5	147.6	-38.7	-31.4	0.0	0.0	-70.1	77.5
Advance payments	14 3	6.8	0.0	0.0	-7.7	13.4	0.0	0.0	0.0	0.0	0.0	13.4
	146.0	**17.0**	**0.0**	**0.0**	**0.0**	**163.0**	**-38.9**	**-31.8**	**0.0**	**0.0**	**-70.7**	**92.3**
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	152 3	4.5	0.0	-0.1	2 9	159.6	-6.5	-4 9	0.0	0.0	-11.4	148.2
Pipeline system	2,036 2	18.9	0.0	-0.1	6 3	2,061.3	-92.7	-67 5	0.1	0.0	-160.1	1,901.2
Technical plant, equipment and machinery	572 8	39.8	0.0	0.0	45 8	658.4	-46.4	-36 9	0.0	0.0	-83.3	575.1
Other equipment, fixtures, furniture and office equipment	30 5	7.5	0.0	-0.2	0 8	38.6	-6.7	-5.4	0.1	0.0	-12.0	26.6
Advance payments and construction in progress	130 3	74.9	0.0	-0.2	-55 8	149.2	0.0	0.0	0.0	0.0	0.0	149.2
	2,922.1	**145.6**	**0.0**	**-0.6**	**0.0**	**3,067.1**	**-152.3**	**-114.7**	**0.2**	**0.0**	**-266.8**	**2,800.4**
Financial assets												
Equity investments	114 3	0.0	0.0	-6.6	0.0	107.7	-9.4	0.0	0.0	0.0	-9.4	98.2
Long-term loans granted	3 5	0.2	0 2	-0.6	0.0	3.3	0.0	0.0	0.0	0.0	0.0	3.3
	117.8	**0.2**	**0.2**	**-7.2**	**0.0**	**111.0**	**-9.4**	**0.0**	**0.0**	**0.0**	**-9.4**	**101.5**
	4,016.3	**162.8**	**0.2**	**-7.8**	**0.0**	**4,171.5**	**-200.6**	**-146.5**	**0.2**	**0.0**	**-346.9**	**3,824.6**

Consolidated Statement of Changes in Non-current Assets of the VGT Group as of 31 Dec. 2013

							Accumulated depreciation and amortisation					Carrying amounts
	1 Jan. 2013	Additions	Appreciation	Disposals	Reclassifications	31 Dec. 2013	1 Jan. 2013	Additions	Disposals	Reclassifications	31 Dec. 2013	31 Dec. 2013
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Intangible assets												
Internally generated industrial property rights and similar rights and assets	0.1	0.6	0.0	0.0	0 9	1.6	0.0	-0 2	0.0	0.0	-0.2	1.4
Purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets	114 8	6.9	0.0	-0.5	8 9	130.1	-10.4	-28 3	0.0	0.0	-38.7	91.4
Advance payments	13.7	10.4	0.0	0.0	-9 8	14.3	0.0	0.0	0.0	0.0	0.0	14.3
	128.6	**17.9**	**0.0**	**-0.5**	**0.0**	**146.0**	**-10.4**	**-28.5**	**0.0**	**0.0**	**-38.9**	**107.1**
Goodwill	**830.4**	**0.0**	**0.0**	**0.0**	**00**	**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	145 3	5.5	0.0	0.0	1 5	152.3	-1.9	-4.6	0.0	0.0	-6.5	145.8
Pipeline system	1,982 3	61.9	0.0	-8.9	0 9	2,036.2	-25.9	-66 8	0.0	0.0	-92.7	1,943.5
Technical plant, equipment and machinery	493 5	49.7	0.0	0.0	29.6	572.8	-13.1	-33 3	0.0	0.0	-46.4	526.4
Other equipment, fixtures, furniture and office equipment	26 8	3.6	0.0	0.0	0.1	30.5	-1.7	-5.1	0.1	0.0	-6.7	23.8
Advance payments and construction in progress	105 2	57.2	0.0	0.0	-32.1	130.3	0.0	0.0	0.0	0.0	0.0	130.3
	2,753.1	**117.9**	**0.0**	**-8.9**	**0.0**	**2,922.1**	**-42.6**	**-109.8**	**0.1**	**0.0**	**-152.3**	**2,769.8**
Financial assets												
Equity investments	120.7	0.0	0.0	-6.4	0.0	114.3	0.0	-9.4	0.0	0.0	-9.4	104.9
Loans granted	2 9	0.5	0.6	-0.5	0.0	3.5	0.0	0.0	0.0	0.0	0.0	3.5
	123.6	**0.5**	**0.6**	**-6.9**	**0.0**	**117.8**	**0.0**	**-9.4**	**0.0**	**0.0**	**-9.4**	**108.4**
	3,835.7	**196.3**	**0.6**	**-16.3**	**0.0**	**4,016.3**	**-53.0**	**-147.7**	**0.1**	**0.0**	**-200.6**	**3,815.7**

Essen, 13 March 2015

Vier Gas Transport GmbH
The Management

Hilko Cornelius Schomerus

John Benedict McCarthy

Lincoln Hillier Webb

Frank Rothäusler

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, 2014. 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 IFRSs 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 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 13, 2015

PricewaterhouseCoopers
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Wirtschaftsprüfungsgesellschaft

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