

MANAGEMENT
REPORT AND NOTES
ANNUAL REPORT 2007

SUPERVISORY BOARD REPORT FOR BERLINER GASWERKE AKTIENGESELLSCHAFT FOR FISCAL YEAR 2007



THE SUPERVISORY BOARD AND ITS COMMITTEES convened a total of 12 times in fiscal year 2007 and continuously monitored the management board's activities throughout the fiscal year on the basis of oral and written reports provided by the management board. During the fiscal year, the supervisory board duly informed itself of the situation and the business development of the Company and the Group (GASAG). All significant decisions, especially those requiring the approval of the supervisory board pursuant to the law and the articles of incorporation and bylaws, were presented to the supervisory board and discussed in the supervisory board meetings.

THE SUBJECT OF DISCUSSIONS by the supervisory board included the economic situation and outlook of the GASAG Group and GASAG AG, the financial statements for fiscal year 2006 and the economic, investment, financial and personnel plans for the period from 2008 to 2012. In fiscal year 2007, the supervisory board paid particularly close attention to the GASAG Group's growth strategies and the related measures. It also dealt with the review of network access charges by the German Federal Networks Agency ["Bundesnetzagentur": BNetzA] and the optimization of sales structures, storage expansion, gas pricing and gas procurement. The supervisory board also concerned itself with the financing strategy and capital situation of the

GASAG group companies as well as the real estate transactions of GASAG AG. The supervisory board approved GASAG's investment in NGT Neue Gebäudetechnik GmbH and SBB Abfallerzeuger GbR as well as the liquidation of GASAG Versicherungsvermittlung der Versorgungsunternehmen GmbH.

THE FINANCIAL STATEMENTS OF GASAG AG and the consolidated financial statements as of December 31, 2007, as well as the combined management report of the management board were audited by the engaged auditors Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Berlin, Germany. An unqualified audit opinion was expressed. Within the scope of the audit of the financial statements of GASAG AG and the consolidated financial statements, the auditors reviewed the Company's current early warning system for the detection of risk and its functionality. The audit has shown that the management board has taken the steps required by Sec. 91 (2) AktG ["Aktiengesetz": German Stock Corporation Act], particularly those related to the implementation of a monitoring system, and that this system is capable of identifying, at an early stage, developments posing a risk to the Company's ability to continue as a going concern.

THE MEETINGS OF THE SUPERVISORY BOARD and its audit committee, during

which they consulted on the financial statements of GASAG AG for fiscal year 2007 submitted by the management board, the consolidated financial statements for 2007, the combined management report and the proposal for the appropriation of the retained earnings of GASAG AG, were attended by the auditors, who reported on the key findings of their audit.

THE SUPERVISORY BOARD has concerned itself in detail with the work pertaining to the financial statements and has acknowledged the audit findings. Based on the final results of the audit performed by the supervisory board itself, GASAG AG's financial statements, the consolidated financial statements of the GASAG Group, the combined management report and the proposal for the appropriation of GASAG AG's retained earnings, do not lead to any reservations. The supervisory board approved the financial statements of GASAG AG prepared by the management board and the consolidated financial statements.

In accordance with Sec. 312 AktG, the management board of GASAG Berliner Gaswerke Aktiengesellschaft has prepared a report FOR FISCAL YEAR 2007 about relationships with affiliated companies. The auditors audited this report and issued the following audit opinion:

"Based on our audit in accordance with professional standards and our evaluation, we confirm that

1. the factual statements made in the report are correct; and
2. the consideration paid by the Company in respect of the legal transactions mentioned in the report were not excessive."

THE COMPANY did not specify any other activities within the meaning of Sec. 312 (1) AktG in the dependent company report. Accordingly, there was no explanation of relevant activities in the closing remarks or the audit opinion.

BASED ON THE FINAL RESULTS of its audit, the supervisory board declared that it has no reservations regarding the management board report on relationships with affiliates, including the explanation at the end of the report or against the findings of the auditor's audit.

THE SHAREHOLDERS OF GASAG Berliner Gaswerke Aktiengesellschaft remained unchanged in fiscal year 2007.

There were changes in the members of the supervisory board in fiscal year 2007.

The members of the supervisory board are:

Dr. Karl Kauermann (Chairman),
Mr. Andreas Otte (Deputy Chairman),
Mr. Bernard Alran,
Mr. Eckhard Beye (until December 31, 2007),
Mr. Michael Bölter,
Mr. Uwe Borck (since January 4, 2007),
Mr. Thorsten Ciebilski,
Mr. Pierre Clavel,
Mr. Hans-Jürgen Cramer,
Mr. Olaf Ditt,
Mr. Mats Fagerlund (since September 18, 2007),
Mr. Philippe Jeunet,
Mr. Thomas Kokegei (since January 10, 2008),
Mr. Axel Krafscheck (until December 31, 2007),
Mr. Lutz Marowsky,
Dr. Hans-Jürgen Meyer,
Ms. Monika Nagel,
Prof. Dr. Klaus Rauscher (until August 27, 2007),
Dr. Bernhard Reutersberg (since January 18, 2007),
Dr. Herbert Rübén

Mr. Georges Hoffmann stepped down from GASAG's management board effective December 31, 2007.

The supervisory board acknowledges its thanks and recognition to the management board, the works council and all employees of GASAG Berliner Gaswerke Aktiengesellschaft for their efforts in fiscal year 2007.

The Supervisory Board
Dr. Karl Kauermann, Chairman
Berlin, Germany, April 2008



SUPERVISORY BOARD

Dr. Karl Kauermann

(Chairman of the supervisory board)
Chairman of the management board of
K.M.T. Immobilien AG, Berlin, Germany

Andreas Otte

(Deputy chairman of the supervisory board)
Employee (chairman of the works council)
at GASAG Berliner Gaswerke Aktiengesell-
schaft, Berlin, Germany

Bernard Alran

General manager of Gaz de France
Deutschland GmbH, Berlin, Germany

Eckhard Beye

(until December 31, 2007)
Divisional head of GASAG Berliner
Gaswerke Aktiengesellschaft, Berlin,
Germany

Michael Bölter

Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Uwe Borck

(since January 4, 2007)
District divisional head of public supply
and waste disposal, ver.di, Vereinte
Dienstleistungsgewerkschaft, District
of Berlin-Brandenburg, Germany

Thorsten Ciebilski

Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Pierre Clavel

Head of the International group division
at Gaz de France S.A., Paris, France

Hans-Jürgen Cramer

Member of the management board of
Vattenfall Europe Aktiengesellschaft,
Berlin, Germany

Olaf Ditt

Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Mats Fagerlund

(since September 18, 2007)
Member of the management board of
Vattenfall Europe Aktiengesellschaft,
Berlin, Germany

Philippe Jeunet

Advisor to the chairman of the manage-
ment board of Gaz de France S.A.,
Paris, France

Thomas Kokegei

(since January 10, 2008)
Divisional head of GASAG Berliner
Gaswerke Aktiengesellschaft,
Berlin, Germany

Axel Krafsccheck

(until December 31, 2007)
Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Lutz Marowsky

Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Dr. Hans-Jürgen Meyer

Member of the management board of
Vattenfall Europe Aktiengesellschaft,
Berlin, Germany

Monika Nagel

Employee at NBB Netzgesellschaft
Berlin-Brandenburg GmbH & Co. KG,
Berlin, Germany

Prof. Dr. Klaus Rauscher

(until August 27, 2007)
Former chairman of the management
board of Vattenfall Europe Aktiengesell-
schaft, Berlin, Germany

Dr. Bernhard Reutersberg

(since January 18, 2007)
Member of the management board of
E.ON Ruhrgas Aktiengesellschaft, Essen,
Germany

Dr. Herbert Rügen

Member of the management board
of Thüga Aktiengesellschaft, Munich,
Germany

MANAGEMENT BOARD

Georges Hoffmann

(until December 31, 2007)
(Chairman of the management board)
Responsible for personnel, legal affairs,
and procurement

Olaf Czernomoriez

Responsible for administration and
IT strategy

Andreas Prohl

Responsible for distribution and
technology

COMBINED MANAGEMENT REPORT OF THE GASAG GROUP AND GASAG BERLINER GASWERKE AKTIENGESELLSCHAFT, BERLIN, GERMANY, FOR FISCAL YEAR 2007

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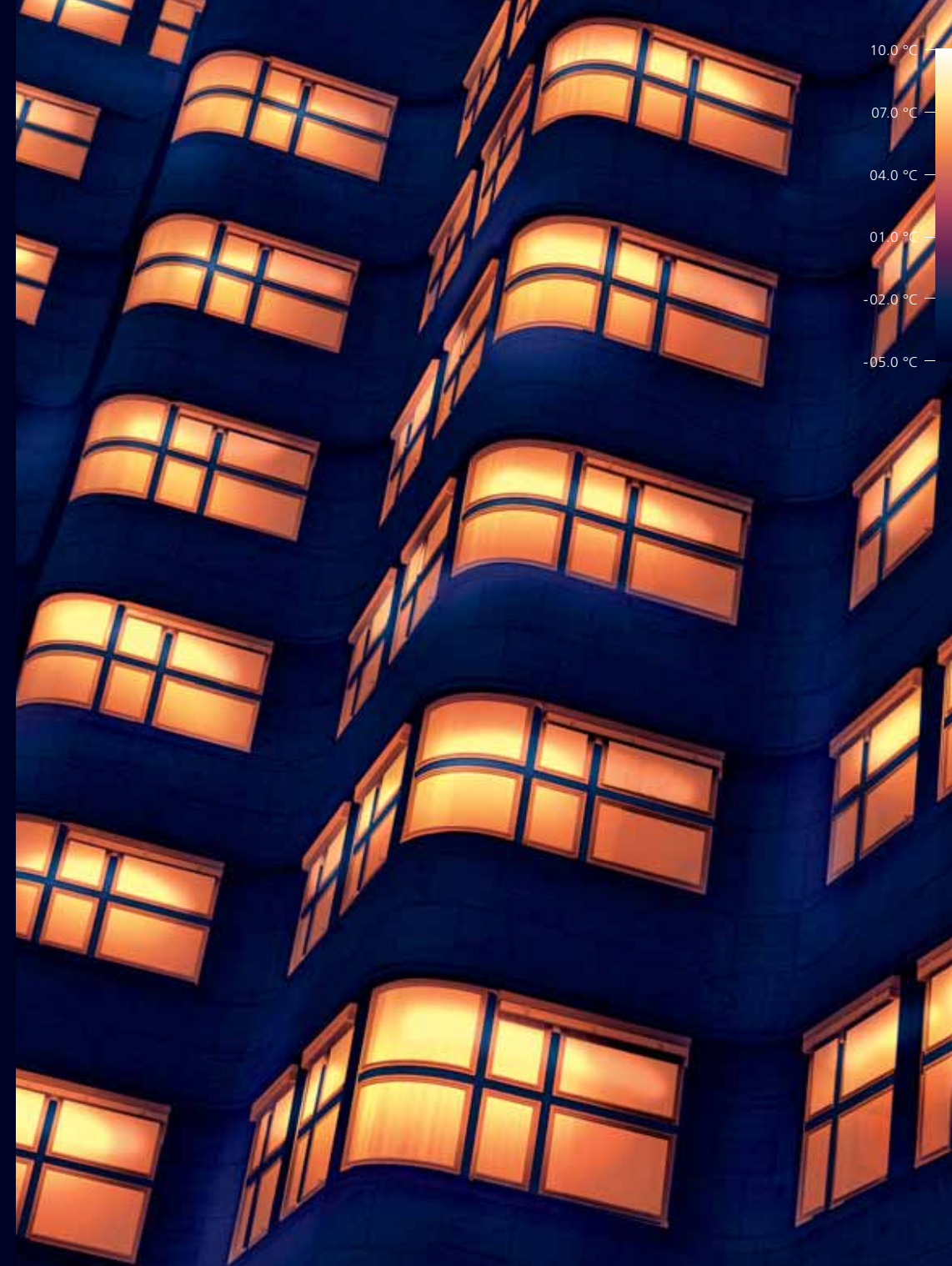
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Declaration pursuant to sec. 312 (3) AktG



10.0 °C
07.0 °C
04.0 °C
01.0 °C
-02.0 °C
-05.0 °C

COMBINED MANAGEMENT REPORT

1. BUSINESS AND BACKGROUND



1.1 PRELIMINARY REMARKS

GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, has prepared its consolidated financial statements for fiscal year 2007 in accordance with International Financial Reporting Standards (IFRSs), as they are required to be applied in the European Union. As a non-listed company, the supplementary provisions of Sec. 315a (3) HGB [“Handelsgesetzbuch“: German Commercial Code] were observed.

The separate financial statements of GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, have been prepared according to the German Commercial Code.

This combined management report provides information on the situation of the Berliner Gaswerke AG Group (hereinafter referred to as the “GASAG Group”) according to IFRSs and GASAG Berliner Gaswerke Aktiengesellschaft (hereinafter referred to as “GASAG AG”) according to the German Commercial Code.

1.2 GENERAL ECONOMIC SITUATION

The economic revival forecast to begin in 2006 for both Berlin and Brandenburg continued to flourish in 2007. Key economic indicators are still pointing in a positive direction. For example, the order situation for the industry in Berlin improved again on the prior year. In the third quarter of 2007, incoming industrial orders were up some 11.5% year on year,

although they were still below the national average. Industrial revenues were also up, driven primarily by high increases in foreign sales.

The business climate index forecast by the chambers of industry and commerce in the Berlin-Brandenburg economic region, which is based on companies’ assessments of their current business situation and their expectations of further development, is much higher than in prior years. The percentage of companies surveyed who classified their current business situation as good or satisfactory rose from 79% to 91%.

However, companies in Brandenburg made more conservative assessments of their economic outlook than their Berlin counterparts. This is partly due to the low proportion of manufacturing industry and its structure in the Federal State of Brandenburg and partly to the fact that the State does not gain as much from the strong growth arising from export. As a result of these structural differences, the Federal State of Brandenburg is not able to capitalize on the positive growth effects to the same extent as the other Federal States. Nevertheless, the economic report for 2007 published by the Ministry of Economics of the Federal State of Brandenburg predicts a positive trend for the manufacturing industry, the business services sector and also the construction industry.

The construction industry, whose development is particularly important for economic development, performed very well in 2007 compared with prior periods. In the first half of 2007, the construction industry in Berlin recorded growth of around 19%, which was much higher than the national average. Despite the positive economic figures, no increase in investments is to be expected in the construction industry. The new housing construction sector in particular continued its decline in both states. The GASAG Group does not expect its sales to receive any more growth impetus in this sector.

1.3 SITUATION OF THE INDUSTRY

According to preliminary figures from Energie Informationsdienst (Issue 02/2008), there was a sharp drop in natural gas consumption in 2007. Owing to the mild winter, there was a loss in sales in the first four months that could not be recuperated by year-end. Overall, private households consumed some 10% less natural gas than in the prior year. The consumption of industrial customers also fell by some 4.5% on 2006.

Around 48% of all households in Germany are heated using natural gas. Despite the ongoing debate over prices, the trend towards natural gas among home owners continued. This applies to both private households and the housing industry. In connection with the forthcoming modern-

ization of existing heating systems in areas supplied with natural gas, many home owners are switching their heating from oil heating to natural gas. The number of households with gas heating increased in direct competition with other energy sources to more than 18.2 million by the end of 2006. Thus, natural gas is and remains the most used fuel in this industry.

In recent years, demand for energy and primary energy sources, such as coal, oil and natural gas, has continued to grow worldwide. This trend is set to continue in decades to come, above all as a result of the fast-growing economies in Asia.

In the international arena, the significance of liquefied natural gas (LNG) will grow, as this will allow the exploitation of natural gas deposits where there is no infrastructure.

And in Germany, biomethane from indigenous sources will also play a role in diversifying the natural gas supply in the foreseeable future. With its environmentally-friendly natural gas, the GASAG Group has a competitive primary energy product whose share in energy sales is set to increase further in the future.

1.4 ORGANIZATIONAL AND LEGAL BACKGROUND

GAS MARKET REGULATION

ACCESS TO THE GAS NETWORK
Access to the gas network changed fundamentally in the fiscal year. Since the conclusion of the cooperation agreement between network operators in fiscal year 2006, the number of market areas has fallen from 19 to 14.

The cooperation agreement was revised as of October 1, 2007, and a new, exclusively relevant network access system with a “two-contract model” was adopted. In addition to the necessary conversion of the city gate supply contracts, the amendment to cooperation agreement II also crucially affected the setting of charges by network operators. The main difference from previously published network charges is the inclusion of upstream network costs in the form of a shifting pool of charges. The upstream costs for each market area were therefore calculated for all three sub-networks on the basis of internal capacity reservations by network operators, aggregated, and integrated in the charge. The network charges thus published as of October 1, 2007 include network usage up to the virtual trading point of the market area.

A major feature of the new gas network access model is the use of balancing groups.

At the same time, contract dispatching was introduced as of October 1, 2007 to ensure the management of balancing groups by nominating traders in connection with services provided by NBB Netzgesellschaft Berlin-Brandenburg GmbH & Co. KG (hereinafter also referred to as “NBB”), thus guaranteeing independent supply control for GASAG AG, EMB Erdgas Mark Brandenburg GmbH (hereinafter also referred to as “EMB”) and Havelländische Stadtwerke GmbH (hereinafter also referred to as “HSW”).

NETWORK CHARGES PROCEEDINGS

On January 15, 2007, NBB, which was spun off in the prior year, filed a complaint with the Higher Regional Court of Düsseldorf against specific bases of calculation in the network charge notices issued by the German Federal Networks Agency [“Bundesnetzagentur“: BNetzA] on December 13, 2006. The notices were approved with discounts for the sub-networks operated by NBB in Berlin and Brandenburg. The complaints procedure is expected to be concluded some time in fiscal year 2008.

The state regulatory authority for Brandenburg issued a notice on August 6, 2007 concerning the network leased from HSW as of January 1, 2007. According to instructions from the state regulatory authority of Brandenburg, the charges in the notice issued to HSW must be transferred to NBB, as network operator, without a change in the amount. A com-



plaint against this notice was filed with the Higher Regional Court of Brandenburg on September 5, 2007.

As of October 1, 2007, NBB submitted new charge applications for all three network areas to the Federal Networks Agency, with due notice.

INCENTIVE REGULATION

The incentive regulation ordinance passed by the Upper House of the German Parliament, the Bundesrat, on September 21, 2007, which came into force on November 6, 2007, will replace the current cost regulation system as of January 1, 2009 with a regulation model that prescribes caps for the network operators' revenues, calculated on the basis of a nationwide efficiency comparison. All network operators must then measure themselves against the most efficient network operator. The efficiency comparison, which is carried out by the Federal Networks Agency before every regulation period, is determined on the basis of the total costs of network operation less the cost shares that are beyond the operators' control. The gas industry will have a time frame of nine years to achieve the efficiency targets. This is divided into two regulation periods, of four and then five years. Furthermore, in the first period, the companies must achieve a general increase in productivity of 1.25% per annum, in the second period of 1.5% per annum.

UNBUNDLING

Further unbundling was carried out in the fiscal year. The two-contract model was implemented on a technical level in the Group for processing network usage between the network operator, NBB, and the suppliers, GASAG AG, EMB and HSW, in order to meet the requirements of the German Energy Industry Act ["Energiewirtschaftsgesetz": EnWG] for standard processing using a new network access model.

LEGAL ISSUES

The main legal disputes in which GASAG AG is involved are civil-law proceedings arising as a result of the entitlement to increase prices. These proceedings were mostly instigated by customers, but some also by GASAG AG itself. From a substantive point of view, they relate to whether the price increases by GASAG AG can be classified as sufficiently transparent for the purposes of the General Terms and Conditions Act ["Gesetz zur Regelung des Rechts der Allgemeinen Geschäftsbedingungen": AGB-Recht] and/or as cheap within the meaning of Sec. 315 BGB ["Bürgerliches Gesetzbuch": German Civil Code]. The class action is under appeal at the Berlin Court of Appeal. An appeal hearing was held on January 8, 2008, but no ruling was made.

On November 13, 2007, the Regional Court of Potsdam ruled at the court of first instance in the action brought at the

initiative of the Brandenburg Consumers' Office to prohibit EMB from applying the price adjustment clause of its General Terms and Conditions, effective as of April 1, 2007, for "Klassik" and "Komfort" gas supply contracts for household customers. EMB has lodged an appeal against this ruling. Until and unless the last court of appeal rules in favor of the Consumers' Office, the ruling has no legal effect.

STRUCTURE OF THE GASAG GROUP

In fiscal year 2007, the GASAG Group was structured as follows: (excluding any entities that are not fully consolidated and limited partnerships):

GAS AND HEATING

GASAG BERLINER GASWERKE AG
The purpose of GASAG Berliner Gaswerke AG, Berlin, is chiefly the distribution and sale of gas as well as the operation of storage facilities and trading in energy sources, especially in Berlin. GASAG AG also performs commercial and administrative services for all group entities.

EMB ERDGAS MARK BRANDENBURG GMBH

GASAG AG holds 75.08625% of the subscribed capital of EMB Erdgas Mark Brandenburg GmbH, Potsdam. The purpose of the entity is the production, distribution and sale of energy, in particular natural gas, as well as trading therein, in the western region of the Federal State of Brandenburg.

GASAG WÄRMESERVICE GMBH

GASAG AG owns 100% of the capital stock of GASAG WärmeService GmbH (GWS), Berlin. The main purpose of the entity is the planning, financing, set-up and operation of production facilities for the provision of energy and heating. The entity operates nationwide as of 2008.

NGT NEUE GEBÄUDETECHNIK GMBH

Effective as of October 1, 2007, GASAG AG owns 100% of the capital stock of NGT Neue Gebäudetechnik GmbH, (hereinafter also referred to as "NGT"), Essen. The purpose of the entity is the provision of services in connection with projects to plan, construct and finance power plants for heat, steam, cooling and electricity. The entity operates nationwide.

TRANSPORT

NBB NETZGESELLSCHAFT BERLIN-BRANDENBURG GMBH & CO. KG

As of the balance sheet date, GASAG AG held 83.5% of the limited partners' interests in the above German limited partnership, EMB 15.0% and HSW 1.5%. On January 1, 2006, NBB, as the network arm, assumed the operation of GASAG AG's and EMB's networks as well as the marketing of network capacity, and since then has offered its services as network operator in Berlin and Brandenburg. With effect from January 1, 2007, HSW, Germany, assumed 1.5% of the limited partners' interests in NBB from GASAG AG at nominal value. Since then, NBB has also operated HSW's network and marketed its network capacities.

TECHNICAL AND OTHER SERVICES

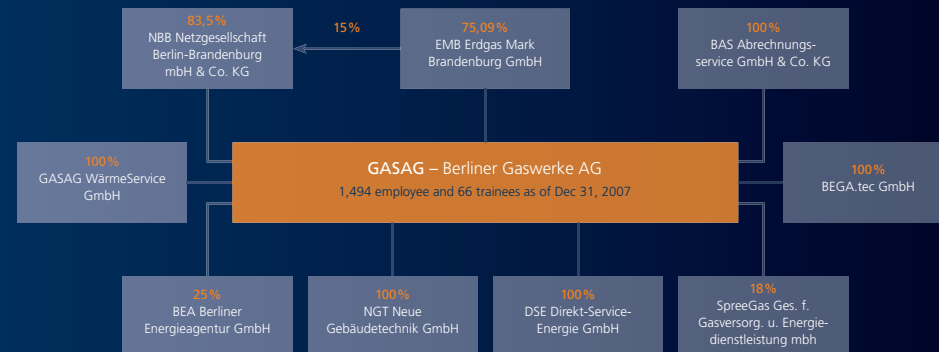
BAS ABRECHNUNGSSERVICE GMBH & CO. KG

GASAG AG holds 100% of the limited liability capital of BAS Abrechnungsservice GmbH & Co. KG (hereinafter also referred to as "BAS"), Berlin. The entity is essentially responsible for all consumption-billing and meter-reading services as well as call-center services for the Group. It also performs services for third parties.

BEGA.TEC GMBH

GASAG AG owns 100% of the capital stock of BEGA.tec GmbH (hereinafter also referred to as "BEGA.tec"), Berlin. The purpose of the entity is the set-up, maintenance, repair and overhaul of energy installations as well as equipment

THE GASAG GROUP





management for energy, heating and water meters, including the remote transfer of measurement data and realization of statutory calibration obligations. It also operates a chemical laboratory for the production of analyses and their evaluation. The entity primarily renders services for the Group, but also for third parties.

DSE DIREKT-SERVICE ENERGIE GMBH
On October 1, 2007, GASAG direkt GmbH was renamed DSE Direkt-Service Energie GmbH (hereinafter also referred to as "DSE"), Berlin. GASAG AG holds 100% of DSE's capital stock. The purpose of the entity is the sale of products and services, especially energy management and technical installations in the name of and on behalf of other companies.

NGT NEUE GEBÄUDETECHNIK GMBH
NGT also provides technical services in connection with the adjustment of gas equipment, and the house connection and meter service.

1.5 GENERAL BUSINESS PERFORMANCE

EXISTING BUSINESS

Temperature trends in the sales regions of Berlin and Brandenburg were far too warm in the fiscal year. GASAG AG's sales area, similarly to EMB's, recorded temperatures of 1.7°C above the average for a normal year (8.9°C) and 0.4°C

above the prior-year average (10.2°C). Consequently, gas sales were substantially below target. In addition to the gas sales volume, transport volumes for power plants in the Berlin network area decreased considerably compared with the prior year, whereas transport volumes for third parties recorded an increase.

Gas-to-gas competition in the private customer segment experienced a boom in 2007. In the course of the year, new competitors entered the gas market in Berlin and Brandenburg.

In the special contract customer segment, the GASAG Group managed to secure much of the gas volume up for negotiation. Many customers issued public invitations to tender for their expiring natural gas supply contracts and the gas volumes up for disposal. The Federal State of Berlin, for example, issued a Europe-wide invitation to tender for its gas procurement and supply for gas street lighting. GASAG AG prevailed over its competitors and will continue to supply the Federal State of Berlin with natural gas over the next few years.

In terms of winning new customers, both GASAG AG and EMB put new plants into operation in the fiscal year, generating sustainable additional sales in the Group's core supply area.

Effective as of January 1, 2007 for GASAG AG, and as of April 1, 2007 for EMB, a new tariff/pricing system was introduced for tariff and special contract customers. This system led to new market conditions, in particular the provisions of the Ordinance on the General Terms and Conditions for the Basic Supply of Household Customers and the Auxiliary Supply With Gas From the Low Pressure Network (Basic Gas Supply Ordinance ["Gasgrundversorgungsverordnung": GasGVV]), which came into force in November 2006. The pricing system has been made more transparent and includes best-price billing for GASAG AG's (and EMB's) basic supply customers, by which they are billed using the rate most favorable for them based on their annual consumption.

INVESTMENT STRATEGY

The GASAG Group pursued its investment strategy in terms of its growth targets to expand core business and increase the market area. With its contracting and technical services divisions, NGT's business, acquired by GASAG AG on October 1, 2007, is in keeping with the GASAG Group's strategic focus. Expanding its position in the contracting market is a significant growth option for the GASAG Group. NGT is particularly active with contracting offers in the healthcare sector. Through the acquisition of the technical services division, the GASAG Group hopes to realize synergies, especially with regard to house connection and meter

services, system services for meter management, and inspection, maintenance and overhaul of house connections.

In fiscal year 2007, EMB acquired a 49% share in GreenGas Produktionsanlage Rathenow GmbH & Co. KG, Rathenow. The biogas plant at Rathenow is the first plant in the Federal State of Brandenburg to upgrade biogas to biomethane. It will feed into NBB's pipe network. This is the GASAG Group's first step towards establishing a biomethane business.

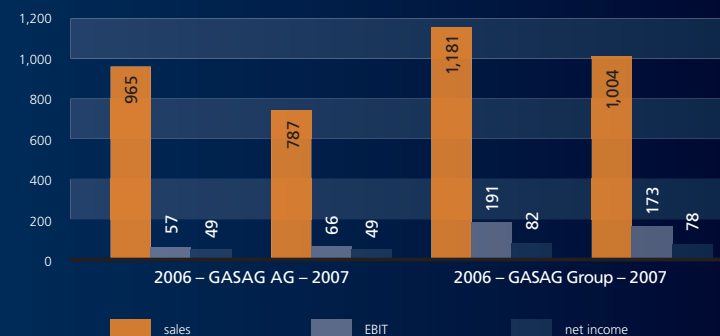
PROJECT "GASAG 2015"

At the start of 2007, the GASAG Group began to work intensively on the "GASAG 2015" project, which was set up especially to deal with growth options. In the evaluation of pre-selected options, seven were found to be particularly attractive from a market and investment perspective: storage expansion, distribution to foreign markets, trading, renewable energies, contracting, smart metering, and networks.

Once the planning process was complete, implementation began in part:

- To optimize the efficiency of the storage facility, preparatory work for the sinking of two wells and seismic surveys are being carried out in 2008.
- GASAG AG has been supplying private and business customers in Kiel with its innovative product "Bäregas" since October 1, 2007. Nationwide offers of gas supply have also been issued to key accounts and the first contracts concluded for 2008.
- By switching existing supply contracts to virtual trading points, gas supply was ensured from October 1, 2007, thus meeting the requirements for potential future trade.
- In addition to planning work in the renewable energies sector, construction of the first biogas plant in Rathenow began on November 16, 2007.

KEY DATA GASAG AG AND GASAG GROUP (IFRSs) 2006–2007 (EUR m)





- As well as the development of segment-specific contracting strategies, two projects were successfully concluded with regard to the investigation of potential acquisitions and joint ventures. A significant chain was won as a buyer of contracting services and NGT was taken over.

- Due to the deregulation of metering and the expectation of a legal obligation to bill on a monthly basis, the use of these new technologies is being looked into intensively. Initial testing has been carried out as part of a pilot project with the support of cooperation partners.

- In the expansion of network business, the particular focus is on purchasing and operating other networks. Concomitantly, a plan was drawn up for the sale of network services, including collaborations. This plan is already being implemented by NBB.

MARKET EXPANSION ACTIVITIES

GASAG AG is intensifying its promotion of the use of gas heating in combination with solar-power systems. To complement the existing promotion of solar power, the information campaign "Natural Gas + Solar Heating XXL" was launched together with Berliner Energieagentur in July 2007. The aim is to accelerate the construction of large, thermal solar systems with collector areas greater

than 20m² in the housing industry, which is particularly significant for Berlin.

A core aim of GASAG AG's program is to construct and expand block-type thermal power stations of various sizes. These plants save up to 40% energy because they combine the generation of power and heat near the consumer.

In terms of renewable energies, the program also involves the planning of additional biogas plants. The market launch of gas heating pumps and the expansion of the gas station infrastructure for natural gas-powered vehicles will also play a key role.

These activities will not only benefit the environment. They will also make substantial cost savings for primary energy sources. Overall, with multiplier effects from plant manufacturers, equipment manufacturers, and trade, an investment volume of up to EUR 1.5b is expected. This will particularly reinforce small and medium-sized enterprises in the region and make an important contribution to securing and increasing jobs in the important field of environmental protection and energy technology.

ENVIRONMENT AND TECHNOLOGY
GASAG AG once again increased its environment and technology-related activities in 2007. In addition to establishing organizational requirements, we focused

in particular on testing new technologies for the distributed generation of heat from natural gas. We also entered the biomethane sector.

LEGAL SITUATION

GASAG AG's activities are supported in particular by the German Federal Government's "Integrated Energy and Climate Program" (Meseberg policy paper). A highly efficient, ecologically and economically sound, distributed energy supply is to be realized. The technologies that will also enable this in detached housing and other properties with small requirements are currently being tested or are about to be launched.

"BERLIN VERPFLICHTET"

Against the background of the current climate and energy debate, GASAG AG wants to reduce CO₂ emissions in Berlin by more than one million metric tons per annum by 2015 and thereby do more to help protect the environment. This move also serves to emphasize GASAG AG's progression from an infrastructure provider of the 1990s to a modern, future-looking, innovative energy provider.

At the heart of the "Berlin verpflichtet" program is a distributed energy supply. But it also aims to promote energy-efficient technologies and modernize heating systems.

The program is based on the premise that private households are responsible for more than half of the carbon dioxide emissions in Berlin. More than 10,000 oil heaters in Berlin are more than 25 years old. By replacing old systems with modern natural gas heating systems, CO₂ emissions could be sustainably reduced.

For this reason, GASAG AG has undertaken to step up and expand its advisory and service offering in relation to the conversion of heating systems.

DEVELOPMENTS IN OTHER BUSINESS SEGMENTS

In the natural-gas-as-fuel segment, the sales volume grew by some 10% to almost 70 million kWh of natural gas. A major basis for this encouraging development is the number of natural gas stations in Berlin. In order to further spread the use of natural gas-powered vehicles, "Phill", the natural gas home refueling system from Canada, is to be brought in. This system was tested.

In order to promote distributed energy supply, seven "lion Powerblock" mini-CHP systems were tested in the field. Furthermore, a two-year mini-CHP field test campaign was launched in March 2007, in which a total of 20 WhisperGen units were tested in households, commercial operations and public institutions.

Eight diffusion-absorption heating pumps are also currently being tested under everyday conditions. It is hoped that the nationwide "gas heating pump initiative" that is currently getting underway with reputable equipment manufacturers will drive forward the development and market launch of this technology.

COMBINED MANAGEMENT REPORT

2. SITUATION OF THE GASAG GROUP (IFRSs)



2.1 RESULTS OF OPERATIONS OF THE GASAG GROUP

REVENUE fell against the prior year by EUR 177.1m to EUR 1,004.3m (down 15.0%). This drop is attributable to the temperature trend and price reductions at GASAG AG and EMB. The price reductions were effected as a consequence of changes in oil prices. Furthermore, with the coming into effect of the new German Energy Tax Act ["Energiesteuer-gesetz": EnStG] in August 2006, natural gas tax was no longer a component of revenue in 2007; however, in 2006 it was still recognized under revenue for the months January to July.

At 22,515 million kWh, the gas sales volume, without taking into account

intragroup supplies, is 2,310 million kWh down on the prior-year figure (24,825 million kWh). 1,574 million kWh of this reduction is attributable to GASAG AG and 737 million kWh to EMB.

OTHER OPERATING INCOME fell by EUR 43.2m to EUR 25.8m (down 62.6%). The decrease was chiefly due to a refund claim of EUR 27.1m disclosed in the prior year against Berliner Erdgasspeicher Besitz- und Verwaltungsgesellschaft bR, Berlin, and its partners.

The COST OF MATERIALS dropped by EUR 169.5m to EUR 638.4m (down 21.0%). The decrease is primarily due to reduced volumes due to higher temperatures as well as lower gas procurement

prices. Furthermore, in line with revenue, energy tax for natural gas procurement has not been a component of cost of materials since the new German Energy Tax Act became operative.

PERSONNEL EXPENSES fell by a total of EUR 35.6m (down 31.5%) to EUR 77.4m. In order to cover the additional cash requirement to finance claims arising prior to January 1, 2002 for old-age and survivors' pensions through the Pension Institution of the Federal Republic of Germany and the Federal States ["Ver-sorgungsanstalt des Bundes und der Länder": VBL], the risk provision for restructuring contributions pursuant to IAS 19.32A was increased by EUR 5.7m (prior year: EUR 32.1m). In addition, in 2006,

a provision of EUR 10.3m was set up for the extended phased retirement program.

The average number of employees increased slightly year on year from 1,407 to 1,413.

OTHER OPERATING EXPENSES rose by EUR 1.2m to EUR 76.0m (up 1.6%).

PROFIT FROM OPERATIONS (EBIT) decreased by EUR 17.7m (down 9.2%) to EUR 173.2m in the fiscal year, mainly due to the reasons given above.

FINANCE COSTS recorded a decrease of EUR 5.8m (down 7.7%) on the prior-year level at EUR 69.6m.

At EUR 50.5m, INCOME TAXES dropped by EUR 3.1m (down 5.8%) on the comparative prior-year figure, mainly as a result of lower earnings before taxes.

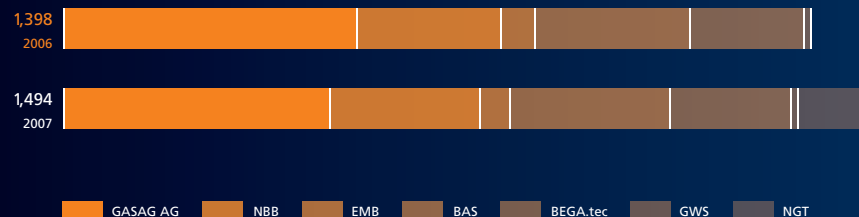
In a year-on-year comparison, the GASAG Group's PROFIT FOR THE PERIOD decreased by EUR 3.4m from EUR 81.7m to EUR 78.3m (down 4.1%).

Profit from operating activities contains a NON-OPERATING RESULT of EUR -4.8m (prior year: EUR -4.9m), mainly comprising the following material items:

	2007 EUR m	2006 EUR m
Expenses		
Expenses from restructuring contributions to the VBL	5.7	32.1
Elimination of receivables and bad debt allowances	7.1	9.2
Expenses from the redundancy plan and compensation agreements	0.7	0.0
Expenses from phased retirement arrangements	0.0	10.3
	13.5	51.6
Income		
Income from the reversal of provisions	2.9	14.5
Income from the refund claim against Speicher GbR	0.0	27.1
	2.9	41.6
Other expenses and income (net)	5.8	5.1
	-4.8	-4.9

GASAG GROUP CHANGES IN EMPLOYEES BETWEEN 2006–2007

(Total employees GASAG Group excluding employees on leave under phased retirement arrangements and inactive employees and without members of the management board, managing directors and trainees)





2.2 FINANCIAL POSITION OF THE GASAG GROUP

Financial management, which is carried out by GASAG AG, is a means of controlling and safeguarding cash flows in the Group at all times. Rolling 12-month cash flow plans are used to determine liquidity needs.

The nature and scope of transactions are based on the core operational and financial business of the Group.

The financial requirements of the Group are covered by cash flows from operating activities and by drawing on short-term and long-term bank loans. In addition, thanks to its sustained positive business development, the Group had direct access to the capital market for the first time. The placement of a borrower's note loan of EUR 150m with a term of 15 years on the European capital market breaks down into two term loans of EUR 100m in 2007 and EUR 50m in 2008. Seven banks provide group borrowing facilities, some of which have no fixed term. The interest-bearing loans included in current and non-current liabilities are spread over 20 banks.

NON-CURRENT LIABILITIES

The year-on-year decrease in NON-CURRENT LIABILITIES (excluding deferred taxes) by EUR 148.8m to EUR 1,234.8m is primarily attributable to the reduction in interest-bearing loans by EUR 141.6m. The reduction in long-term loans is chiefly

the result of the reclassification of matching maturities to current liabilities.

CURRENT LIABILITIES

CURRENT LIABILITIES increased by EUR 141.1m to EUR 467.1m mainly due to the rise in short-term loans by EUR 159.4m and the decrease in provisions by EUR 9.9m.

CASH FLOW STATEMENT

Cash flows from operating activities of the GASAG Group fell by EUR 129.8m in fiscal year 2007 to EUR 94.0m.

The EUR 131.7m decrease in working capital is mainly due to the increase in income tax paid to settle prior-year tax liabilities and the increase in receivables. In the fourth quarter of 2007, non-recurring effects in the special customer segment and temperature-related effects reduced the cash flow from receivables relating to gas supplies by EUR 81.8m year on year based on balance sheet results.

In contrast to the prior year, prepayments totaling EUR 21.5m were also made on gas volumes already delivered. Liabilities remained overall at around the prior-year level, effecting a EUR 58.3m year-on-year decrease in the resulting cash flow.

Significant negative effects on the cash flows from operating activities in 2007 will have a positive impact on the planned cash flows from operating activities in 2008.

In fiscal year 2007, cash flows from investing activities were negative and amounted to EUR 60.5m. This was primarily due to investments in intangible assets and property, plant and equipment as a result of a business combination, as well as separate financial investments made to meet legal requirements in relation to insolvency risk insurance for phased retirement credit.

Negative cash flows from financing activities fell by EUR 119.2m to EUR 46.1m in fiscal year 2007, mainly due to first-time capital market financing by GASAG AG of EUR 100.0m and lower loan repayments.

Cash and cash equivalents, which comprise cash on hand, bank balances and checks as well as interest-bearing securities classified as current assets, dropped by a total of EUR 12.6m to EUR 27.7m in fiscal year 2007.

	2007 EUR m	2006 EUR m
EBIT	128.8	135.3
Income taxes paid	-31.5	-31.6
Working capital	-59.2	72.5
Other	55.9	47.6
Cash flows from operating activities	94.0	223.8
Cash flows from investing activities	-60.5	-82.2
Cash flows from financing activities	-46.1	-165.3
Change in cash and cash equivalents due to fluctuations in value	0.0	0.4
Cash and cash equivalents at the end of the period	27.7	40.3

NET FINANCIAL POSITION

The net financial position includes cash and cash equivalents and securities classified as current assets, which are netted with the financial liabilities.

Securities classified as non-current assets and other loans are not factored into the calculation.

	2007 EUR m	2006 EUR m
Cash and cash equivalents	27.7	30.3
Securities classified as current assets	185.8	36.8
Sub-total current cash	213.5	67.1
Liabilities to banks	-741.8	-706.8
Other financial liabilities	-405.0	-420.7
Derivatives	0.0	-1.5
Net financial position	-933.3	-1.061.9

The increase in securities classified as current assets results from the reclassification of the zero bond from non-current financial assets.



2.3 NET ASSETS OF THE GASAG GROUP

NON-CURRENT ASSETS

NON-CURRENT ASSETS (excluding deferred taxes) decreased by EUR 140.1m to EUR 1,879.0m.

EUR 33.7m was invested in PROPERTY, PLANT AND EQUIPMENT of the GASAG Group (prior year: EUR 36.5m), although gas distribution networks and heating installations are the largest item (EUR 31.1m; prior year: EUR 31.9m).

INVESTMENTS IN ASSOCIATES fell by EUR 1.2m in the fiscal year.

CURRENT ASSETS

CURRENT ASSETS increased overall by EUR 196.5m to EUR 516.5m, chiefly as a result of the reclassification of a security with a nominal value of EUR 165m from non-current financial assets.

INVENTORIES increased by a total of EUR 8.2m on the prior year to EUR 87.0m. Inventories mainly comprise working gas.

The year-on-year rise in TRADE RECEIVABLES AND OTHER RECEIVABLES by EUR 42.9m to EUR 166.2m is principally attributable to the lower average temperatures in October to December 2007 compared with the prior year.

Shares in EnergieSüdwest AG, Landau, (hereinafter also referred to as "ESW"), which are to be used for the acquisition and financing of further shares in SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus, (SpreeGas) were disclosed under the item NON-CURRENT ASSETS HELD FOR SALE. The rest of the shares are scheduled to be exchanged in 2008.

NON-FINANCIAL PERFORMANCE INDICATORS

The average number of employees at the GASAG Group remained more or less unchanged against the prior year at 1,413.

Due to changing conditions, the GASAG Group is making targeted investments in improving the employee structure. The relatively high take-up rate of the phased retirement programs is creating the conditions in the Group necessary for such improvements. The collective agreement provision concluded with the social partner, ver.di, concerning the promotion of employment and improvement of workforce structures in the GASAG group entities, helps to make recruitment more efficient.

In addition to continuous professional development (CPD) training for all employees, special programs are carried out for the internal advancement of junior managers and the integration of university graduates.

EQUITY AND KPIS

At EUR 678.1m, EQUITY is higher than the prior-year level (up EUR 30.7m). This is an increase of 4.8%. The equity ratio of the GASAG Group increased to 27.5% (prior year: 26.4%); the balance sheet total was up slightly. Details of equity can be found in the statement of changes in equity in the notes to the consolidated financial statements.

Intangible assets and property, plant and equipment are covered by equity (39.6%; prior year: 37.5%).

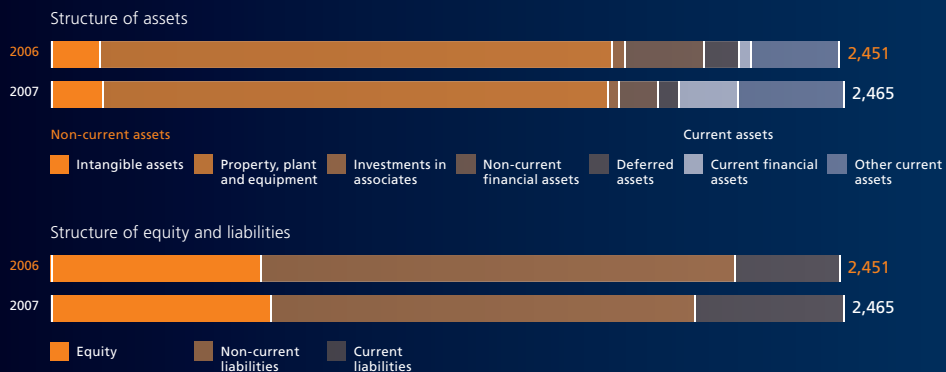
Return on Capital Employed (ROCE) fell by 1.0 percentage point in the fiscal year from 11.6% in 2006 to 10.6% in 2007, chiefly due to the positive one-time effects being recognized in the prior year. The ROCE in the GASAG Group reflects the performance of capital invested and mirrors the relationship between profit from operations and average operating assets.

2.4 OVERALL PICTURE OF THE ECONOMIC SITUATION

As a result of the mild weather conditions, gas sales in the fiscal year fell short of expectations. Intensified gas-to-gas competition led to a moderate drop in the number of customers. Financial obligations were covered by the available cash flows, financial assets and existing credit lines with matching maturities.

The investment strategy was successfully continued. The GASAG Group's profit for the period was down on the prior year owing to the negative effects of higher temperatures.

BALANCE SHEET STRUCTURE OF THE GASAG GROUP (IFRSs) (in EUR m)



COMBINED MANAGEMENT REPORT

3. SITUATION OF GASAG AG (GERMAN COMMERCIAL CODE)



3.1 RESULTS OF OPERATIONS OF GASAG AG

SALES fell against the prior year by EUR 178.6m to EUR 786.7m (down 18.5%). This drop is attributable in part to a reduction in published prices as of April 1, 2007 and price reductions for special contract customers. The price reductions were effected as a consequence of changes in oil prices. GASAG AG's gas sales volume amounted to 15,880 million kWh as a result of the warm weather (prior year: 17,528 million kWh). Furthermore, with the coming into effect of the new German Energy Tax Act in August 2006, natural gas tax was no longer a component of sales in 2007; however, in 2006 it was still recognized under sales for the months January to July.

Lease income from the leasing of the gas network dropped off as a result of the network charge notice issued by the German Federal Networks Agency, resulting in a further fall in sales.

OTHER OPERATING INCOME fell by some EUR 52.3m (down 42.0%) to EUR 72.4m. The decrease was due to a refund claim of EUR 27.1m disclosed in the prior year against Berliner Erdgasspeicher Besitz- und Verwaltungsgesellschaft bR, Berlin, and its partners. Also, income from the reversal of accruals of EUR 2.2m was recognized in the fiscal year, compared with EUR 14.0m in 2006.

COST OF MATERIALS was EUR 192.4m down on the prior-year level at EUR 569.8m. The decrease is primarily due to changes in volumes as a result of higher temperatures, as well as lower gas procurement and transport prices. Furthermore, in line with sales, energy tax for natural gas procurement has not been a component of cost of materials since the new German Energy Tax Act became operative. The resulting change in method led to a decrease to 72.4% in cost of materials as a percentage of sales for GASAG AG (prior year: 79.0%).

PERSONNEL EXPENSES are EUR 39.7m down on the prior-year level at EUR 41.4m. The risk accrual was increased by EUR 9.2m (prior year: EUR 25.5m) to cover the restructuring contributions to be paid to the VBL to hedge the shortfall. In addition, in 2006, an accrual of EUR 4.7m was set up for the extended phased retirement program.

The average number of employees fell from 568 to 520 (down 8.5%), mainly as a result of phased retirement arrangements.

OTHER OPERATING EXPENSES rose by EUR 4.8m (up 2.4%) to EUR 201.4m in the fiscal year. This primarily relates to increased leasing expenses for the natural gas storage facility and for the gas distribution network, due to investments made in the network and then charged on.

The INVESTMENT result amounts to a total of EUR 16.2m; the majority of this relates to the affiliated companies EMB (EUR 12.1m), BAS (EUR 0.9m), and GWS (EUR 0.8m).

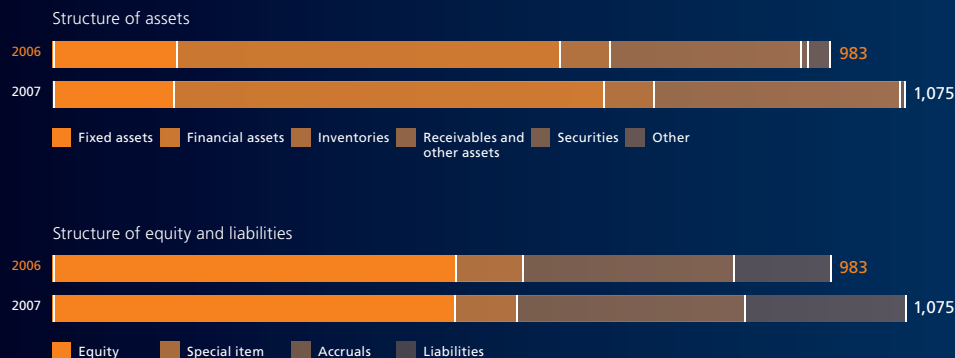
The RESULT FROM ORDINARY ACTIVITIES rose by EUR 8.5m (up 14.9%) to EUR 65.5m.

GASAG AG's INCOME TAXES stood at EUR 16.3m (prior year: EUR 7.4m). The reversal of tax accruals in 2006 as a result of the findings from the tax field audit had a significant effect, reducing the tax expense by EUR 16.0m.

In 2007, GASAG AG posted NET INCOME FOR THE YEAR of EUR 48.7m compared with net income of EUR 49.2m in 2006 (down 1.0%).

The result from ordinary activities contains a NON-OPERATING LOSS of EUR 25.9m (prior year: non-operating income of EUR 3.7m). It includes expenses relating to legal risks, expenses in connection with the recognition of accruals for restructuring contributions to the VBL, and expenses arising from the derecognition of receivables and the recognition of bad debt allowances. Contrasting effects chiefly relate to income from the reversal of accruals.

BALANCE SHEET STRUCTURE GASAG AG (HGB) (in EUR m)





3.2 FINANCIAL POSITION OF GASAG AG

The net assets of GASAG AG are structured in such a way that property, plant and equipment material to core business is financed via medium and long-term lease agreements with a view to improving the financial situation and results of operations.

These lease transactions led to financial obligations for gas facilities of EUR 1,088.0m (prior year: EUR 1,158.1m) as of the balance sheet date. These are covered by available cash flows, anticipated earnings and contractual agreements with matching maturities.

At NBB, lower proceeds from network access charges as a result of higher temperatures resulted in overindebtedness as of December 31, 2007. In view of this, GASAG AG granted NBB a qualified subordinated shareholder loan of EUR 11.9m in 2007.

CASH FLOW STATEMENT

CASH FLOW FROM OPERATING ACTIVITIES of GASAG AG fell by EUR 106.2m year on year and was negative for the first time at EUR 0.1m.

Significant effects resulted from a EUR 23.8m increase in income taxes paid. EUR 15.2m of this related to the settlement of prior-year tax liabilities.

The drop of EUR 56.4m in working capital is primarily due to the increase in receivables. In the fourth quarter of 2007, non-recurring effects in the special customer segment and temperature-related effects increased receivables relating to gas supplies by EUR 29.5m year on year based on balance sheet results.

In contrast to the prior year, prepayments totaling EUR 21.5m were also made on gas volumes already delivered.

Significant negative effects on the cash flow from operating activities in 2007 will have a positive impact on the planned cash flow from operating activities in 2008.

The change in other items is principally attributable to the EUR 35.3m lower increase in accruals.

CASH FLOW FROM INVESTING ACTIVITIES was down EUR 5.3m on the prior year to EUR 74.5m, primarily as a result of an acquisition, as well as separate financial investments made to meet legal requirements in relation to insolvency risk insurance for phased retirement credit.

CASH FLOW FROM FINANCING ACTIVITIES was up EUR 104.4m to EUR 50.2m. This development relates mainly to first-time capital market financing.

	2007 EUR m	2006 EUR m
Net income before extraordinary items and income taxes	65.0	56.6
Income taxes paid	-33.2	-9.4
Working Capital	-60.6	-4.2
Other items	28.7	63.1
Cash flow from operating activities	-0.1	106.1
Cash flow from investing activities	-74.5	-79.8
Cash flow from financing activities	50.2	-54.2
Cash and cash equivalents at the end of the period	35.4	59.8

NET FINANCIAL POSITION

The net financial position comprises cash and cash equivalents and securities classified as current assets adjusted to take

financial liabilities into account. Long-term investments and other loans are not factored into the calculation.

	2007 EUR m	2006 EUR m
Cash and cash equivalents	8.5	29.6
Securities classified as current assets	0.0	9.9
Sub-total current funds	8.5	39.5
Liabilities to banks	-101.3	-23.7
Net financial position	-92.8	15.8

LIABILITIES

Accruals increased by EUR 19.6m (up 7.4%) to EUR 285.5m in the fiscal year, primarily due to the increase in other accruals. These other accruals mainly relate to accruals of EUR 80.5m for compensation for real land rights in accordance with Sec. 9 GrBBG [“Grundbuchbereinigungsgesetz”]: German Act to Rectify the Land Register], EUR 19.4m for soil cleaning, and

EUR 14.3m for phased retirement arrangements. The item also includes accruals of EUR 25.3m for litigation and other risks (prior year: EUR 5.3m), as well as a refund claim by Speicher GbR against GASAG AG for EUR 7.4m.

EQUITY AND KPIs

In terms of capital, EQUITY decreased slightly by EUR 0.5m to EUR 504.3m.

GASAG AG's equity ratio stood at 46.9%, compared with 51.3% in 2004.

The net assets of GASAG AG are structured in such a way that property, plant and equipment material to core business is financed via long-term lease agreements.

COMBINED MANAGEMENT REPORT

4. SUBSEQUENT EVENTS AT THE GASAG GROUP AND GASAG AG

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

In 1996, GASAG AG contributed the natural gas storage facility to Berliner Erdgas-speicher Besitz- und Verwaltungsgesellschaft bürgerlichen Rechts and concluded a lease agreement for operational use of the natural gas storage facility with all technical facilities, cushion gas and other assets related to its operation. In 2000, GASAG AG sold the gas pipe system by way of a sale and leaseback transaction and leased it back for further usage. Both transactions sustainably strengthened the financial position and results of operations and laid the foundations for strategic growth on the market. The financial obligations, which could arise from the realization of the purchase right or the potential purchase of leased assets, are hedged by available cash flows, anticipated earnings and contractual agreements with matching maturities.

3.3 NET ASSETS OF GASAG AG

ASSETS

Investments in PROPERTY, PLANT AND EQUIPMENT at GASAG AG amounted to EUR 3.2m (prior year: EUR 3.1m).

The work carried out on the gas network in fiscal year 2007 was charged on to the lessor (EUR 22.6m) pursuant to the terms and conditions of the sale and leaseback transaction.

The FINANCIAL ASSETS contain a security with a nominal value of EUR 165m. In order to protect claims under phased retirement arrangements pursuant to Sec. 8a AltTZG ["Altersteilzeitgesetz": German Phased Retirement Act] against insolvency, GASAG Treuhand e.V. was established. The funds transferred to the trustee amounted to EUR 25.1m.

At NBB, lower proceeds from network access charges as a result of higher temperatures resulted in overindebtedness as of December 31, 2007. In view of this, GASAG AG granted NBB a qualified subordinated shareholder loan of EUR 11.9m in 2007.

INVENTORIES are almost unchanged on the prior year at EUR 64.9m. Inventories mainly comprise working gas (EUR 58.3m).

RECEIVABLES AND OTHER ASSETS rose by EUR 67.5m (up 28.0%) overall to EUR 308.7m. Receivables arising from gas supplies were up by EUR 34.6m on the prior year to EUR 114.8m. EUR 29.5m of the year-on-year increase in receivables from gas supplies relates to receivables from third parties and EUR 5.1m to receivables from affiliated companies. Furthermore, under other assets, the loan receivable from KORDAX Mobilien-Verwaltungsgesellschaft mbH & Co. KG increased by EUR 20.2m and other tax receivables by EUR 8.3m.

3.4 OVERALL PICTURE OF THE ECO- NOMIC SITUATION

As a result of the mild weather conditions, gas sales in the fiscal year fell short of expectations. Intensified gas-to-gas competition led to a moderate drop in the number of customers. The financial obligations are covered by available cash flows, anticipated earnings and contractual agreements with matching maturities. The investment strategy was successfully continued. In the separate financial statements of GASAG AG, net income for the year was below the prior-year level.

4. SUBSEQUENT EVENTS AT THE GASAG GROUP AND GASAG AG

No significant events have occurred since the close of the fiscal year.

5. RISK REPORT OF THE GASAG GROUP AND GASAG AG

The GASAG Group maintains a group-wide risk management and early warning system. The existing group-wide risk management system covers the parent company as well as all subsidiaries included in the consolidated financial statements. Furthermore, in addition to specific risk management systems in the individual group entities, there are also special risk management systems that regulate significant group-wide business areas, such as commodity trading and trading with financial instruments.

The control systems implemented at the group entities are based on the parent company's requirements and take into account the specific situation of the respective entity. Risk management tasks are covered decentrally through organizational rules at business unit and subsidiary level. Potential risks are identified, analyzed and documented and included in operational management in line with the defined responsibilities. Specific risks are assessed using estimated probabilities of occurrence and quantitative assessments of potential damage. Reference is made to the monetary impact on results. During the year, standardized reporting is prepared on a quarterly basis and, in the case of a loss event, on an ad-hoc basis. Risk control mechanisms are highlighted and a company-wide risk culture promoted by timely, process-related communication to those involved.

The internal group audit department regularly reviews the functionality and effectiveness of the risk management systems of the group entities and the parent company.

The GASAG Group pursues a conservative risk policy that helps achieve long-term corporate targets.

Material risks have been identified for the following areas:

LEGAL AND POLITICAL FRAMEWORK

GASAG AG and EMB are exposed to risks arising from the legal situation, particularly in their capacity as owners of the gas networks. The Third Regulatory Package adopted by the European Commission includes a proposed directive to tighten the regulations on unbundling. The ownership unbundling designed for large network operators may ultimately also apply to final distributors. The obligation, retained by the German legislator in the German Energy Industry Act, to periodically issue invitations to tender for areas of the concession agreements, has not been validated and constitutes a risk for the future.

Under the change to antitrust law planned by the German legislator in 2007, it will be incumbent upon mains gas supply companies in the future to prove that their prices do not arise from abuse of a leading market position if their prices deviate from

the norm. Due to the change in antitrust law, there will also be a risk in the future of clients taking direct action against price adjustments under antitrust law.

The risks arising from the outcome of the class action and the parallel proceedings for GASAG AG are not yet foreseeable. The decision of the court of appeal on the class action concerning the price increase on October 1, 2005, which has been underway against GASAG AG since summer 2006, is still pending. In favor of 38 (of 41) plaintiffs, the Regional Court of Berlin ruled in the court of first instance on June 19, 2006 that the gas price increase as of October 1, 2005 infringed provisions under the General Terms and Conditions Act ["Gesetz zur Regelung des Rechts der Allgemeinen Geschäftsbedingungen": AGB-Gesetz] and is thus null and void. The judgment is not yet final and GASAG AG has appealed. The test of reasonableness has not yet been completed, nor the price finally recognized by disclosure of the price calculation. GASAG AG believes it is highly probable that the court of appeal will rule in favor of GASAG AG.

The Federal Ministry of Economics and Technology is currently in the process of presenting the key features of the ordinance for incentive regulation, which, it is hoped, will help to substantially reduce network access charges from 2008. The resulting pressure to reduce costs, which increases year by year, combined with the



pressure to guarantee an adequate quality of supply, places high demands on the GASAG Group's network operation.

Pursuant to the network charge notice, BNetzA is of the opinion that the reduction in the network charges applied for by NBB applies with retroactive effect to the date of the application. As a result, the higher network access charges collected for the period between application and approval must in the future be offset in favor of the network users. A ruling of the Higher Regional Court of Düsseldorf dated July 21, 2006 judged this opinion to be incompatible with the new legal and regulatory framework. Consequently, BNetzA refrained from offsetting these additional proceeds. However, it abides by its interpretation of the law, which may be clarified in separate proceedings.

The extent to which natural gas will continue its so far positive development must be reassessed in view of the German Federal Government's integrated, regenerative energy and environmental program, which is currently being scrutinized by parliamentary committees.

MARKET RISKS

GASAG AG's regional environment is generally characterized by risks relating to the economy and competition. On the liberalized market, the gas sector is increasingly exposed to price and sales volume risks. The entry of new competi-

tors on the Berlin and Brandenburg gas market means that gas-to-gas competition is expected to intensify in the Berlin/Brandenburg area. When customers switch to competitors, margins suffer; but if customers remain within the Group's supply network, we can continue to generate network access charges thanks to the regulated profit share. The adjustment of the necessary processes to the new market requirements in the areas of network operation and billing continued in the fiscal year.

Intensive customer management combined with an attractive price system and comprehensive sales controlling help to minimize risks relating to earnings, from both gas-to-gas competition and competition with other energy sources, and to capitalize on opportunities.

The weather-related volume risk in the gas sector is one of the Company's core risks, which the GASAG Group bears itself. The possibility of hedging the risk by using energy and weather derivatives is continuously reviewed. In this connection, NBB makes use of the possibility of using weather-related low volumes as costs in subsequent years.

In terms of procurement, additional risks arise from increased energy and raw materials prices to the extent that they cannot be passed on to the market.

The GASAG Group counters the ever-tougher market conditions by implementing active cost management for gas procurement and continuously improving its own efficiency. Against the backdrop of high energy prices, economical heating and consumption habits have a negative effect on sales.

FINANCIAL MARKET RISKS

Within the framework of its business activities, the GASAG Group is exposed to a number of risks from financial activities. The GASAG Group minimizes these risks by applying a systematic risk management process, which is an integral part of the Treasury business process. The main components of this process are a group-wide uniform trading, administration and monitoring process and uniform group-wide risk reporting for financial instruments. The aim of the risk management process for financial instruments is to enable the Group's entities to identify and analyze risks in their entirety on a timely basis and define resulting risk management mechanisms for the structuring of Company policy.

Derivative financial instruments are used to minimize risks from underlyings or planned underlyings. Valuation units are recognized for derivative financial instruments and underlyings and continue to be valued on a net basis.

The fair value of derivative financial instruments is calculated using the mark-to-market method. It involves discounting future cash flows from financial instruments to reflect current market value. The instruments are discounted over their remaining term using market interest rates. This method is used to calculate the fair value of a financial instrument. The main parameters of the mark-to-market valuation are the transaction data for the financial instrument and the interest structure in the currency of the transaction.

PRIMARY FINANCIAL INSTRUMENTS

The analysis of risks due to price changes is conducted by determining the fair value of a financial instrument using the mark-to-market method. The market values of securities classified as non-current assets are determined on the basis of the stock market prices and taken into account in the financial statements.

The minimization of default risks is controlled using a specific limit system, which is standardized within the Group. The creditworthiness of our counterparties is constantly monitored using, among other things, the ratings of internationally recognized ratings agencies. Since we do not conclude offset agreements with financial business partners, the total amounts disclosed under assets represent the maximum default risk.

Financial transactions are primarily conducted within the euro zone; we are therefore hardly exposed to any currency risks.

Due to conducting a capital market transaction for the first time, the Group is subject to KPI-based obligations. These KPIs are managed using a uniform group-wide capital structure management system, which puts the Group in a position to ensure that these obligations are met at an early stage.

DERIVATIVE FINANCIAL INSTRUMENTS

Risks due to price changes arise in connection with the fact that price changes on the financial markets have a positive or negative effect on the value of derivative financial instruments. The analysis of risks due to price changes is conducted by determining the fair value of the derivative financial instrument using the mark-to-market method.

Within the framework of its operating activities, the GASAG Group is exposed to market price changes in connection with commodities. By concluding a limited volume of commodity swaps, these risks are minimized and innovative price offers are hedged.

The default risk is determined on the basis of the total number of positive market values resulting in claims against counterparties for the respective financial instrument. It relates to potential asset losses

which may arise in connection with the non-fulfillment of contractual obligations by the counterparty. To minimize this risk, transactions with individual counterparties may not exceed a certain limit.

OPERATIONAL RISKS

Numerous risks can arise from operating activities which can have an adverse effect on the net assets and results of operations of the GASAG Group. These include potential technical outages, especially disruptions to the IT systems, fire, explosions and similar events with the risk of significant damage, although they are not very likely to occur. The Group counters these risks through preventative measures and cost-effective insurance cover.

The Group's real estate portfolio still contains a few former gas works, some of which show signs of major contamination. The provisions recognized in prior years for the property concerned were retained.

In the technologically complex network and storage facilities, disruptions to operations, which cannot be precluded, can negatively influence the results of operations of the Group. High security of supply and constant availability of facilities presuppose adherence to high security standards, regular testing, maintenance and repair work, systematic training and development programs for employees, and suitable insurance cover,

COMBINED MANAGEMENT REPORT

6. FORECAST FOR THE GASAG GROUP AND GASAG AG

which also covers terror risks. Quality management systems designed and certified in accordance with DIN EN ISO 9001:2000 ensure quality assurance in both network operations and storage operations. The technical safety management system (TSM), based on DVGW [“Deutsche Vereinigung des Gas- und Wasserfaches e.V. – Technisch-wissenschaftlicher Verein“: German Technical and Scientific Association for Gas and Water] worksheet G1000, is an integral part of the quality management system in network operations.

The GASAG Group is hedging the risks associated with the anticipated doubling of world power requirements in the next few decades with a diversified structure of upstream suppliers and contracts with varying conditions and terms. Contracts with upstream suppliers provide for the storage of natural gas, as does the natural gas storage facility in the city of Berlin, which was set up to accommodate customer demand in the generally more expensive winter months; contracts are also in place to avert potential short-term shortages in supplies from upstream suppliers.

The GASAG Group's operational and strategic activities are largely supported by the use of complex information technology. Qualified, specialist expertise and various technological security measures ensure the constant operating ability and

optimization of the IT systems. GASAG guards against risks relating to unauthorized access, misuse and loss of data by way of numerous technical and organizational countermeasures.

In order to reduce the risk of default, a credit-standing-based receivables management system was implemented at GASAG in fiscal year 2007. The GASAG Group is not exposed to any major credit risk beyond that of the normal scope of business.

Qualified employees are crucial to the achievement of the GASAG Group's ambitious growth targets, but the Group must compete with many other companies to recruit and retain them. The attractiveness of GASAG as an employer manifests itself in the form of individualized training and development programs, performance-based remuneration systems, and advancement of junior management staff.

OVERALL RISK

As of the end of 2007, risk inventories based on business plans were available for all entities included in the consolidated financial statements, including net losses and probability of occurrence.

The described risks could potentially lead to a significant deterioration in the GASAG Group's net assets, financial position and results of operations. Compared

to the prior year, the GASAG Group's risk situation intensified in terms of the legal and political framework and market risks. With a healthy equity base and positive liquidity, there are no risks at present, based on all known information, which pose a risk to the Group's ability to continue as a going concern.

FORECAST FOR THE GASAG GROUP

With its environmentally friendly natural gas product, the GASAG GROUP has a competitive primary energy source. Taking into account forecasts for average long-term temperature development, expected gas sales volumes in the distribution regions of GASAG AG and EMB are set to continue on their high level.

In view of the current debates on climate and energy policy, natural gas will continue to gain significance over the next few years.

The new Ordinance on Energy-Saving Insulation and Energy-Saving Installations in Buildings (German Energy Conservation Regulation [“Energieeinsparverordnung“: EnEV]) came into force on October 1, 2007, pushing the modernization of heating systems even more into the spotlight. The aim is to actively cultivate the market to win customers through the conversion of old heating systems. The EU thresholds for particulate matter emissions, which have now come into force, will provide further impetus for the natural gas vehicle project.

Natural gas is also the number one preferred energy source in the new building sector, which will also help to boost the positive development of gas sales.

All in all, it is estimated that planned future growth will more than offset the

forecast losses from gas-to-gas competition and energy savings.

Besides the ongoing expansion of core business, our focus in 2008/2009 will be on boosting service efficiency and quality within the GASAG Group, as well as on the acquired equity investments. In this connection, new fields of business in the service segment are to be opened up and established. The acquisition of NGT laid the best possible foundation for growth in these fields, especially in contracting and technical services.

The acquisition of the shares in SpreeGas will allow the GASAG Group to grow in line with its strategy in the areas of final distribution and onward supply, thus strengthening the Group's competitive stance in the south of the State of Brandenburg and in Saxony. GASAG intends to increase its share in SpreeGas in 2008 from some 18% to more than 41%. To this end, the SpreeGas shares held by Saar Ferngas will be acquired. The transaction has already been approved by SpreeGas's shareholder meeting.

For the GASAG Group, continued support for the development of EMB as the largest of GASAG AG's equity investments is of crucial importance. The Group aims to both win customers in its established supply areas and achieve further growth through the acquisition of additional equity investments.

INNOVATION AND GROWTH

Once the process of planning the individually investigated growth options is complete, the options that were given a green light are to be implemented.

Also, all action is to be taken to ensure that the procurement structures in the Group can be optimized from gas year 2008/2009 and that trading activities can begin within the parameters of the risk guidelines.

Once the sales activities in Kiel have been evaluated, an acquisition strategy is to be developed for a regional sales approach to substantially expand the market.

In addition to the construction and commissioning of the first biogas plant in Rathenow, the plan is now to push ahead with the next biogas projects. The construction of 14 plants is planned in total.

The evaluation of the results of the field test for WhisperGen units (small units for combined power and heat generation), which will run until the end of 2008, and the feasibility analysis, will conclude the investigations on the new application technologies.

The development of a new metering technology and the central systems which will communicate with these meters is progressing steadily. The resulting measuring system technology is scheduled to be piloted at the start of 2009.



NBB will engage in intensive sales activities to provide network services to third parties and at the same time identify and pursue opportunities of purchasing networks and operating in cooperation with public utilities.

FUTURE SALES AND TRANSPORT

Assuming average long-term temperature trends are correct, we expect rising sales of natural gas as an energy source in fiscal year 2008. Growth in gas sales is expected to be generated in 2008 through the new customers gained on export markets and from development measures. This should compensate for the fall in gas sales in the Berlin and Brandenburg area due to the active participation in gas-to-gas competition.

FUTURE DEVELOPMENT OF REVENUE AND EARNINGS

With the trend towards slightly rising end customer prices and rising sales volumes, revenue is expected to increase in fiscal years 2008 and 2009.

The result from operating activities in the GASAG Group is set to grow slightly year on year due to growth activities and the continuation of the cost-cutting program.

Due to higher gas procurement costs, the GASAG Group adjusted its natural gas prices as of January 1, 2008.

PERSONNEL

Headcount in core business is expected to fall further by 2009, largely as a result of the existing phased retirement arrangements.

The GASAG Group will only be able to continue its strategic growth with qualified personnel.

EXPECTED INVESTMENTS

Further investments will be made in the gas network in Berlin and Brandenburg in the next two fiscal years. GASAG AG therefore expects to invest EUR 42m in substitution and approx. EUR 18m in expansion activities by 2009. EMB plans to invest approx. EUR 10m in substitution and approx. EUR 11m in expansion activities.

STORAGE UTILIZATION

GASAG plans to sink two wells at the natural gas storage facility in 2008, with the aim of optimizing its efficiency.

Furthermore, there are plans to perform a 3D surface seismic study covering approx. 40 km² of the natural gas storage facility in Berlin in 2008. The findings of this study will be integrated in a three-dimensional, digital geomodel, which can be used to help produce more reliable forecasts of the fill level of the natural gas storage facility as well as injection and withdrawal behavior.

GASAG AG – OUTLOOK

GASAG AG is holding its own well in the gas-to-gas competition on the Berlin heating market and is adapting to the new market conditions. As market leader, it is going to maintain its high-level of customer acquisition activities.

The forecast for GASAG AG's gas sales over the next few years predicts a rising trend. This will partly be the result of active customer acquisition for the conversion of heating systems to natural gas in Berlin. Also, the adaptation to the new market conditions confirms that GASAG AG, with its competitive product and pricing policy, is more than a match for the competition, even beyond the domestic market.

GASAG AG will carry on with the activities it commenced in 2007 beyond its current market area, pursuing its active growth strategy Germany-wide with the Bärengas product. Activities on the export market will also help to boost gas sales.

In order to place itself in the best possible position for new customers, in 2007, GASAG AG developed a new sales structure for private customers and key accounts, which will be implemented at the start of 2008. The new structure will bring customer segmentation and approaches to customer service firmly in line with customer needs and earnings potential.

Due to the oil price trend and the resulting increases in gas procurement costs, it was necessary to raise the published prices as of January 1, 2008.

In view of the forecast growth in the volume of gas sales combined with a gradual upward trend in end customer prices, and growth from new fields of business, including services, revenue is expected to increase in 2008 and 2009. At the same time, growth options lead to rising operating expenses, such that the profit for 2008 and 2009 will only be slightly higher than for 2007.

DECLARATION PURSUANT TO SEC. 312 (3) AKTG

In accordance with Sec. 312 AktG ["Aktengesetz": German Stock Corporation Act], the board of management of GASAG Berliner Gaswerke Aktiengesellschaft has prepared a report for fiscal year 2007 about the Company's relationships with affiliated companies. The report ended with the following explanation:

"GASAG Berliner Gaswerke Aktiengesellschaft received appropriate consideration for all legal transactions in the report on the relationships with affiliated companies, taking into consideration the circumstances which were known at the time of concluding the legal transactions. No action was taken in the reporting year which would have to be reported."

INCOME STATEMENT FOR THE GASAG GROUP IN ACCORDANCE WITH IFRSs FOR THE PERIOD FROM JAN. 1 TO DEC. 31, 2007

	NOTES NO.	2007 EUR k	2006 EUR k
1. Revenue	(1)	1,004,305	1,181,421
2. Change in inventories		-205	1,220
3. Other operating income	(2)	25,835	69,053
4. Cost of materials	(3)	638,427	807,961
5. Personnel expenses	(4)	77,400	112,986
6. Amortization and depreciation	(5)	64,843	65,105
7. Other operating expenses	(6)	76,003	74,767
8. Profit from operations		173,262	190,875
9. Share in profit or loss of associates	(7)	-13	-266
10. Profit from other equity investments	(7)	1,747	754
11. Finance costs	(8)	69,557	75,375
12. Other financial result	(9)	23,387	19,336
13. Profit before taxes		128,826	135,324
14. Income taxes	(10)	50,499	53,603
15. Profit for the period		78,327	81,721
16. Minority interests		4,112	4,629
17. Profit for the period excluding minority interests		74,215	77,092
18. Earnings per share (in EUR):	(11)	9.16	9.52

BALANCE SHEET OF THE GASAG GROUP IN ACCORDANCE WITH IFRSs AS OF DEC. 31, 2007

	NOTES NO.	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
ASSETS			
A. Non-current assets			
1. Intangible assets	(12)	166,380	156,721
2. Property, plant and equipment	(13)	1,547,829	1,571,174
3. Investments in associates	(14)	41,481	42,697
4. Financial assets	(15)	123,295	249,228
5. Deferred taxes	(16)	69,982	110,663
		1,948,967	2,130,483
B. Current assets			
1. Inventories	(17)	87,048	78,814
2. Financial assets	(15)	188,406	43,374
3. Income tax receivables	(18)	6,376	3,503
4. Trade receivables and other receivables	(19)	166,243	123,314
5. Cash and cash equivalents	(20)	27,725	30,277
6. Non-current assets held for sale	(21)	40,769	40,769
		516,567	320,051
		2,465,534	2,450,534
EQUITY AND LIABILITIES			
A. Equity			
1. Subscribed capital	(22)	413,100	413,100
2. Share premium		42,461	42,461
3. Reserve for unrealized gains or losses		8,902	3,319
4. Retained earnings		181,962	156,914
5. Minority interests		31,729	31,605
		678,154	647,399
B. Non-current liabilities			
1. Deferred income	(23)	198,604	196,801
2. Provisions	(24)	166,987	175,878
3. Financial liabilities	(25)	868,955	1,010,589
4. Other liabilities	(26)	249	330
5. Deferred taxes	(16)	85,505	93,533
		1,320,300	1,477,131
C. Current liabilities			
1. Deferred income	(23)	6,244	6,279
2. Provisions	(24)	34,925	44,831
3. Financial liabilities	(25)	277,847	118,446
4. Income tax liabilities	(27)	11,633	13,137
5. Trade payables and other liabilities	(26)	136,431	143,311
		467,080	326,004
		2,465,534	2,450,534

STATEMENT OF CHANGES IN EQUITY OF THE GASAG GROUP IN ACCORDANCE WITH IFRSs AS OF DEC. 31, 2007

see Note (22)

	SUBSCRIBED CAPITAL	SHARE PREMIUM	RESERVE FOR UNREALIZED GAINS OR LOSSES	RETAINED EARNINGS	TOTAL RETAINED EARNINGS	SUBTOTAL FOR THE GROUP	MINORITY INTERESTS	TOTAL	
	EUR k	EUR k	EUR k	FIRST-TIME APPLICATION OF IFRSs EUR k	OTHER RETAINED EARNINGS EUR k	EUR k	EUR k	EUR k	
As of: Jan. 1, 2006	413,100	42,461	416	90,843	42,196	133,039	589,016	30,988	620,004
Profit for the period					77,092	77,092	4,629	81,721	
Items recognized directly in equity			2,903			2,903	-163	2,740	
<i>thereof application of IAS 39</i>			2,903			2,903	85	2,988	
<i>thereof other income and expenses recognized directly in equity</i>							-248	-248	
Total income			2,903		77,092	77,092	4,466	84,461	
Dividend distribution to shareholders					-53,217	-53,217	-3,849	-57,066	
As of: Dec. 31, 2006	413,100	42,461	3,319	90,843	66,071	156,914	615,794	31,605	647,399
Profit for the period					74,215	74,215	4,112	78,327	
Items recognized directly in equity			5,583			5,583	11	5,594	
<i>thereof application of IAS 39</i>			5,583			5,583	11	5,594	
<i>hereof other income and expenses recognized directly in equity</i>								0	
Total income			5,583		74,215	74,215	4,123	83,921	
Dividend distribution to shareholders					-49,167	-49,167	-3,999	-53,166	
As of: Dec. 31, 2007	413,100	42,461	8,902	90,843	91,119	181,962	646,425	31,729	678,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF GASAG 2007 (IFRSs)



42.0 °C
39.0 °C
36.0 °C
33.0 °C
30.0 °C
27.0 °C

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1 PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS OF GASAG FOR 2007

The Group's parent company is GASAG Berliner Gaswerke Aktiengesellschaft (hereinafter referred to as "GASAG AG"), which is headquartered at Vossstrasse 20, 10117 Berlin, Germany, and entered in the Berlin-Charlottenburg commercial register under HRB No. 44343 B.

The management board prepared the consolidated financial statements as of December 31, 2007 and the combined management report for the GASAG Group and GASAG Berliner Gaswerke Aktiengesellschaft for the fiscal year from January 1 to December 31, 2007 and authorized them for issue to the supervisory board on January 31, 2008.

The business activities of the GASAG Group involve the distribution and sale of natural gas and heating, the operation of storage facilities, a distributed energy supply, consumption-billing and meter-reading services, meter management, and the set-up, maintenance, repair and overhaul of energy installations. The Group's core business continues to be the distribution and sale of natural gas and heating.

The GASAG Group has three key segments: gas and heating, transport, and technical and other services.

Most of the GASAG Group's customers are tariff customers, special contract customers and transport customers in Berlin und Brandenburg. In addition, EMB is an upstream supplier for seven public utilities and a regional provider in Brandenburg.

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) on the basis of Sec. 315a (3) HGB ["Handelsgesetzbuch": German Commercial Code]. All additional disclosures required under the German Commercial Code have been made.

The consolidated financial statements have been prepared using the cost method, except for derivative financial instruments, financial assets held for trading and available-for-sale financial assets, which are measured at fair value. The carrying amounts of recognized assets and liabilities that are hedged items in fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The consolidated financial statements are presented in euros. Unless stated otherwise, all amounts are in thousands of euros (EUR k).

For the sake of clarity, items of the income statement and balance sheet are summarized and shown separately and explained in the notes to the consolidated financial statements.

The income statement has been prepared using the nature of expense method.

The fiscal years of all entities included in the consolidated financial statements correspond to the calendar year.

2 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The International Financial Reporting Standards/International Accounting Standards (IFRSs/IASs) which had already entered into force with binding effect as of the balance sheet date were applied to GASAG's consolidated financial statements. IFRSs/IASs which have not yet entered into force with binding effect were not taken into account. The applicable interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC) were also observed.

The consolidated financial statements of GASAG AG comply with IFRSs/IASs and the IFRIC/SIC in all respects.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the prior fiscal year except that the Group has adopted those new/revised standards mandatory for fiscal years beginning on or after January 1, 2007.

The Group adopted the following new/revised IFRSs and IFRIC interpretations which have already been endorsed by the European Union:

IAS 1	"Presentation of Financial Statements – Disclosures on Equity" (revised 2005)
IFRS 7	"Financial Instruments: Disclosures" (revised 2005)
IFRIC 7	"Applying the Restatement Approach Under IAS 29 – Financial Reporting in Hyperinflationary Economies" (revised 2006)
IFRIC 8	"Scope of IFRS 2 "Share-Based Payment"" (revised 2006)
IFRIC 9	"Reassessment of Embedded Derivatives" (revised 2006)
IFRIC 10	"Interim Financial Reporting and Impairment" (revised 2006)

Apart from the amendments to IAS 1 and IFRS 7, the changes arising from the above IFRSs and IFRIC interpretations do not have a material effect on and/or are not relevant to GASAG's consolidated financial statements.

IFRS 7 supersedes the disclosure requirements of IAS 30 for banks and similar financial institutions and the disclosure requirements of IAS 32 and must be applied by all entities.

In connection with the publication of IFRS 7, IAS 1 has also been extended to include disclosure requirements on managing capital. IFRS 7 requires disclosures to be made in financial statements that enable users to evaluate the significance of financial instruments for the Group's financial position and performance and the nature and extent of risks arising from financial instruments. These new disclosures are reflected throughout the entire set of financial statements.

The amendment to IAS 1 enables users of financial statements to assess the Group's objectives, policies and processes for managing capital. The new disclosures are shown under (29) Financial Risk Management.

IFRSs and IFRIC interpretations which have not yet entered into force with binding effect, and some of which have not yet been approved by the European Union, were not taken into account.

These relate to the following standards:

IAS 1	"Presentation of Financial Statements" (becomes effective for fiscal years beginning on or after January 1, 2009)
IAS 23	"Borrowing Costs" (becomes effective for fiscal years beginning on or after January 1, 2009)
IFRS 2	"Share-Based Payment" (becomes effective for fiscal years beginning on or after January 1, 2009)
IFRS 3	"Business Combinations" and related changes in other standards (IAS 27, IAS 28, IAS 31) (becomes effective for fiscal years beginning on or after July 1, 2009)
IFRS 8	"Operating Segments" (becomes effective for fiscal years beginning on or after January 1, 2009)
IFRIC 11	"IFRS 2 - Group and Treasury Share Transactions" (becomes effective for fiscal years beginning on or after March 1, 2007)
IFRIC 12	"Service Concession Arrangements" (becomes effective for fiscal years beginning on or after January 1, 2008)
IFRIC 13	"Customer Loyalty Programmes" (becomes effective for fiscal years beginning on or after July 1, 2008)
IFRIC 14	"IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (becomes effective for fiscal years beginning on or after January 1, 2008)

Apart from the amendments to IAS 1 and IAS 23, and the new interpretations IFRIC 12 and IFRIC 14, the above IFRSs and IFRIC interpretations do not have

a material effect on and/or are not relevant to GASAG's consolidated financial statements.

The major changes to IAS 1, "Presentation of Financial Statements", include the renaming of components of financial statements and changes in the presentation of the income statement and statement of changes in equity. The revised standard with the above amendments becomes effective for the first time for fiscal years beginning on or after January 1, 2009. It has, however, not yet been approved by the European Union. The changes to IAS 1 will have an effect on GASAG's consolidated financial statements.

In March 2007, the IASB published the revised standard IAS 23, "Borrowing Costs", which eliminated the option of immediate recognition as an expense of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Under IAS 23 (revised), these borrowing costs must be capitalized as cost. The revised standard applies to borrowing costs attributable to the acquisition of qualifying assets and which become eligible for capitalization on or after January 1, 2009. This standard, however, has not yet been approved by the European Union. The amendments to IAS 23 will lead to a change in GASAG's current accounting policies.

IFRIC 12, "Service Concession Arrangements", gives guidance on the accounting of public-to-private concession arrangements where a government or similar public body, as the concession grantor, commissions a private entity, the operator, a service arrangement to provide public services. The infrastructure used by the private entity to provide these services remains under the control of the government or similar public body. The private entity is responsible for constructing, operating and upgrading the infrastructure. The interpretation becomes effective for the first time for fiscal years beginning on or after January 1, 2008. It has, however, not yet been approved by the European Union. GASAG is currently reviewing the effects of the first-time application of IFRIC 12 on the consolidated financial statements.

IFRIC 14, "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction", gives general guidelines on determining the limit of the excess amount of a pension fund which can be recognized as an asset under IAS 19. The interpretation also explains how legal and contractual minimum funding requirements can have an effect on assets or liabilities of a plan. According to IFRIC 14, the employer does not have to recognize any further obligations, unless the contributions payable under the minimum funding requirements cannot be repaid to the entity.

The interpretation becomes effective for fiscal years beginning on or after January 1, 2008. It has, however, not yet been approved by the European Union. GASAG is currently reviewing the effects of the first-time application of IFRIC 14 on the consolidated financial statements.

In addition to GASAG AG, twelve German subsidiaries were fully consolidated and seven associates were accounted for in accordance with the equity method in the consolidated financial statements.

CHANGES TO THE CONSOLIDATED GROUP

Under a share purchase and transfer agreement dated September 12, 2007, GASAG AG acquired 100% of the shares and voting rights in NGT Neue Gebäudetechnik GmbH, Essen, (hereinafter also referred to as "NGT") from Elster Service GmbH, Osnabrück, effective October 1, 2007. NGT is a provider of gas, water, electricity and heating services.

The purchase price came to EUR 16,423k. Incidental acquisition costs were not capitalized due to immateriality. The business combination with NGT led to goodwill of EUR 10,589k being recognized, due to its expected positive performance.

NGT was included in the consolidated financial statements of GASAG AG for the first time as of October 1, 2007.

As the business combination occurred shortly before the balance sheet date, it is initially accounted for according to IFRS 3.61. NGT has generated revenue of EUR 4,892k since the date of acquisition. If the business combination had occurred on or before January 1, 2007, consolidated revenue would have been EUR 11,133k higher than the reported figure. Consolidated profit for the period includes profit of EUR 429k. Consolidated profit for the period would have been EUR 1,930k higher if the business combination had occurred on or before January 1, 2007.

The fair values recognized as of the date of acquisition of the assets and liabilities acquired from NGT and their carrying amounts directly before the business combination are presented in the following table:

	FAIR VALUE AS OF THE DATE OF ACQUISITION	CARRYING AMOUNTS DIRECTLY BEFORE THE BUSINESS COMBINATION
	EUR k	EUR k
Non-current assets	11,460	5,972
Intangible assets	4,612	33
Property, plant and equipment	5,528	5,528
Financial assets*	1,320	411
Current assets	3,442	3,442
Inventories	269	269
Trade receivables and other assets	3,165	3,165
Cash and cash equivalents	8	8
Total assets	14,902	9,414
Non-current liabilities	0	0
Current liabilities	9,068	7,627
Current provisions	609	1,390
Short-term loans	4,184	4,184
Trade payables and other liabilities	2,834	2,053
Deferred taxes	1,441	0
Total liabilities	9,068	7,627

* The EUR 909k difference relates to the sale of an investment recognized directly in equity which was due to be sold as of the date of acquisition

On November 12, 2007, GASAG direkt GmbH, Berlin, was renamed as DSE Direkt-Service Energie GmbH, Berlin, in the commercial register.

Since the framework agreement concerning the formation of GreenGas Rathenow Verwaltungs GmbH, Rathenow, and the purchase and assignment of a limited partner's interest in GreenGas Produktionsanlage Rathenow GmbH & Co. KG, Rathenow, became effective on November 19, 2007, the Group has held a 49% share in both entities. These shares are held by EMB Erdgas Mark Brandenburg GmbH (hereinafter also referred to as "EMB").

In addition, EMB acquired a further 0.27% in Havelländische Stadtwerke GmbH (hereinafter also referred to as "HSW"), Werder, as of January 1, 2007.

The table below lists all fully consolidated entities, entities accounted for using the equity method, and other shares held by group entities.

4 BASIS OF CONSOLIDATION



LIST OF EQUITY INVESTMENTS	SHARE IN CAPITAL
Fully consolidated entities	
1. BAS Abrechnungsservice Beteiligungs-GmbH, Berlin ¹	100 %
2. BAS Abrechnungsservice GmbH & Co. KG, Berlin ¹	100 %
3. BEGA.tec GmbH, Berlin ¹	100 %
4. DSE Direkt-Service Energie GmbH, Berlin ¹	100 %
5. EMB Beteiligungsgesellschaft mbH, Potsdam ^{1,4}	100 %
6. EMB Erdgas Mark Brandenburg GmbH, Potsdam ¹	75.08625 %
7. GASAG Versicherungsvermittlung der Versorgungsunternehmen GmbH, Berlin ¹	100 %
8. GASAG WärmeService GmbH, Berlin ¹	100 %
9. NBB Netz-Beteiligungs-GmbH, Berlin ¹	100 %
10. NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin ^{1,5}	98.5 %
11. NGT Neue Gebäudetechnik GmbH, Essen ¹	100 %
12. VR-Leasing SOLIDUS Siebte GmbH & Co. KG, Eschborn ¹	100 %
Entities accounted for using the equity method	
13. Berliner Energieagentur GmbH, Berlin ²	25 %
14. Erdgasversorgung Oranienburg GmbH, Oranienburg ^{2,4}	24.5 %
15. Gasversorgung Zehdenick GmbH, Zehdenick ^{2,4}	49 %
16. GreenGas Produktionsanlage Rathenow GmbH & Co. KG, Rathenow ^{2,4}	49 %
17. GreenGas Rathenow Verwaltungs GmbH, Rathenow ^{2,4}	49 %
18. Havelländische Stadtwerke GmbH, Werder ^{2,4}	40.2375 %
19. SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistungen mbH, Cottbus ⁷	18.0213 %
Other shareholdings	
20. Berliner Erdgasspeicher Besitz- und Verwaltungsgesellschaft bR, Berlin ³	0.22 %
21. erdgas mobil GmbH & Co. KG, Essen ³	4.5 %
22. erdgas mobil Verwaltungs- GmbH, Essen ³	4.5 %
23. KORDAX Mobilien-Verwaltungsgesellschaft mbH, Grünwald ³	0.4 %
24. Partner für Berlin – Gesellschaft für Hauptstadt-Marketing mbH, Berlin ³	< 1 %
25. Stadtwerke Brandenburg an der Havel GmbH, Brandenburg an der Havel ^{3,6}	12.25 %
26. Wirtschaftliche Vereinigung deutscher Versorgungsunternehmen AG, Frankfurt am Main ³	0.4 %
Non-current assets held for sale	
27. EnergieSüdwest AG, Landau ⁸	41 %

All of the above companies are situated in Germany

¹ included due to controlling influence

² significant influence exists

³ not included as GASAG AG has neither a controlling nor a significant influence

⁴ indirect equity investment through EMB Erdgas Mark Brandenburg GmbH, Potsdam, Germany

⁵ 83.5 % held directly and 15 % indirectly through EMB Erdgas Mark Brandenburg GmbH

⁶ indirect equity investment through EMB Beteiligungsgesellschaft mbH, Potsdam

⁷ significant influence due to 25 % share of the voting rights on the supervisory board

⁸ no significant influence due to contractual limitations

The consolidated financial statements include GASAG AG and the subsidiaries that it controls. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements of the subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies. Inclusion begins on the date on which the Group gains control and ends when the Group loses this control.

All business combinations are accounted for in accordance with the revaluation method as required by IFRS 3. Under this method, capital consolidation is performed on the date of acquisition by offsetting the purchase price against the Group's share in the subsidiary's revalued net assets. The subsidiary's recognized assets, liabilities and contingent liabilities are stated at their full fair values regardless of the amount of the minority interest.

Receivables, liabilities and provisions between consolidated entities are eliminated. Intercompany income is offset against the corresponding expenses. Intercompany profits and losses in non-current assets or inventories arising from intercompany trade are eliminated if they are not immaterial. Deferred taxes are recognized on consolidation entries affecting income pursuant to IAS 12.

Minority interests represent the portion of the net assets and profit or loss of a subsidiary that are not attributable to the Group. Minority interests are reported separately in the consolidated income statement and balance sheet and are reported directly in equity in the consolidated balance sheet, separately from the parent shareholders' equity. The acquisition of minority interests is accounted for in accordance with the "parent entity extension method", with the difference between the purchase price and the carrying amount of the Group's share in the acquired net assets being recognized as goodwill.

According to corporate law regulations, the equity holders of a partnership have a legal right to termination that cannot be ruled out. Pursuant to IAS 32, this right to termination means that the minority interests held in the Group are regarded as repayable. This means that, regardless of the probability of termination, a liability must be reclassified from equity

at the present value of the expected settlement amount and disclosed separately under minority interests. The minority interests in profit or loss and the unwinding of the discount for liabilities are recognized under interest expenses. Other changes in the value of liabilities are reflected in other operating income and expenses.

5 ACCOUNTING POLICIES

EXERCISE OF JUDGMENT IN APPLYING ACCOUNTING POLICIES

Financial assets are classified as “financial assets held for trading”, “loans and receivables”, “available-for-sale financial assets”, and “held-to-maturity investments”.

In measuring provisions for pensions and similar obligations, there are a number of options for recognizing actuarial gains and losses.

To cover the additional cash requirements of the old-age and survivor’s pensions claims arising prior to January 1, 2002 via the Pension Institution of the Federal Republic of Germany and the Federal States [“Versorgungsanstalt des Bundes und der Länder”: VBL], a provision for restructuring contributions was recognized pursuant to IAS 19.32A.

ASSUMPTIONS AND ESTIMATES

In preparing GASAG’s consolidated financial statements, assumptions and estimates have been made which have had an effect on the recognition and carrying amounts of assets and liabilities, income and expenses, and contingent liabilities. The actual values may in some cases differ from the assumptions and estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the

carrying amounts of assets and liabilities within the next fiscal year are discussed in the relevant items in the notes.

INCOME AND EXPENSE RECOGNITION

REVENUE is recognized when goods are delivered to the customer or the service is rendered. Services are deemed rendered and merchandise or goods delivered, when the risks associated with ownership have passed to the buyer. Revenue from the sale of gas, heating and electricity to end users, public utilities, regional providers and from network access charges is recognized when the gas, heating or electricity is purchased by the customer under a contractual agreement. The revenue corresponds to the value of the volume supplied and billed, including the estimated values of volumes supplied between the last bill and the balance sheet date.

INTEREST INCOME is recognized in the period to which it relates using the effective interest method.

PROFIT DISTRIBUTIONS are recognized at the time when the legal claim for payment arises.

OPERATING EXPENSES are recognized when a service is used or when the costs are incurred.

Since the introduction of the new German Energy Tax Act [“Energiesteuergesetz”: EnStG] on August 1, 2006, natural gas tax has not been a component of cost of materials or revenue. INTEREST EXPENSES are recognized as finance costs in the period to which they relate.

BORROWING COSTS are not capitalized as part of the cost of the asset.

INTANGIBLE ASSETS

GOODWILL arising from business combinations is recognized in accordance with IFRS 3 in conjunction with IAS 36. On first-time recognition, goodwill is measured at cost, being the excess of the cost of the acquisition over the acquirer’s interest in the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is not amortized. Instead, it is tested for impairment annually, and also during the year if indications of impairment arise.

This requires an estimate of the value in use of the cash-generating units to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the future cash flows expected to be derived from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount of a certain cash generating unit is lower than the carrying amount, then an impairment loss is charged. Pursuant to the provisions of IFRS 3, such an impairment loss may not be reversed.

The current medium-term forecasts, as approved by the bodies of the GASAG group entities and taken as a basis for internal reporting purposes, form the basis for calculating the values in use for the cash-generating entities. The purchase price calculations were used as basis for the calculations for the entities acquired in 2007. The valuation model uses the *discounted cash flow method (DCF)*. Medium-term forecasts cover a period of five years. A consistently high oil price as well as a uniform group assessment of weather data based on a 30-year average have been factored into the revenue and procurement cost forecasts. Gas-to-gas competition is expected to lead to an 8% drop in the volume of gas sold to third parties for the Group by 2012. The volume of gas transported by NBB, by contrast, is forecast to rise in the budgetary period. The medium-term forecast provides for a decrease in transmission charges over the level set out in the charges notice from December 2006.

This takes account of the second cost-based regulatory phase and the incentive regulation expected as of 2009. Discount rates are calculated according to the *weighted average cost of capital (WACC)* model. Cost of equity is determined using the *capital asset pricing model (CAPM)* and is currently 7.0% based on a beta factor of 0.5. Borrowing costs are derived from the long-term borrowing rate and other arm’s length borrowing rates, and amount to 4.5% before taxes. The discount rate also depends on the ratio of equity and debt employed. The resulting WACC stands at 6.7% before taxes. The discount rate should be used consistently across the Group and in all measurement periods to calculate the value in use of assets. It may be adjusted if a value in use is sensitive to different risks in different periods, the term structure of interest rates or the capital structure.

INTANGIBLE ASSETS ACQUIRED separately are recognized at cost.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date. After initial recognition, the cost model is applied.



INTERNALLY GENERATED INTANGIBLE ASSETS are only recognized pursuant to IAS 38 when all of the following criteria are met:

- Technical feasibility and intention to complete
- Ability to use or sell the intangible asset
- Realization of a probable future economic benefit based on the existence of a market or the usefulness of the asset for internal use
- Availability of adequate technical, financial and other resources to complete the development of the intangible asset
- Clear identification of the relevant asset, i.e. costs attributable to development can be reliably measured

After first-time recognition, internally generated intangible assets are valued at amortized cost in accordance with the cost model. Cost encompasses all costs that can be directly allocated to the creation, production or preparation of the asset. Expenditure for research is recognized as an expense when it is incurred.

In the case of modification of existing software, the associated costs are recognized as an expense for the period if the previous system status is merely preserved.

All acquired and internally generated intangible assets disclosed have a limited useful life and are amortized on

a straight-line basis. At each balance sheet date, it is assessed whether there is any indication of impairment of intangible assets with limited useful lives. If there are such indications, an impairment test is performed.

UNIFORM GROUP-WIDE USEFUL LIVES are applied as follows:

INTANGIBLE ASSET	USEFUL LIFE
Goodwill, brands	indefinite
Acquired intangible assets (this includes: gas procurement right)	5–35 years (35 years)
Internally generated intangible assets	5 years

The useful lives are reviewed at the end of each fiscal year or in the case of a particular event; any adjustments required are made on a prospective basis.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. In addition to the direct costs, the cost of internally generated assets includes an appropriate proportion of the direct overheads.

Received building cost contributions and investment grants and allowances are not directly deducted from cost, and are disclosed as deferred income.

RESTORATION OBLIGATIONS are recognized as part of cost at the present value when the obligation is incurred, and are amortized over the useful life of the related asset. Maintenance and repair costs are expensed. Renewal and maintenance expenses which extend the useful life of an asset are capitalized.

With the exception of land and easements (including easements pursuant to Sec. 9 GBBerG [“Grundbuchbereinigungsgesetz”: German Act to Rectify the Land Register]) with an indefinite useful life, property, plant and equipment are depreciated on a straight-line basis.

The following useful lives are taken as a group-wide uniform basis for depreciation on property, plant and equipment with limited useful lives:

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE
Procurement, production and distribution facilities	5–50 years
Buildings	30 years
Other property, plant and equipment	2–10 years

If there are indications of impairment, i.e. the recoverable amount less cost to sell and the value in use are below cost less any accumulated depreciation and impairment losses, then an impairment loss is charged on the item of property, plant and equipment reducing it to the higher of its recoverable amount and value in use. If the reasons for impairment subsequently cease to exist, the impairment losses are reversed, but by no more than up to the amount of cost less any accumulated depreciation.

An item of property, plant and equipment is derecognized upon its disposal or when no future economic benefits can be expected from the continued use of the asset. Gains or losses on the disposal of an asset (calculated as the difference

between the net sales proceeds and the carrying amount) are recognized in profit or loss in the fiscal year in which the relevant asset is derecognized.

The useful lives are reviewed at the end of each fiscal year or in the case of a particular event; any adjustments required are made on a prospective basis.

LEASES/STRUCTURED TRANSACTIONS

To determine whether an agreement includes a lease transaction, the economic substance of the agreement must be considered and an estimate must be made as to whether the fulfillment of the agreement depends on the use of a specific asset and whether the right to use the asset is transferred under the agreement.

Lease transactions are classified according to the contractual provisions and the resulting risks and rewards to ownership pursuant to IAS 17. In the majority of its lease transactions, the GASAG Group is the lessee. In cases where the GASAG Group is the economic owner, the leased asset is recognized as a finance lease at the fair value or lower present value of the minimum lease payments and depreciated on a straight line basis over the economic life or, if the transfer of ownership to the GASAG Group is not sufficiently certain at the inception of the lease, over the shorter term of the lease. The lease payments represent the accrued lease liabilities and the finance costs.



All other lease transactions for which the GASAG Group is not the economic owner are treated as operating leases; lease payments are disclosed under “Other operating expenses”.

Structured transactions in the legal form of leases relate to the provision of financing with the assets as security. Consequently, there is no sale pursuant to IFRSs. Legal sales to the financing parties were made at carrying amounts, such that the fees received did not generate any income.

INVESTMENTS IN ASSOCIATES

The carrying amount of the investments in associates, which are measured according to the equity method, comprises the share in equity plus goodwill. Goodwill is not amortized. Instead, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group’s net investment in the associate.

IMPAIRMENT OF ASSETS

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indication of impairment exists or where an annual impairment test of an asset is required, an estimate is made of the recoverable amount. The recoverable amount of an asset is the higher of the fair value of the asset or cash-generating unit less costs to sell and the value in use.

Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date, it is reviewed whether there is any indication that an impairment loss charged in a prior reporting period no longer exists or may have reduced. If there is such an indication, the recoverable amount is estimated. A previous impairment loss is then reversed if the estimates used to determine the recoverable amount have changed since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount.

FINANCIAL ASSETS

Financial assets within the meaning of IAS 39 are classified as financial assets measured at fair value through profit or loss, loans and receivables, available-for-sale financial assets, or held-to-maturity investments. The Group determines the classification of its financial assets on initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the asset. On subsequent measurement, these financial assets are recognized at fair value or amortized cost, using the effective interest method, depending on which category they belong to. Regular way purchases or sales of primary financial assets are accounted for as of the settlement date and thus as of the date the asset is delivered and the liability settled. Regular way purchases or sales are transactions in financial assets, whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities and other current financial assets held for trading, accounted for as financial assets measured at fair value through profit or loss are initially recognized at fair value. These instruments are

also measured at fair value on subsequent measurement. Any gains and losses on measurement are recognized immediately in profit or loss.

HELD-TO-MATURITY FINANCIAL INVESTMENTS

In subsequent periods, held-to-maturity investments are measured at amortized cost using the effective interest method. Fluctuations in value during the period should only be recognized in profit or loss if the financial instrument is sold or there is permanent impairment. No impairment test is performed if a quoted or market price is available providing a sufficient representation of the value of the financial instrument. A change in the value due to interest rates does not result in an impairment within the meaning of IAS 39.

LOANS AND RECEIVABLES

Other loans, which are allocated to loans and receivables, are accounted for in subsequent periods at amortized cost using the effective interest method. Gains or losses are only reported in profit or loss for the period if the financial asset is derecognized, impaired or amortized.

If there is objective evidence that loans and receivables recognized at amortized cost are impaired, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of esti-

mated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are those non-derivative financial assets that are not classified as one of the three abovementioned categories.

Non-current securities classified as AVAILABLE-FOR-SALE SECURITIES are measured at fair value. Gains and losses arising from changes in fair value are recognized directly in equity if the available-for-sale securities are not part of a hedging relationship. At the time of the sale and if there is permanent impairment, the cumulative gains or losses in equity are recognized in profit or loss.

The long-term INVESTMENTS IN UNQUOTED EQUITY INSTRUMENTS are allocated to the “available for sale” category. The assets are recognized at fair value. Gains and losses are recognized in the same way as for securities classified as “available for sale”. The fair value of investments that are not quoted on an active market is estimated using measurement models which include arm’s



length transactions, reference to the current market value of another instrument which is substantially the same or discounted cash flow analysis.

If an available-for-sale asset is impaired, an amount recognized in equity equal to the difference between the cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is disclosed in the income statement. Reversals of impairment losses on equity instruments classified as available for sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss if the increase in the fair value of the instrument can be objectively attributed to an event occurring after the impairment loss was recognized.

DERIVATIVE FINANCIAL INSTRUMENTS are classified as "held for trading", unless they are designated hedging instruments and are effective as such. Gains or losses resulting from financial assets or financial liabilities held for trading are recognized in profit or loss. The instruments are recognized for the first time as of the trade date. Derivatives with positive fair values are disclosed under assets in the balance sheet and those with negative fair value under equity and liabilities. The derivatives are subsequently measured at fair value through profit or loss.

A financial asset (or part of a financial asset or part of a group of similar financial assets) is **derecognized** in accordance with IAS 39.17, if one of the three following criteria are met:

- The contractual rights to the cash flows from the financial asset expire
- The Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to a third party without material delay, in an arrangement that meets the conditions of IAS 39.19
- The Group has transferred the contractual rights to receive cash flows of a financial asset and (a) has transferred substantially all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all risks and rewards of ownership of the asset, but has transferred control of the asset

When the Group transfers its contractual rights to receive the cash flows of an asset and neither transfers nor retains substantially all the risks and rewards of ownership of the asset, and also retains control of the transferred asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement.

When continuing involvement takes the form of guaranteeing the transferred asset, the extent of continuing involvement is

the lower of the initial carrying amount of the asset and the maximum amount of the consideration received that the Group could be required to repay. When continuing involvement takes the form of a written and/or a purchased option (including cash-settled options or similar provisions) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. In the case of a written put option (including cash-settled options or similar provisions) on an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

INVENTORIES

Inventories are measured at the lower of cost or net realizable value. The cost of inventories comprises costs incurred in bringing the product to its present location and condition. The cost of raw materials, consumables and supplies is the weighted average cost. Natural gas inventories are measured at the lower of average value or fair value. Natural gas tax is not included in the measurement of natural gas inventories stored in underground storage facilities. The costs of conversion of work in process include cost of direct materials and labor and an appropriate proportion of manufacturing overheads based on normal capacity but excluding borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

TRADE AND OTHER RECEIVABLES

Trade receivables and other receivables are recognized at the original invoice amount less any bad debt allowances. Bad debt allowances are recognized to take account of any expected default risks; in cases of specific default, the relevant receivables are written off. Financial assets with a potential impairment risk are grouped on the basis on the same default risks as bad debt allowances and reviewed and written down together with bad debt allowances. In calculating the estimated future cash flows of the

portfolios, historical default experience is taken into account alongside contractually defined cash flows. Write-downs are carried out using allowance accounts.

The accounting cut-off for unbilled natural gas consumption of tariff customers and special contract customers as of the balance sheet date is partly performed using an IT-based sample procedure.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes checks, cash, bank balances and short-term deposits with original maturities of no more than three months.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the cash and cash equivalents defined above as well as current interest-bearing listed securities with residual maturities of up to three months (short-term investments in money and capital market instruments).

NON-CURRENT ASSETS HELD FOR SALE AND ASSET GROUPS

The GASAG Group recognizes non-current assets held for sale in accordance with the provisions of IFRS 5. According to IFRS 5.15, assets classified as held for sale must be measured at the lower of their carrying amount and fair value less costs to sell. They must also be presented separately on the face of the balance sheet, with the results also being shown separately on the face of the income statement.



TAXES

CURRENT TAX ASSETS AND LIABILITIES

Current tax assets and liabilities for the current and prior periods should be measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted by the balance sheet date.

DEFERRED TAXES

Deferred taxes are recognized using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets may only be recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which at least part of the deferred tax asset can be utilized. Unrecognized deferred tax assets are reviewed at each balance sheet date and recognized to the extent to which it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Income taxes relating to items recognized directly in equity are recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an enforceable right to set off current tax assets against current tax liabilities and these assets and liabilities relate to income taxes levied by the same taxation authority for the same taxable entity.

VAT

Revenue, expenses and assets are recognized net of VAT except:

- where the VAT incurred on the purchase of goods or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of the asset or as part of the expense item as applicable; and
- where receivables and liabilities are stated with the amount of VAT included.

The amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

DEFERRED INCOME

The GASAG Group presents grants as deferred income pursuant to the option under IAS 20.24. In addition to government investment grants, this item also includes building cost contributions and investment grants from third parties resulting from the Ordinance on the General Terms and Conditions for the

Network Connection and Use for Low Pressure Gas Provision [“Niederdruckanschlussverordnung”: NDAV”) and the concession agreements.

As there is no specific IFRS for this, grants from third parties fall under the provisions of IAS 20.

Deferred income is released to other operating income in the income statement in accordance with the following useful lives derived from the related assets:

TYPE OF GRANT	USEFUL LIFE/PERIOD OF RELEASE OF GRANT
Government grants	
Investment grants	depending on asset
Grants from third parties	
Building cost contributions/investment grants (according to the NDAV and concession agreements)	45 years
Other investment grants	depending on asset

The building cost contributions and investment grants received for the pipe system and home connections are released over a period of 45 years, as they largely relate to the medium and low-pressure area.

PROVISIONS

Provisions are recognized for a present obligation of the entity (legal or constructive) resulting from a past event or if it is probable that an outflow of resources embodying economic benefits will be required to settle the present obligation and a reliable estimate can be made of the amount of the obligation. If it is virtually certain that some or all of the provision will be refunded, for example under

an insurance contract, then the refund is recognized as a separate asset.

PROVISIONS FOR DEFINED BENEFIT PLANS are determined according to IAS 19 using the projected unit credit method. This method takes into account both the pensions and expectancies acquired as of the balance sheet date and increases in salaries and pensions to be expected in the future. Actuarial gains and losses



exceeding the 10% corridor of the higher of the obligations or the fair value of plan assets at the beginning of the fiscal year are recognized in profit or loss over the average remaining working lives of the employees covered by the provision. The service cost is disclosed as a personnel expense and the interest component of the allocation to the provision under the financial result.

The employees' company pension scheme of the VBL should be measured as a defined benefit multi-employer plan according to IAS 19 due to its nature as a secondary obligation. Due to a lack of information for accounting for the VBL company pension scheme as a DEFINED BENEFIT PLAN, it was treated as a defined contribution plan. The contributions to the VBL are reported annually as expenses in the amount of the allocations. A provision was recognized according to IAS 19.32A for the restructuring contributions payable to the VBL.

The PROVISIONS FOR TERMINATION BENEFITS and OTHER LONG-TERM EMPLOYEE BENEFITS include obligations from phased retirement arrangements ["Altersteilzeitregelungen": ATZ]. These relate to benefits to encourage voluntary redundancy. The provisions are set up on the basis of the works agreements for all employees who have already concluded an ATZ agreement or who are likely to take advantage of the option. When determining the provision, severance payments, top-up amounts and remuneration obligations are recognized for current agreements, and severance payments and top-up amounts for regulated and unregulated agreements. Measurement is based on actuarial reports pursuant to IAS 19. Actuarial gains and loss are recognized immediately in profit or loss pursuant to IAS 19.127 and IAS 19.137. The portion of the provision for phased retirement arrangements attributable to deferred performance are disclosed net with the plan assets. If the plan assets exceed the corresponding obligation, the excess is reported as a financial asset.

OTHER PROVISIONS take into account all legal or constructive obligations to other parties arising from past events identifiable as of the balance sheet date, which are uncertain with regard to amount and/or timing. The provisions are carried at their settlement amount and measured at their expected value or at the value that is most probable.

Non-current provisions are recognized at their discounted settlement amount on the balance sheet date. The discount rates reflect current market assessments of the time value of money and, where appropriate, the risks specific to the provision. The unwinding of the discount is included in the financial result. The following pre-tax rates were used:

FISCAL YEAR/TERM	UP TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS
2006	4.50 %	4.75 %	5.00 %
2007	4.90 %	5.00 %	5.10 %

These do not include the provisions for defined benefit plans, which are subject to the specific provisions of IAS 19.78.

Pursuant to IFRIC 1 (Interpretation on the Accounting Treatment of Existing Decommissioning, Restoration and Similar Liabilities), changes in estimates which are attributable to an adjustment in respect of temporary cash flow, the amount of cash flow or the amount of the interest rate to be used for determining present value should be recognized in the provisions themselves and in the same amount in the relevant asset recognized under property, plant and equipment. If the adjustment results in a reduction in the carrying amount and if the adjustment exceeds the residual carrying amount of the asset, then the excess is recognized directly as an expense.

FINANCIAL LIABILITIES

All FINANCIAL LIABILITIES are initially recognized at the fair value of the consideration received net of costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are only recognized in profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Liabilities arising from structured transactions are initially recognized in the amount of the financial funds received. Liabilities from finance leases are recognized at the present value of the future minimum lease payments as of the date of recognition of the asset. Subsequently, the asset is measured such that the future lease payments are broken down into their constituent parts – finance costs and settlement of the liability – so as to achieve a constant rate of interest on the residual carrying amount of the liability. Finance costs are charged directly against income.

Trade payables are generally due in 30 days or less. They are initially measured at fair value and subsequently at amortized cost.

Financial liabilities are derecognized when the underlying obligation is discharged, cancelled or expires. If an existing financial liability is exchanged with another financial liability to the same lender with substantially different terms, or if the terms of an existing liability are changed substantially, then such an exchange or change is treated as an extinguishment of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in profit or loss.

CONTINGENT LIABILITIES, OTHER FINANCIAL OBLIGATIONS AND CONTINGENT ASSETS

CONTINGENT LIABILITIES are possible or existing obligations that arise from past events and which are not expected to result in an outflow of resources. They are disclosed off the face of the balance sheet in the notes to the financial statements. The amounts stated correspond to the scope of liability as of the balance sheet date.

Future (guaranteed) third-party claims to payments against group entities are reported under other FINANCIAL OBLIGATIONS. These claims relate to those obligations which cannot be recognized in the balance sheet (at present) and are not contingent liabilities.

CONTINGENT ASSETS are possible assets that arise from past events and whose existence depends on the occurrence or non-occurrence of uncertain future events.

6 NOTES TO THE CONSOLIDATED INCOME STATEMENT

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

For the purpose of accounting for derivative financial instruments that qualify for hedge accounting, a distinction is made between the following types of hedging relationships:

- Fair value hedge
- Cash flow hedge

The GASAG Group only used cash flow hedges in fiscal years 2006 and 2007.

Cash flow hedges hedge the exposure to variability in future cash flows of financial assets and liabilities. The hedges are recognized at fair value. Resulting changes in the fair value of the ineffective portion are recognized in profit or loss. In contrast, the changes in the effectively hedged portion are recognized directly under equity. The gains or losses on the hedge originally recognized under equity are not released to profit or loss until the gains or losses of the effectively hedged portion are recognized in profit or loss.

A hedge relationship is terminated when the requirements for hedge accounting are no longer met or when the hedge or hedged item expires, is sold or is exercised.

If the forecast transaction is no longer expected to occur, the amounts previously recorded under equity are recognized in profit or loss. When the hedging

instrument expires or is sold, terminated or exercised without being replaced or rolling over into another hedging instrument, or when the Group revokes the designation of a hedging instrument, the previously recognized amounts remain separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the amount is recognized in profit or loss.

FOREIGN CURRENCY TRANSLATION

The Group's functional and reporting currency is the euro (EUR). Transactions in foreign currencies are disclosed at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate at the balance sheet date. Differences arising from currency translations are disclosed in the consolidated income statement.

(1) REVENUE

	2007 EUR k	2006 EUR k
Gross revenue	1,047,420	1,181,497
Natural gas tax	115,517	45,501
Natural gas supply	931,903	1,135,996
Heating and electricity supply	36,069	26,503
Network access charges incl. gas supplies	24,916	13,040
Other	11,417	5,882
	1,004,305	1,181,421

Revenue was mainly generated from the supply of natural gas. EUR 649,848k relates to the Berlin city district (prior year: EUR 787,781k), EUR 223,344k to the western region of the State of Brandenburg (prior year: EUR 270,926k) and EUR 244k to the export market Kiel

(prior year: EUR 0k). EUR 58,470k relates to public utilities and regional providers (prior year: EUR 77,277k).

Natural gas tax has not been a component of revenue since the new German Energy Tax Act came into effect on

August 1, 2006. The following breakdown shows revenues from the supply of natural gas before and after the introduction of the new German Energy Tax Act and highlights the effect on absolute revenues in the income statement:

	2007 EUR k	2006 EUR k	AUG.–DEC. EUR k	JAN.–JUL. EUR k
Total natural gas supply	1,047,420	1,181,497	407,452	774,044
thereof natural gas tax payable	115,517	137,090	45,501	91,589
Natural gas supply excluding natural gas tax	931,903	1,044,407	361,951	682,455

* EUR 91,589k was recognized as revenue in 2006

Other revenue relates primarily to revenue from construction work and services.

(2) OTHER OPERATING INCOME

	2007 EUR k	2006 EUR k
Reversal of deferred income	6,300	6,364
Reimbursement of dunning and court costs	3,886	4,110
Rental and leasing	2,425	2,427
Derecognition of accrued liabilities	2,447	4,593
Marketing allowances	1,403	1,355
Own work capitalized	1,246	1,125
Reversal of bad debt allowances	1,109	2,100
Reversal of provisions	858	9,857
Reimbursements/insurance benefits	431	208
Income from the disposal of non-current assets	3	2,881
Refund claim ¹⁾	0	27,087
Other	5,727	6,946
	25,835	69,053

¹⁾ refund claim from structured transactions in the legal form of leases

The decrease in income from the reversal of accruals is mainly due to the reversal of the accrual for repairing the damaged

probe B05 of the natural gas storage facility in Berlin (EUR 6,970k) in 2006.

(3) COST OF MATERIALS

	2007 EUR k	2006 EUR k
Cost of raw materials, consumables and supplies and of purchased merchandise	603,245	788,420
Cost of purchased services	35,182	19,541
	638,427	807,961

Cost of materials includes expenses for natural gas distributed directly to end users, transferred to public utilities and regional providers, and used by the Group itself. Furthermore, expenses for repairs and maintenance and other construction and purchased services were incurred.

The cost of inventories recognized as an expense within the meaning of IAS 2.39 amounts to EUR 651,082k (prior year: EUR 848,744k). With the coming into effect of the new German Energy Tax Act, natural gas tax is no longer a component of cost of mate-

rials for the procured natural gas volume. As a result of this change, there was a reduction in procurement costs in absolute terms in fiscal year 2007 that corresponded to the absolute effect of EUR 115.5m (decrease in revenue) (prior year: EUR 45.5m) described under revenue.

(4) PERSONNEL EXPENSES

	2007 EUR k	2006 EUR k
Wages and salaries	58,090	66,986
Social security, pension and other benefit costs	19,310	46,000
	77,400	112,986

The pension costs, excluding the restructuring contributions to the VBL, amounted to EUR 3,527k (prior year: EUR 3,440k) in the fiscal year. In addition, personnel expenses reflect expenses from the allocation to the provision for restructuring contributions to the VBL (EUR 5,700k;

prior year: EUR 32,071k) and to the provision for phased retirement arrangements (EUR 1,771k; prior year: EUR 11,347k). Information on restructuring contributions to the VBL and on phased retirement arrangements is provided separately under (24) Provisions. Social

security costs relate to contributions to the statutory pension insurance fund of EUR 4,939k (prior year: EUR 4,151k).

The annual average number of people employed by the Group was:

NUMBER OF EMPLOYEES*

	2007	2006
Salaried employees	1,103	1,110
Wage earners	310	297
	1,413	1,407

* excluding trainees and management board members

(5) AMORTIZATION AND DEPRECIATION

Amortization and depreciation for fiscal years 2006 and 2007 breaks down as follows:

	2007 EUR k	2006 EUR k
Intangible assets	6,306	6,615
Amortization	6,306	6,615
Property, plant and equipment	58,537	58,490
Depreciation	58,537	58,490
	64,843	65,105

There were no indications in the course of the fiscal year that would have required an unscheduled impairment test to be performed. The test performed

as scheduled in the fourth quarter resulted in a value in use which was greater than the carrying amount.

No impairment losses were recognized or reversed on individual items of property, plant and equipment or intangible assets.

(6) OTHER OPERATING EXPENSES

	2007 EUR k	2006 EUR k
Minimum lease payments under operating leases	11,302	11,030
IT services	11,246	11,837
Legal and other consulting fees, including audit fees	10,282	9,069
Advertising and promotional activities	10,144	9,190
Concession levies	7,491	8,412
Derecognition of and bad debt allowances on receivables	7,100	9,231
Other services and purchased services	6,116	5,529
Insurance	2,392	2,523
Postage and freight costs	1,317	1,265
Losses on the disposal of non-current assets	348	1,242
Miscellaneous	8,265	5,439
	76,003	74,767

Miscellaneous other operating expenses include travel expenses, office supplies, contributions and fees, and heating and fuel costs.

(7) INCOME FROM INVESTMENTS IN ASSOCIATES, NON-CURRENT ASSETS HELD FOR SALE AND INCOME FROM OTHER EQUITY INVESTMENTS (INVESTMENT RESULT)

The investment result includes profit contributions from operating equity

investments. The operating activities of these equity investments are closely related to those of the Group. The investment result shows all income and expenses incurred in connection with these equity investments.

	2007 EUR k	2006 EUR k
Investment result		
thereof from entities accounted for using the equity method	-13	-266
thereof from the sale of non-current assets held for sale	1,098	0
thereof from other entities	649	754
	1,734	488

The investment result from the other entities includes income from dividends distributed by the unquoted equity

instruments disclosed under other investments (see the list of equity investments in Section 3).

(8) FINANCE COSTS

	2007 EUR k	2006 EUR k
Interest on overdrafts and loans from banks	38,793	42,986
Interest from other financial liabilities	23,736	25,488
Unwinding of the discount (provisions)	6,155	6,067
Interest on finance leases	873	834
	69,557	75,375
thereof on a historical cost basis	68,952	73,617

Interest expenses of EUR 23,736k (prior year: EUR 25,488k) from other financial

liabilities mainly result from structured transactions.

(9) OTHER FINANCIAL RESULT

	2007 EUR k	2006 EUR k
Interest income and interest-related income	8,318	7,498
Income from other securities and loans	16,541	13,628
Expenses from financial assets and securities	1,472	1,790
	23,387	19,336
thereof on a historical cost basis	11,525	11,673

Interest income primarily relates to interest from securities, bank balances and derivatives as well as other interest

income. Income from other securities and loans largely results from realized and unrealized exchange gains and

the expenses from financial assets and securities mainly include realized and unrealized exchange losses.

(10) INCOME TAXES

	2007 EUR k	2006 EUR k
Corporate income tax	7,808	9,551
Trade tax	13,782	28,287
Income taxes not relating to the period	-272	25
Current income taxes	21,317	37,863
Deferred taxes	29,182	15,740
thereof on temporary differences	10,900	-10,725
thereof on tax loss carryforwards	18,282	26,465
Income taxes	50,499	53,603

Deferred taxes were calculated for the first time after the adoption of the 2008 Corporate Tax Reform using an aggregate tax rate of 30.18% (prior year: 38.9%). In addition to corporate income tax of

15% (prior year: 25%), the solidarity surcharge of 5.5% on corporate income tax and the average trade tax rate in the Group of 14.35% (prior year: 12.52%) were taken into account.

The reconciliation from the theoretical income tax expense to the effective current tax expense is provided below:

	2007 EUR k	2006 EUR k
Profit before income taxes	128,826	135,324
Group tax rate	38.9%	38.9%
Theoretical income tax expense	50,113	52,641
Tax effects from		
Differences/changes in tax rates	-1,371	-545
Tax-free income	-217	-392
Non-deductible business expenses	714	431
Additions to/reductions in trade tax	2,064	704
Other	-804	764
Effective income tax expense	50,499	53,603
Effective tax rate	39.2%	39.6%

In 2007, deferred income taxes reduced equity by EUR 2,049k (prior year: EUR 1,888k).

(11) EARNINGS PER SHARE

Earnings per share are calculated by dividing the consolidated profit for the period by the average number of shares. GASAG AG has only issued ordinary shares.

This figure can be diluted by potential shares (above all, stock options and convertible bonds). There are no potential shares in the form of stock options or convertible bonds.

		2007	2006
Consolidated profit for the period (excl. minority interests)	EUR k	74,215	77,092
Number of shares outstanding (weighted average)	thousands of units	8,100	8,100
Earnings per share (GASAG Group)	EUR	9.16	9.52
Dividend per share of GASAG AG	EUR	6.02 ¹	6.07 ²

¹ proposed

² paid out in 2007

(12) INTANGIBLE ASSETS

Intangible assets developed as follows in fiscal years 2006 and 2007:

	GOODWILL EUR k	PURCHASED INTANGIBLE ASSETS EUR k	INTERNALLY GENERATED INTANGIBLE ASSETS EUR k	TOTAL EUR k
Cost				
As of January 1, 2006	112,143	131,344	7,585	251,072
Changes to the consolidated group	0	0	0	0
Additions	507	2,361	0	2,868
Disposals	0	1,557	0	1,557
Reclassifications	242	1	0	243
Write-ups	0	0	0	0
As of December 31, 2006	112,892	132,149	7,585	252,626
Amortization and depreciation				
As of January 1, 2006	0	86,914	3,923	90,837
Changes to the consolidated group	0	0	0	0
Additions	0	5,674	941	6,615
Disposals	0	1,547	0	1,547
Reclassifications	0	0	0	0
Write-ups	0	0	0	0
As of December 31, 2006	0	91,041	4,864	95,905
Residual carrying amounts as of December 31, 2006	112,892	41,108	2,721	156,721
Cost				
As of January 1, 2007	112,892	132,149	7,585	252,626
Changes to the consolidated group	0	4,612	0	4,612
Additions	10,589	768	0	11,357
Disposals	0	30	0	30
Reclassifications	0	0	0	0
Write-ups	0	0	0	0
As of December 31, 2007	123,481	137,499	7,585	268,565
Amortization and depreciation				
As of January 1, 2007	0	91,041	4,864	95,905
Changes to the consolidated group	0	0	0	0
Additions	0	5,364	941	6,305
Disposals	0	25	0	25
Reclassifications	0	0	0	0
Write-ups	0	0	0	0
As of December 31, 2007	0	96,380	5,805	102,185
Residual carrying amounts as of December 31, 2007	123,481	41,119	1,780	166,380



Goodwill was allocated to cash-generating units as follows for the purpose of the impairment test:

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
EMB	112,053	112,053
NGT	10,589	0
Other	839	839
	123,481	112,892

No impairment losses were recognized in fiscal years 2006 and 2007, as the currently foreseeable changes in the key assumptions on which the value in use is based are not expected to result in the carrying amount exceeding the recoverable amount.

PURCHASED INTANGIBLE ASSETS mainly comprise the gas procurement right from E.ON Ruhrgas AG with a carrying amount of EUR 29,557k (prior year: EUR 31,875k). This item also includes the conversion allowances of EUR 2,288k (prior year: EUR 2,990k) granted to special contract customers and the SAP ERP 2004 system put into operation in 2006 with a value of EUR 2,457k (prior year: EUR 3,276k).

The changes to the consolidated group relate to the purchase of NGT Neue Gebäudetechnik GmbH. In addition to the brand (EUR 2,648k), a customer base with a value of EUR 1,931k was acquired.

Other additions relate only to conversion allowances and software investments.

INTERNALLY GENERATED INTANGIBLE ASSETS comprise subsequent incidental acquisition costs for SAP software, which result from the introduction and customization of new SAP components.

No impairment losses or reversals were recognized on purchased or internally generated intangible assets in the fiscal year.

Restrictions on title or disposal in the form of land charges or collateral assignments were insignificant.

(13) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment developed as follows in 2006 and 2007:

	PROCUREMENT, PRODUCTION AND DISTRIBUTION FACILITIES EUR k	LAND AND BUILDINGS EUR k	OTHER PROPERTY, PLANT AND EQUIPMENT EUR k	TOTAL EUR k
Cost				
As of January 1, 2006	2,369,967	72,416	21,210	2,463,593
Changes to the consolidated group	0	0	0	0
Additions	32,416	885	3,239	36,540
Disposals	25,886	4,382	585	30,853
Reclassifications	-1	-100	100	-1
As of December 31, 2006	2,376,496	68,819	23,964	2,469,279
Amortization and depreciation				
As of January 1, 2006	806,930	39,008	13,962	859,900
Changes to the consolidated group	0	0	0	0
Additions	54,358	1,621	2,511	58,490
Disposals	17,334	2,405	546	20,285
Reclassifications	0	-87	87	0
As of December 31, 2006	843,954	38,137	16,014	898,105
Residual carrying amounts as of December 31, 2006	1,532,542	30,682	7,950	1,571,174
Cost				
As of January 1, 2007	2,376,496	68,819	23,964	2,469,279
Changes to the consolidated group	5,334	0	194	5,528
Additions	31,145	580	1,956	33,681
Disposals	9,847	731	443	11,021
Reclassifications	3	30	-33	0
As of December 31, 2007	2,403,131	68,698	25,638	2,497,467
Amortization and depreciation				
As of January 1, 2007	843,954	38,137	16,014	898,105
Changes to the consolidated group	0	0	0	0
Additions	54,270	1,577	2,690	58,537
Disposals	6,296	302	406	7,004
Reclassifications	0	29	-29	0
As of December 31, 2007	891,928	39,441	18,269	949,638
Residual carrying amounts as of December 31, 2006	1,511,203	29,257	7,369	1,547,829



As in the prior year, no impairment losses or reversals were recognized in fiscal year 2007.

PROCUREMENT, PRODUCTION AND DISTRIBUTION FACILITIES include easements (including easements pursuant to Sec. 9 GBBerG), an intangible component which is allocated to the relevant distribution facilities. The carrying amount of the easements was EUR 32,506k (prior year: EUR 35,549k). The underlying reduction is attributable to the adjustment to the amount of the provision for easements pursuant to Sec. 9 GBBerG of EUR 3,097k (prior year: EUR 6,384k) due to the change in term and interest rate in accordance with IFRIC 1.

The Group's obligations from finance leases are secured by the lessor's title to the leased assets. The Group's leased assets have a carrying amount of EUR 7,119k (prior year: EUR 8,297k).

Furthermore, restrictions on disposal in connection with the assets of the natural gas underground storage facility and GASAG's gas network were recognized at EUR 1,120,431k (prior year: EUR 1,151,506k).

There are restoration obligations with a carrying amount of EUR 1,877k (prior year: EUR 2,057k) for the natural gas storage facility in Berlin. The change in

the carrying amount is primarily due to the adjustment to the amount of the provision in accordance with IFRIC 1.

The purchase of NGT, accounted for in the changes to the consolidated group, mainly relates to central heating stations.

With regard to LAND AND BUILDINGS, EUR 13,138k (prior year: EUR 13,324k) relates to land which is mainly recognized at historical carrying amounts. Provisions have been set up for contaminated land of former gas production sites, which affected disposals by EUR 370k in fiscal year 2007 (prior year: EUR 817k) due to adjustments pursuant to IFRIC 1.

In addition, carrying amounts of EUR 1,419k (prior year: EUR 1,548k) are to be allocated to a finance lease.

OTHER PROPERTY, PLANT AND EQUIPMENT principally includes equipment. IT hardware of EUR 2,031k (prior year: EUR 2,203k) is attributable to a finance lease and is also secured by retention of title by the lessor. The same applies for the lease, concluded in the prior year, for natural gas-powered buses of EUR 1,018k (prior year: EUR 1,284k).

In addition to finance leases, there are also rental and lease agreements which, according to their substance, are classified as operating leases.

(14) INVESTMENTS IN ASSOCIATES

GOODWILL attributable to associates of EUR 10,736k (prior year: EUR 10,736k) is not disclosed under intangible assets, but rather as a component of the carrying amount of investments in associates pursuant to IAS 28.23.

The following table shows summarized financial information about associates (100% values):

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Non-current assets	157,175	162,914
Current assets	52,150	44,404
Liabilities	106,937	115,755
Balance sheet total	209,325	207,318
Revenue	183,837	234,751
Profit for the period	5,430	8,070

In 2007, the associates employed on average 140 people (prior year: 133).

(15) FINANCIAL ASSETS

NON-CURRENT FINANCIAL ASSETS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Held-to maturity investments	0	148,594
Available-for-sale securities	98,485	87,676
Other loans	2,214	2,328
Investments in unquoted equity instruments	10,629	10,630
Derivatives	11,967	0
	123,295	249,228

The HELD-TO-MATURITY SECURITY was disclosed as a current financial asset as of December 31, 2007.

The AVAILABLE-FOR-SALE SECURITIES mainly comprise variable interest-bearing securities that are quoted on active

markets, with repricing dates during the year, which are held in a special fund. Also, financial assets totaling EUR 25,491k (prior year: EUR 0k) are held as trust assets. These trust assets mainly comprise fixed-interest securities that are quoted on active markets. Detailed

information is provided under (24) Provisions. Securities bear interest at normal money market rates of between 3.7% and 7.8% (prior year: between 3.5% and 4.2%).

OTHER LOANS primarily relate to long-term loans issued by the Group which fall due in 2019. The average interest rate is 3.75% (prior year: 3.75%). The majority of the loan receivables are secured by a land charge of EUR 3,300k (prior year: EUR 3,300k).

INVESTMENTS IN UNQUOTED EQUITY INSTRUMENTS relate to entities included

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Held-to-maturity investments	156,856	0
Securities and other current financial assets	28,945	36,753
Derivatives	2,605	6,621
	188,406	43,374
thereof classified as held for trading	31,550	43,374

As of the balance sheet date, there was a HELD-TO-MATURITY SECURITY (zero bond) with a residual term of one year (prior year: two years). This security with a nominal value of EUR 165m was pledged in connection with a sale and leaseback transaction for the gas network.

in the list of equity investments under "Other shareholdings". Neither their maturity nor their interest is fixed.

Information on derivatives is provided separately under (29) Financial Risk Management.

CURRENT FINANCIAL ASSETS

SECURITIES AND OTHER CURRENT FINANCIAL ASSETS comprise listed shares (prior year: listed shares and a fixed-interest security). In fiscal year 2007, dividends of EUR 797k (prior year: EUR 662k) were recognized in profit and loss.

Information on derivatives is provided separately under (29) Financial Risk Management.

(16) DEFERRED TAXES (ASSETS AND LIABILITIES)

Deferred tax assets and liabilities arising from temporary differences mainly relate to valuation differences in the tax base:

		DEC. 31, 2007		DEC. 31, 2006	
		DEFERRED TAX ASSETS EUR k	DEFERRED TAX LIABILITIES EUR k	DEFERRED TAX ASSETS EUR k	DEFERRED TAX LIABILITIES EUR k
Intangible assets (1)		527	2,430	754	2,016
Property, plant and equipment (2)		1,058	43,616	1,257	63,997
Financial assets (3)		2,861	4,438	33	736
Current assets (4)		15,535	12,644	17,671	8,430
Deferred income (5)		5,080	907	23,065	2,005
Provisions (6)		28,744	18,955	31,458	9,589
Liabilities (7)		702	2,515	2,667	6,760
		54,506	85,505	76,905	93,533
Tax loss carryforwards (8)		15,476	0	33,758	0
Gross amount		69,982	85,505	110,663	93,533
Netting		0	0	0	0
Net amount		69,982	85,505	110,663	93,533

The differences between the tax base and the IFRS balance sheet are listed below:

(1) Conversion allowances and own work capitalized in the introduction and expansion of SAP components as well as assets acquired in business combinations are recognized in accordance with IAS 38. In addition, valuation differences result from the useful lives, which generally cover a longer period under IFRSs.

(2) For recognition and measurement in accordance with IAS 16, the normal, generally longer useful lives are used. Low-value assets are also recognized and written down over their normal useful lives under IFRSs; in the tax base, Sec. 6 EStG applies (these assets are fully expensed in the year of acquisition). The assets from the recognition of the structured lease transactions were recognized in the IFRS balance sheet. Under IFRSs, real property rights pursuant to Sec. 9

GBBerG are carried at present value in accordance with IAS 37 in line with the provision set up in 1993 for compensation obligations.
(3) Under IFRSs, securities and derivatives are recognized at fair value in accordance with IAS 39.
(4) The working gas in GASAG AG's natural gas storage facility is measured using the weighted average cost method; by contrast, in the tax base, the LIFO method is used. In contrast to the tax base, in which refund



claims against Speicher GbR are disclosed under inventories, under IFRSs, the liabilities from the natural gas storage leasing business are reduced.

- (5) Under IFRSs, the investment grants and building cost contributions recognized as deferred income are released over the usual useful lives of the subsidized assets in line with IAS 20.
- (6) The differences in provisions primarily result from the different treatment of the pension provisions, the provisions for phased retirement arrangements, restructuring contributions to the VBL and the provision for class actions. Indirect pension obligations (largely under the agreement on pensions for salaried employees and wage earners in the State of Berlin) and the plan assets from defined benefit plans are recognized in accordance with IFRSs.

Under IFRSs, cases for which utilization is probable are included under provisions for phased retirement, whereas they are not recognized at all in the tax base. Furthermore, different actuarial parameters are used. The other non-current provisions (term of over 12 months) are discounted under IFRSs, in contrast to treatment under tax law.

- (7) The liabilities from structured lease transactions are recognized under IFRSs.
- (8) Pursuant to IAS 12, deferred taxes are recognized for tax loss carryforwards.

In the fiscal year, deferred taxes of EUR 3,712k (prior year: EUR 1,662k) were charged directly to equity.

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Corporate income tax (incl. solidarity surcharge)	97,465	127,489
Trade tax	363	1,167
Total loss carryforwards	97,828	128,655

As of December 31, 2007, as in the prior year, no deferred income tax liabilities had been recognized for taxes that would be payable on the non-transferred earnings of the Group's subsidiaries, as the parent company is able to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by GASAG AG.

The total amount of deferred tax assets includes tax reduction claims arising from the expected utilization of the following existing loss carryforwards in subsequent periods:

Deferred taxes from prior years from unused tax loss carryforwards have been recognized in full. It is sufficiently probable that they will be realized.

(17) INVENTORIES

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Raw materials, consumables and supplies (at cost)	427	225
Natural gas inventories (at cost)	85,454	77,217
Work in process (at cost)	1,167	1,372
	87,048	78,814

Natural gas inventories primarily comprise the natural gas in the underground storage facility in Berlin of EUR 85,398k (prior year: EUR 77,178k).

There is no restriction on the disposal of inventories; nor are there any other encumbrances.

(18) INCOME TAX RECEIVABLES

Refund claims for income taxes such as corporate income tax, trade tax and tax on investment income including the solidarity surcharge were disclosed under tax assets.

(19) TRADE AND OTHER RECEIVABLES

Trade and other receivables are non-interest bearing receivables.

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Trade receivables	143,988	106,956
from gas supplies	124,393	86,346
from heating and electricity supplies	7,140	3,728
from other trade	12,455	16,882
Other receivables	22,255	16,358
	166,243	123,314

Trade receivables include receivables from unbilled receivables from gas, heating and electricity supplies and transmission charges of EUR 465,087k (prior year: EUR 401,091k), which were offset against the unbilled advance payments of EUR 357,496k (prior year: EUR 342,893k).

EUR 5,761k (prior year: EUR 1,455k) of other receivables relates to VAT refund claims and EUR 2,857k (prior year: EUR 5,701k) to other taxes.

Overdue, unimpaired trade receivables break down as follows:

	THEREOF NEITHER IMPAIRED NOR OVERDUE AS OF THE BALANCE SHEET DATE		THEREOF NOT IMPAIRED, BUT OVERDUE BY:				
	CARRYING AMOUNT EUR k	OF THE BALANCE SHEET DATE EUR k	LESS THAN 30 DAYS EUR k	BETWEEN 30 AND 60 DAYS EUR k	BETWEEN 60 AND 120 DAYS EUR k	BETWEEN 120 AND 360 DAYS EUR k	MORE THAN 360 DAYS EUR k
Trade receivables as of Dec. 31, 2007	143,988	125,631	9,966	1,380	924	3,670	2,417
Trade receivables as of Dec. 31, 2006	106,956	84,363	10,659	3,535	639	3,056	4,704

Billed trade receivables generally fall due within 16 days.

there were no indications as of the balance sheet date that the debtors will be unable to meet their payment obligations.

Bad debt allowances on trade receivables developed as follows:

With regard to trade receivables that have neither been impaired nor defaulted on,

	2007 EUR k	2006 EUR k
Bad debt allowances		
As of Jan. 1	12,291	14,009
Allocations (expenses for bad debt allowances)	1,409	645
Utilization	644	475
Reversal	1,059	1,897
As of Dec. 31	11,997	12,282

The total amount of the allocations of EUR 1,409k (prior year: EUR 645k) comprises allocations due to specific bad debt allowances of EUR 1,407k (prior year: EUR 486k) and flat-rate specific bad debt allowances of EUR 2k (prior year: EUR 159k). Revers-

als include reversals of specific bad debt allowances of EUR 204k (prior year: EUR 224k) and of flat-rate specific bad debt allowances of EUR 855k (prior year: EUR 1,673k).

The following table shows expenses for the complete derecognition of trade receivables and income from the receipt

of payments on trade receivables derecognized in the prior year:

	2007 EUR k	2006 EUR k
Expenses for the complete derecognition of receivables	5,691	8,483
Income from the receipt of payments on receivables derecognized in the prior year	631	887

All expenses and income relating to bad debt allowances and the derecognition of trade receivables are disclosed under other operating expenses and other operating income.

In fiscal year 2007, interest income of EUR 331k (prior year: EUR 333k) on derecognized or impaired receivables was recognized.

(20) CASH AND CASH EQUIVALENTS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Checks	817	819
Cash on hand	42	50
Bank balances	5,793	4,190
Short-term deposits	21,073	25,218
	27,725	30,277

(21) NON-CURRENT ASSETS HELD FOR SALE

The shares in ESW (51.00%) purchased effective as of January 1, 2006 are to enable a gradual asset exchange for shares in SpreeGas GmbH (41.538%). Initially, 20.00% of the shares in ESW were exchanged for 18.0213% of the shares in SpreeGas in 2006. 41% of the

shares in ESW were disclosed under current assets as the German Cartel Office had only been notified of 10%. For the remaining 10%, a liability to Saar Ferngas GmbH was disclosed ((26) Trade and Other Payables). The exchange transaction will be completed by December 31, 2008. Due to contractual constraints, GASAG AG does not have significant influence.

(22) EQUITY

The statement of changes in equity shows the breakdown and development of equity and minority interests.

SUBSCRIBED CAPITAL

Subscribed capital is divided into 8,100,000 no-par bearer shares with a notional value of EUR 51.00. All shares have been issued and fully paid in. Subscribed capital has not changed since December 31, 2006 and amounts to EUR 413,100k.

SHARE PREMIUM

The share premium relates exclusively to premiums pursuant to Sec. 272 (2) No. 1 HGB. Pursuant to Sec. 150 (2) AktG, 10 % of GASAG AG's capital stock may not be distributed from the legal reserve (restricted use). The remaining amount of EUR 1,151k may only be used for the purposes specified in Sec. 150 (4) AktG.

RESERVE FOR UNREALIZED GAINS OR LOSSES

These reserves include unrealized gains and losses from the measurement of available-for-sale securities and fair value hedges.

RETAINED EARNINGS

Retained earnings include the profit for the period, the reserve from the first-time application of IFRSs and undistributed profits from prior years. The reserves for the first-time application of IFRSs come to EUR 90,843k.

MINORITY INTERESTS

Minority interests represent third party shareholdings in group entities. As of December 31, 2007, they amounted to EUR 31,729k (prior year: EUR 31,605k) and related to the minority interests held by EMB Erdgas Mark Brandenburg GmbH and NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG.

(23) DEFERRED INCOME

Deferred income developed as follows in fiscal years 2006 and 2007:

	JAN. 1, 2006 EUR k	ALLOCATIONS EUR k	REVERSALS EUR k	RECLASSIFICATIONS EUR k	DEC. 31, 2006 EUR k
Government grants	3,525	0	188	0	3,337
Investment grants	3,525	0	188	0	3,337
thereof short-term (< 1 year)					107
Grants from third parties	198,647	7,272	6,176	0	199,743
Building cost contributions/investment grants (pursuant to NDAV and concession agreements)	197,332	7,229	6,074	0	198,487
thereof short-term (< 1 year)					6,090
Other investment grants	1,315	43	102	0	1,256
thereof short-term (< 1 year)					82
Total	202,172	7,272	6,364	0	203,080
thereof short-term (< 1 year)					6,279
thereof long-term (> 1 year)					196,801

	JAN. 1, 2007 EUR k	ALLOCATIONS EUR k	REVERSALS EUR k	RECLASSIFICATIONS EUR k	DEC. 31, 2007 EUR k
Government grants	3,337	0	107	-135	3,095
Investment grants	3,337	0	107	-135	3,095
thereof short-term (< 1 year)					106
Grants from third parties	199,743	8,068	6,193	135	201,753
Building cost contributions/investment grants (pursuant to NDAV and concession agreements)	198,487	7,985	6,069	0	200,403
thereof short-term (< 1 year)					6,047
Other investment grants	1,256	83	124	135	1,350
thereof short-term (< 1 year)					91
Total	203,080	8,068	6,300	0	204,848
thereof short-term (< 1 year)					6,244
thereof long-term (> 1 year)					198,604

In the fiscal year and in the prior year, due to current legislation, the GASAG Group was not able to apply for any investment grants under the German

Investment Grant Act [“Investitionszulagengesetz”: InvZulG]. The investments grants available are from prior years.

The building cost contributions and investment grants are principally paid to finance investments in the distribution facilities, with the GASAG Group retaining ownership of the subsidized assets.

(24) PROVISIONS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Non-current provisions		
Provisions for defined benefit plans	33,023	36,179
Other provisions	133,964	139,699
	166,987	175,878
Current provisions		
Provisions for defined benefit plans	4,040	3,593
Other provisions	30,885	41,238
	34,925	44,831

PROVISIONS FOR DEFINED BENEFIT PLANS

The GASAG Group has both defined benefit and defined contribution retirement benefit obligations. The obligations are primarily measured on the basis of the length of service and the remuneration of the employees.

For defined contribution plans, the Company does not enter into any obligations other than paying contributions to the benefit plan. The expenses are disclosed under personnel expenses. Contributions of EUR 2,590k (prior year: EUR 2,348k) were made in the fiscal year and allocated to reporting periods.

According to IAS 19, the employees' company pension scheme under the VBL should be treated as a defined benefit multi-employer plan, since the employees are legally entitled to statutory payments, regardless of the contributions actually

made. The employees' claims are directed towards the VBL and not the Company. However, the Company has secondary liability. A provision for this liability is recognized when the assets of the VBL are insufficient to cover the obligations. The fund assets attributable to the beneficiaries who can be allocated to the Company have to be used for measurement. No information could be obtained from the VBL in this regard. As there is not enough information available to account for the VBL as a defined benefit plan, these benefits are treated as a defined contribution benefit plan. A provision was recognized for the restructuring contributions to the VBL (see Other Personnel Provisions).

Provisions are recognized for defined benefit plans in accordance with the existing retirement benefit obligations for claims to future and current benefits for current and former employees and their surviving dependents. Both direct

(from direct commitments) and indirect retirement benefit obligations (through external carriers) exist. These obligations are mainly provision-financed, such that the obligations from current retirement benefits and claims to future pensions are covered by the provisions recognized in the balance sheet. The future obligations are measured using actuarial principles and by cautiously estimating the relevant impacting factors.

The actuarial calculations of the benefit obligations and the expenses for the period were based on the following average parameters:

	2007	2006
Interest rate	5.5 %	4.5 %
Average future salary increases	2.0 %	3.0 %
Average future pension increases	1.0 %	1.0 %
Average expected turnover	0.0 %	0.0 %

The plan assets are insurance policies used to cover benefits.

DEFINED BENEFIT PLANS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Total defined benefit plans (netted)	37,063	39,772
Defined benefit plans excl. plan assets	35,488	35,546
Defined benefit plans incl. plan assets	1,575	4,226
<i>fair value of plan assets</i>	<i>(7,186)</i>	<i>(5,450)</i>

The net value of amounts recognized for claims to defined benefits is calculated as follows:

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Present value of the obligations	40,573	46,783
Fair value of the plan assets	7,186	5,450
Unrecognized actuarial losses (-)/gains (+)	3,676	-1,561
Net liability	37,063	39,772

The present value of the defined benefit obligation developed as follows:

	2007 EUR k	2006 EUR k
Defined benefit obligation as of Jan. 1	46,783	51,087
Service cost	876	1,103
Interest expenses	2,085	2,030
Payments made	-3,808	-3,991
Changes to the consolidated group	537	0
Actuarial losses (+)/gains (-)	-5,900	-3,446
Defined benefit obligation as of Dec. 31	40,573	46,783



The fair value of the plan assets from external pension plans developed as follows:

	2007 EUR k	2006 EUR k
Plan assets as of Jan. 1	5,450	1,910
Expected return on plan assets	218	95
Payments made	328	3
Employer's contributions	2,253	3,730
Actuarial gains (+)/losses (-)	-407	-282
Plan assets as of Dec. 31 (fair value)	7,186	5,450

The expected return on plan assets is 4% (prior year: 4%). In 2007, the actual return was EUR 189k (prior year: -EUR 187k). 35% of the plan assets (excluding German endowment insurance policies) comprises

fund assets from external welfare funds (prior year: 43%) and 65% employer's pension liability insurance (prior year: 57%). EUR 1,195k is expected to be paid into the plan assets in 2008.

The pension expense for defined benefit obligations breaks down as follows:

	2007 EUR k	2006 EUR k
Service cost	876	1,103
Interest expense	2,085	2,030
Expected return on plan assets	218	95
Adjustment due to recognized past service cost	0	0
Adjustment due to recognized actuarial losses/gains	0	0
Total	2,743	3,038
thereof disclosed under personnel expenses:	876	1,103
disclosed under finance costs:	1,867	1,935

The figures for the current and previous three periods are as follows:

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k	DEC. 31, 2005 EUR k	DEC. 31, 2004 EUR k
Present value of the defined benefit obligations	40,573	46,783	51,087	48,088
Fair value of the plan assets	7,186	5,450	1,910	823
Plan surplus/deficit	-33,387	-41,333	-49,177	-47,265
Experience adjustments on plan liabilities	-1,612	1,377	-1,528	-1,219
Experience adjustments on plan assets	-678	-262	318	0

OTHER PROVISIONS

STATEMENT OF MATURITIES

	DEC. 31, 2007 TOTAL EUR k	THEREOF, RESIDUAL TERM OF		DEC. 31, 2006 TOTAL EUR k	THEREOF, RESIDUAL TERM OF	
		≤ 1 YEAR EUR k	> 1 YEAR EUR k		≤ 1 YEAR EUR k	> 1 YEAR EUR k
Other personnel provisions	59,728	3,956	55,772	70,930	8,254	62,676
Provisions for soil cleaning	17,808	5,678	12,130	17,624	1,798	15,826
Provision for major repairs and restoration	7,589	1,431	6,158	7,339	1,014	6,325
Provisions for compensation for easements pursuant to Sec. 9 GBBerG	73,191	15,247	57,944	73,876	21,330	52,546
Other provisions	6,533	4,573	1,960	11,168	8,842	2,326
	164,849	30,885	133,964	180,937	41,238	139,699

STATEMENT OF PROVISIONS

	JAN. 1, 2007 EUR k	WITH- DRAWAL EUR k	REVERSAL EUR k	ALLOCATION EUR k	UNWINDING OF THE DISCOUNT FOR CHANGES IN INTEREST RATES EUR k	CHANGES TO THE CONSOLI- DATED GROUP EUR k	RECLAS- SIFICATIONS, NET EUR k	DEC. 31, 2007 EUR k
Other personnel provisions	70,930	11,565	267	7,653	-75	0	-6,948	59,728
Provisions for soil cleaning	17,624	19	96	0	299	0	0	17,808
Provisions for major repairs and restoration	7,339	0	0	141	109	0	0	7,589
Provisions for compensation for easements pursuant to Sec. 9 GBBerG	73,876	825	0	0	140	0	0	73,191
Other provisions	11,168	8,685	591	4,376	93	72	100	6,533
	180,937	21,094	954	12,170	566	72	-6,848	164,849

OTHER PERSONNEL PROVISIONS

Personnel provisions of EUR 59,728k (prior year: EUR 70,930k) primarily relate to obligations to pay restructuring contributions to the VBL. These restructuring contributions cover the additional cash requirement, beyond the proceeds from the general contribution rate and finance claims arising prior to January 1, 2002 for additional old-age and survivors' pensions. The calculation used to determine the

restructuring contribution places considerable emphasis on the ratio between the participant's expenses for the supplementary pension scheme and its pension obligations. According to a cautious estimate on the outcome of the declaration procedure by GASAG, a favorable decision is expected for recognition as a hardship case based on the implementation regulations in Article 65 (5a) of VBL's articles of incorporation. This was factored into the

calculation of the provision. The obligation to pay restructuring contributions to the VBL is recognized at present value. The provisions were measured assuming an interest rate of 5.5% (prior year: 4.5%) and a term of 24 years (prior year: 25 years). However, the expense may be over- or underestimated due to insufficient or inaccurate information, which may lead to significant adjustments to the personnel provisions.



Furthermore, there are obligations under phased retirement arrangements, which are measured on the basis of actuarial reports.

The parameters used for measuring these obligations are as follows:

	2007	2006
Interest rate	4.9 %	4.75 %
Average future salary increase	2.0 %	3.0 %
Average future pension increase	1.0 %	1.0 %
Average anticipated turnover	0.0 %	0.0 %

The expenses arising from phased retirement obligations are disclosed under the operating result and interest expenses from the unwinding of the discount for provisions under finance costs. The provisions for phased retirement arrangements generally have terms of up to five years.

In order to protect claims arising from phased retirement arrangements pursuant to Sec. 8a AltTZG [“Altersteilzeitgesetz”: German Phased Retirement Act] against insolvency, GASAG Treuhand e.V. was established in fiscal year 2007. The funds of EUR 33,522k transferred to the trustee must be managed by him with a view to the maintenance of capital, and may only and irrevocably be used in the future to meet the relevant obligations.

The trust assets that relate to the deferred performance part of the phased retirement obligations constitute the plan assets pursuant to IAS 19.128. The obligations are netted with the fair value of the plan assets (EUR 7,948k).

PROVISIONS FOR SOIL CLEANING

The provisions for cleaning contaminated land of EUR 17,808k (prior year: EUR 17,624k) are largely due to statutory environmental protection obligations. The amount of the obligation depends on the level of contamination. The anticipated costs are determined on the basis of external appraisals and internal estimates. However, the expense may be over- or underestimated due to insufficient or inaccurate information, which may lead to significant adjustments to the provisions for soil cleaning. There have been no significant differences to date between estimates of the amount of the obligation and the actual expense. Based on current information, the obligations have terms of up to six years (prior year: seven years).

The changes in the interest rate and term of the obligations led to an adjustment of the present value of the provisions of -EUR 370k (prior year: -EUR 817k), without an effect on income, in accordance with IFRIC 1. Furthermore, EUR 96k of the provisions for soil cleaning was reversed without an effect on income (IFRIC 1).

PROVISIONS FOR MAJOR REPAIRS AND RESTORATION

Provisions for major repairs and restoration of facilities of EUR 7,589k (prior year: EUR 7,339k) are mainly recognized due to public obligations. The obligations under the German Protection of Monuments Act [“Denkmalschutzgesetz”: DSchG] have a term of up to four years (prior year: five years), according to our information.

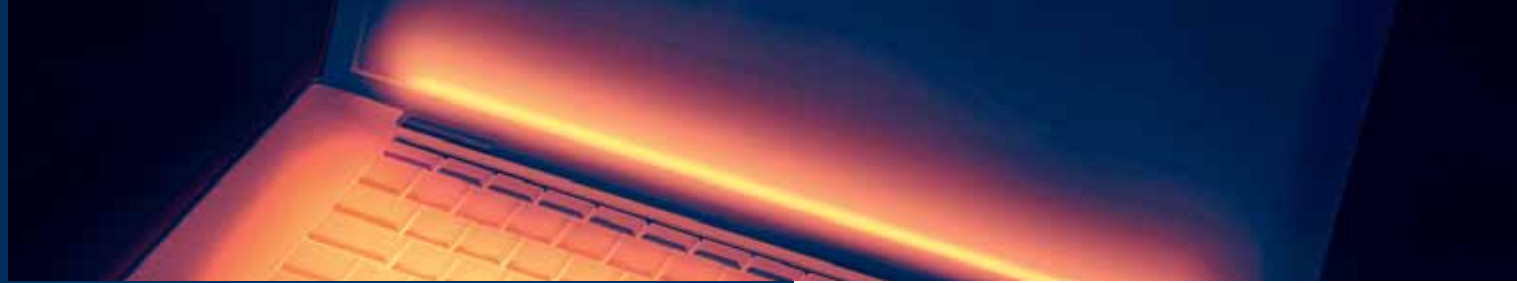
Furthermore, there is an obligation to restore the natural gas storage facility in Berlin. In 2006, the restoration costs were measured as part of an external appraisal. The amount of the obligation is based on the anticipated full costs taking into account past experience. The term of the obligation is measured against the normal useful life of the natural gas storage facility.

The changes in the interest rates and term of the obligations led to an adjustment of the present value of the provisions for major repairs and restoration of -EUR 235k (prior year: EUR 1,424k), EUR 124k thereof without an effect on income pursuant to IFRIC 1 (prior year: EUR 421k).

With reference to the amount of the obligation and the term of the provisions for major repairs and restoration of facilities, there are uncertainties which could result in the need for significant adjustments to provisions.

PROVISIONS FOR COMPENSATION FOR EASEMENTS PURSUANT TO SEC. 9 GBBERG

Under Sec. 9 GBBerG, GASAG AG and EMB have obligations to pay compensation of EUR 73,191k (prior year: EUR 73,876k) to the owners for the creation of the easements in gross. According to current information, the majority of the compensation must be paid within the next five years (prior year: five years). Due to the change in the forecast term and interest rate, the provision was reduced by EUR 3,097k in 2007 (prior year: EUR 6,384k) pursuant to IFRIC 1. Over the next few fiscal years, more significant adjustments to present values may arise in the course of the project for the procedure of creating and compensating real property rights.



(25) FINANCIAL LIABILITIES

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Liabilities to banks and borrower's note loans	741,769	706,848
thereof due in less than 1 year	87,950	94,754
thereof due in 1 to 5 years	549,920	209,303
thereof due in 1 to 2 years	52,401	62,762
thereof due in 2 to 3 years	44,583	54,356
thereof due in 3 to 4 years	47,602	44,583
thereof due in 4 to 5 years	405,334	47,602
thereof due after 5 years	103,899	402,791
thereof due in 5 to 6 years	2,538	397,834
thereof due in 6 to 7 years	1,538	2,538
thereof due after 7 years	99,823	2,419
Other financial liabilities	404,961	420,733
thereof due in less than 1 year	189,824	22,238
thereof due in 1 to 5 years	211,363	393,825
thereof due in 1 to 2 years	29,979	184,399
thereof due in 2 to 3 years	176,890	29,506
thereof due in 3 to 4 years	3,323	176,677
thereof due in 4 to 5 years	1,171	3,243
thereof due after 5 years	3,774	4,670
thereof due in 5 to 6 years	1,495	1,133
thereof due in 6 to 7 years	352	1,471
thereof due after 7 years	1,927	2,066
Derivatives	72	1,454
	1,146,802	1,129,035
<i>thereof current</i>	<i>277,847</i>	<i>118,446</i>
<i>thereof non-current</i>	<i>868,955</i>	<i>1,010,589</i>

Financial liabilities largely comprise liabilities from capital market transactions (unsecured loan contracts) and liabilities from structured transactions related to property, plant and equipment, necessary for the core business of the GASAG Group. Liabilities to banks

mainly relate to loans from structured transactions, which cannot be legally allocated to GASAG AG at present. It is very probable that these loans will be transferred to GASAG AG in the future. Other financial liabilities also include obligations from finance leases.

28.2% of the liabilities to banks accrue variable interest (prior year: 16.9%). 0.3% of other financial liabilities accrue variable interest (prior year, adjusted: 0.3%). The variable rate loans are partially secured by derivatives.

The following table shows the contractually agreed (undiscounted)

cash flows relating to the primary financial liabilities and derivatives:

EUR k	CARRYING AMOUNT DEC. 31, 2007	TOTAL	2008	CASH FLOWS 2009 TO 2012	2012 FF.
Financial liabilities to banks and borrower's note loan	-741,769	-934,901	-124,624	-670,668	-139,609
Other financial liabilities	-404,961	-450,190	-210,108	-235,948	-4,134
Derivative financial liabilities	-72	-12	-12	0	0
Derivative financial assets	14,572	18,239	2,642	8,268	7,329

All instruments held as of December 31, 2007 for which payments had been contractually agreed were taken into account. Variable interest payments arising

from financial instruments were determined on the basis of the last interest rates fixed before December 31, 2007. For comparison, the prior-year figures:

EUR k	CARRYING AMOUNT DEC. 31, 2006	TOTAL	2007	2008 TO 2011	2011 FF.
Financial liabilities to banks	-706,848	-861,361	-131,453	-309,007	-420,901
Other financial liabilities	-420,733	-488,557	-40,725	-442,643	-5,189
Derivative financial liabilities	-1,454	-1,227	-1,150	-77	0
Derivative financial assets	6,622	8,205	2,650	3,032	2,523

OBLIGATIONS FROM STRUCTURED TRANSACTIONS IN THE LEGAL FORM OF A LEASE

In 1996, GASAG contributed the natural gas storage facility, with all technical facilities, base gas and other assets related to its operation, to Berliner Erdgasspeicher Besitz- und Verwaltungsgesellschaft

bürgerlichen Rechts (hereinafter also referred to as the "Gbr"), Berlin, and concluded a lease agreement, with the Gbr as lessee, on the operational use of the natural gas storage facility with all technical facilities, base gas and other assets related to its operation. On expiry of the 14-year minimum lease term, the

lessee will have a put option. If the Gbr does not exercise its put option, then the term of the lease will be extended by another seven years. On expiry of this extended lease term, GASAG will have a right to purchase.



In 2000, GASAG sold the Berlin gas pipe system by means of a structured transaction by concluding a lease agreement, and leased it back for continued use. Since then, the majority of the investments in the Berlin gas network until December 31, 2007 were made in the

form of addendums to the original sale and leaseback agreement. The overall term of the agreement is 12 years. After 8 years, GASAG will have a right to purchase. Furthermore, the legal owner of the network will have a put option on expiry of the agreement.

FINANCE LEASES
Other financial liabilities also include liabilities from finance leases. The minimum lease payments and present values arising from such agreements are as follows:

	MINIMUM LEASE PAYMENT 2007 EUR k	MINIMUM LEASE PAYMENT 2006 EUR k	PRESENT VALUES AS OF DEC. 31, 2007 EUR k	PRESENT VALUES AS OF DEC. 31, 2006 EUR k
Due in less than 1 year	3,086	3,180	3,015	3,083
Due in 1 to 5 years	10,268	10,781	9,043	9,515
Due after 5 years	4,135	5,189	3,014	3,904
	17,489	19,150	15,072	16,502

In 2001, the group entity GWS sold the majority of its heating facilities and leased them back for continued use under a sale and leaseback agreement. Since then, the majority of the associated investments up to December 31, 2007 were made in the form of addendums to the original sale and leaseback agreement. The individual transactions generally have minimum terms of ten years. The interest rate is agreed on conclusion of the agreement. On expiry of the minimum lease term, GWS will have a right to purchase. No agreements were made regarding contingent rents. GWS's obligations are secured by the lessor's legal ownership of the leased assets. There are no renewal options.

In 1995, the group entity EMB acquired a property and sold it before the change in title was registered. In this connection, EMB concluded an agreement on the establishment of facilities and buildings. For this purpose, it granted a loan and received a pre-emption right and right to purchase. EMB agreed, as the lessee, to the long-term use of the property for a consideration. The overall term of the agreement is 24 years. EMB's obligations are secured by the lessor's retention of title to the leased assets. There are no renewal options.

In 2003, GASAG concluded an agreement for an indefinite period on the financing of procurement and the ongoing maintenance and repair of

hardware and software. There is an index-linked price adjustment clause and a right to purchase. GASAG's obligations are secured by the lessor's retention of title to the leased assets.

In 2006, GASAG purchased five natural gas-powered low-floor buses and sold them on. The buses were leased back under a sale and leaseback agreement, and then sublet to Berliner Verkehrsbetriebe Anstalt des öffentlichen Rechts (hereinafter also referred to as "BVG"). The minimum term of the sale and leaseback transaction is 29 months. The agreement is terminated upon the expiry of the basic lease period of 64 months; however, it includes the option of extending the agreement until 2014. GASAG has a pre-emption right.

Information on derivatives is provided separately under (29) Financial Risk Management.

(26) TRADE PAYABLES AND OTHER LIABILITIES

	DEC. 31, 2007 TOTAL EUR k	≤ 1 YEAR EUR k	> 1 YEAR EUR k	DEC. 31, 2006 TOTAL EUR k	≤ 1 YEAR EUR k	> 1 YEAR EUR k
Trade payables	98,376	98,376	0	99,730	99,730	0
Liabilities arising from the procurement of natural gas	64,622	64,622	0	56,996	56,996	0
Miscellaneous liabilities	33,754	33,754	0	42,734	42,734	0
Other liabilities	38,304	38,055	249	43,911	43,581	330
	136,680	136,431	249	143,641	143,311	330

Other liabilities chiefly comprise obligations of EUR 1,349k (prior year: EUR 1,511k) arising from concession agreements, deferrals of EUR 6,741k (prior year: EUR 7,720k) from payments to personnel due in 2007, prepayments received of EUR 1,757k (prior year: EUR 9,583k), tax liabilities of EUR 2,633k (prior year: EUR 7,685k) and liabilities for social security of EUR 333k (prior year: EUR 307k).

(27) INCOME TAX LIABILITIES

Income tax liabilities include obligations arising from income taxes, such as corporate income tax, including the solidarity surcharge, and trade tax.

(28) REPORTING ON FINANCIAL INSTRUMENTS

CARRYING AMOUNTS AND FAIR VALUES BY MEASUREMENT CATEGORIES

Financial instruments include primary and derivative financial instruments.

On the assets side, primary financial instruments mainly comprise receivables, securities and cash and cash equivalents.

On the liabilities side, primary financial instruments mainly include loans to banks and borrower's note loans, liabilities arising from structured transactions and finance leases, and trade payables. Non-current available-for-sale securities and securities and other current financial assets are measured at fair value; in contrast, held-to-maturity investments, other loans and financial liabilities are recognized at cost or amortized cost.

Derivative financial instruments with positive fair values are disclosed as derivatives under the item financial assets, whereas derivatives with negative fair values are disclosed as liabilities from derivatives under financial liabilities. All derivatives are recognized as of the trade date.

The following table shows the carrying amounts, fair values and measurement categories of all financial instruments disclosed in the consolidated financial statements, including non-current financial assets held for sale.

	MEASUREMENT CATEGORY PURSUANT TO IAS 39	MEASURED AT*	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
			DEC. 31, 2007	DEC. 31, 2007	DEC. 31, 2006	DEC. 31, 2006
			EUR k	EUR k	EUR k	EUR k
Assets						
Financial assets			311,701	313,454	292,603	297,745
Held-to-maturity investments	htm	AC	156,856	158,764	148,594	153,799
Available-for-sale securities	afs	FVe	98,485	98,485	87,676	87,676
Other loans	lar	AC	2,214	2,059	2,328	2,265
Investments in unquoted equity instruments	afs	FVe	10,629	10,629	10,630	10,630
Securities and other short-term financial assets	hft	FVpl	28,945	28,945	36,753	36,753
Derivatives not designated as hedging instruments	hft	FVpl	0	0	900	900
Derivatives designated as hedging instruments	-	FVe	14,572	14,572	5,722	5,722
Trade receivables	lar	AC	155,348	155,348	113,224	113,224
and other assets	-	-	10,895	10,895	10,091	10,091
Cash and cash equivalents	lar	AC	27,725	27,725	30,277	30,277
Non-current assets held for sale	afs	FVe	40,769	40,769	40,769	40,769
Equity and liabilities						
Financial liabilities			1,146,802	1,193,787	1,129,035	1,175,002
Financial liabilities to banks and borrower's note loans	off	AC	741,769	777,880	706,848	733,523
Other financial liabilities	off	AC	404,961	415,835	420,733	440,025
Derivatives not designated as hedging instruments	flhft	FVpl	60	60	832	832
Derivatives designated as hedging instruments	-	FVe	12	12	622	622
Trade payables	off	AC	123,252	123,252	117,136	117,136
and other liabilities	-	-	13,179	13,179	25,294	25,294
Thereof aggregated according to the measurement categories of IAS 39						
Held-to-maturity investments [htm]			156,856	158,764	148,594	153,799
Available-for-sale securities [afs]			149,883	149,883	139,075	139,075
Loans and receivables [lar]			185,287	185,132	145,829	145,766
Held-for-trading [hft]			28,945	28,945	37,653	37,653
Financial liabilities held for trading [flhft]			60	60	832	832
Financial liabilities [off]			1,269,982	1,316,967	1,244,717	1,290,684

* measured at:
 AC amortized cost
 FVe fair value, in equity
 FVpl fair value, in profit or loss

The majority of trade receivables and other assets, cash and cash equivalents,

and trade payables and other liabilities have short residual terms. Thus, the

carrying amounts of these instruments approximate their fair values as of the balance sheet date.



The fair values of held-to-maturity investments, available-for-sale securities and securities and other current financial assets are based on the current market price. If the financial instrument is not quoted on an active market, and no market price is therefore available, the fair value is determined using a recognized valuation technique.

The fair values of the financial liabilities to banks and borrower's note loans and other financial liabilities are determined by applying discounting over the residual term of the instruments using market interest rates.

Derivative financial instruments are measured at fair value. This is calculated using the mark-to-market method. It involves discounting future cash flows

from financial instruments to reflect current market value. The instruments are discounted over their remaining term using market interest rates. This method is used to calculate the fair value of a financial instrument. The main parameters of the mark-to-market valuation are the transaction data for the financial instrument and the interest structure in the currency of the transaction.

GASAG AG and its affiliates use the same method for measuring the risks of financial transactions for the purposes of comparing different risk positions.

The objective of capital structure management for the GASAG Group and its entities is to maintain the Group's capital market capability and thus ensure its and its individual entities' ability to take financial action at all times.

The objective of strategic capital structure management is to optimize financial ratios, while tactical capital structure management aims to ensure adherence to these financial ratios. In the GASAG Group, financial ratios relating to capital structure, earning power, and profitability are determined on the basis of the annual financial statements, long-term corporate planning and forecasts. Analyses and comparisons with targets are performed regularly.

CREDIT RISK

Credit risk relating to primary financial instruments is managed using a special uniform group-wide limit system. The credit standing of our counterparties is continuously monitored, for example by using ratings from internationally recognized rating agencies such as Standard & Poor's and Moody's. As we do not conclude any set-off agreements with our financial partners beyond the standard usages under the German framework

agreement, the total assets disclosed also equal the maximum theoretical credit risk.

The credit risk relating to derivative financial instruments results from the sum of the positive fair values of all instruments which give rise to claims against counterparties, provided that these are not affected by set-off provisions on the basis of the German framework agreement. It relates to potential asset losses which may arise in connection with the non-fulfillment of contractual obligations by the counterparty. To minimize risk, the transactions are distributed among several counterparties with impeccable credit ratings pursuant to internal guidelines.

LIQUIDITY RISK

The aim of liquidity management is to control and safeguard cash flows in the Group and individual entities of the GASAG Group at all times. It is the responsibility of GASAG AG to identify, measure and control cash and cash equivalents in cooperation with the subsidiaries, with the aim of ensuring financial flexibility. Rolling 12-month cash flow plans are used to this end.

CURRENCY RISK

Almost all our financial transactions are carried out in the currency of the respective group entities, so there is practically no currency risk. As of the balance sheet date, only one forward exchange contract

had been concluded to hedge a future USD transaction. The value at risk for this transaction is calculated on the basis of historical fluctuations in value, with a confidence interval of 95% and a holding period of ten days. The maximum risk of loss is EUR 9k (prior year: EUR 0k).

INTEREST RATE RISKS

There is an interest rate risk for liabilities to banks and borrower's loan notes, other financial liabilities, available-for-sale securities, interest rate swaps and short-term deposits.

If these instruments have short residual terms, then the interest rate risk is low, however, it increases as the residual terms increase. In the case of interest-bearing financial instruments, changes in relevant market interest rates can lead to changes in the fair values of the cash flows related to the financial instrument. The effects depend on the type of interest. For fixed rate instruments, a change in the relevant interest rate directly affects the fair value of the financial instrument, but not the future cash flows. For variable interest-bearing financial instruments, future cash flows are affected.

The Group reduced its cash flow interest rate risk by using interest rate derivatives.

Changes in the market interest rates for primary financial instruments with fixed interest only affect the Group's profit or

NET RESULT BY MEASUREMENT CATEGORIES

	2007 EUR k	2006 EUR k
Held-to-maturity investments [htm]	8,262	7,827
Available-for-sale securities [afs]	4,149	2,476
Loans and receivables [lar]	3,045	3,750
Financial instruments held for trading [hft and flhft]	7,075	3,429
Financial liabilities [ofl]	-62,361	-67,427

The net gains and net losses include interest income, interest expenses, dividend income and realized and unrealized exchange gains.

Changes in fair value arising from the sale of available-for-sale financial instruments were recorded directly in equity as disposals of EUR 1,499k (prior year: disposals of EUR 30k) in the fiscal year.

(29) FINANCIAL RISK MANAGEMENT FINANCIAL RISK AND CAPITAL STRUCTURE MANAGEMENT OBJECTIVES AND POLICIES

In the course of its business activities, GASAG is exposed to a number of risks arising from financing activities. GASAG mitigates these risks with a systematic risk management process, which is an integral element of the treasury process and is regulated by the treasury framework guidelines. The main components of this process are a group-wide uniform trading,

administration and monitoring process and uniform group-wide risk reporting for financial instruments. The risk management process for financial instruments aims to enable the management board to identify risks at an early stage, to analyze them as a whole and to define the resulting risk management measures to be incorporated into business policies.

Derivative financial instruments are used to minimize financial risks arising from hedged items and planned hedged items.



loss if such instruments are recognized at fair value. In this way, no financial instruments with fixed interest recognized at amortized cost are subject to interest rate risk within the meaning of IFRS 7.

Interest rate risk within the meaning of IFRS 7 is measured according to the value-at-risk method. The maximum risk of loss that could arise from changes in market prices is calculated on the basis of historical fluctuations in value (observation period of the last 250 trading days), with a confidence interval of 95% and a holding period of ten days. The value at risk for financial liabilities accruing variable interest is EUR 12k (prior year: EUR 9k). Liabilities accruing variable interest that are part of hedging transactions are not included in this calculation, since their cash flow interest rate risk is eliminated by interest rate swaps. Interest derivatives used as hedging instruments are part of the financial assets. Their value at risk is EUR 2,203k (prior year: EUR 3,059k).

MARKET PRICE RISK IN RELATION TO RAW MATERIALS

The GASAG Group is exposed to market price risk in relation to raw materials for its operating activities. Price risks from gas sales and procurement transactions are minimized and innovative price offers are hedged using commodity derivatives in the form of swaps. The risks attaching to these commodity swaps are measured according to the value-at-risk method,

with a confidence interval of 95% and a holding period of 30 days. On the basis of historical fluctuations in value, value at risk amounts to EUR 676k (prior year: EUR 4,060k).

SPECIAL FUND

The special fund pursues a conservative investment policy with a dynamic capital appreciation policy. Tactical investment decisions are made within the terms prescribed by the investment committee, which is dominated by GASAG AG, and are kept in line with GASAG AG's conservative investment policy.

The special fund primarily comprises variable interest-bearing securities that are quoted on active markets, with repricing dates during the year, and listed shares. The market risks underlying the financial instruments of the special fund are measured using the value-at-risk method. The calculation is based on the standard deviation of the historical fund return, a scale factor, with a confidence interval of 95% and a holding period of ten days. Taking into account the specified parameters, the maximum notional risk of loss from the special fund is EUR 937k (prior year: EUR 812k).

FINANCIAL INSTRUMENTS ARISING FROM THE TRUST ASSETS

Financial instruments from the trust assets relating to insolvency risk insurance chiefly comprise fixed-

interest securities, shares and cash and cash equivalents. The market risks attaching to the financial instruments of the trust assets are measured according to the value-at-risk method, with a confidence interval of 95% and a holding period of 10 days. The risk ratios are calculated on the basis of the last 300 daily fund price changes. Until the fund is raised, fund prices are supplemented in the calculation by a benchmark. Taking into account the specified parameters, the maximum notional risk of loss is EUR 187k (prior year: EUR 0k).

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

As of the balance sheet date, there were the following derivative transactions:

	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOMINAL VOLUME	NOMINAL VOLUME BY MATURITY: DUE IN		
	EUR k	EUR k	EUR k	< 1 YEAR	1 TO 5 YEARS	> 5 YEAR
Interest rate swaps in hedging relationships	14,239	0	335,857	25,044	206,813	104,000
Commodity swaps	333	0	3,911	3,830	81	0
Forward exchange contracts in hedging relationships	0	-12	439	439	0	0
Futures	0	-60	3,992	3,992	0	0
	14,572	-72	344,199	33,305	206,894	104,000

For comparison, the prior-year figures:

	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOMINAL VOLUME	NOMINAL VOLUME BY MATURITY: DUE IN		
	EUR k	EUR k	EUR k	< 1 YEAR	1 TO 5 YEARS	> 5 YEAR
Interest rate swaps in hedging relationships	5,722	0	321,427	32,093	66,999	222,335
Commodity swaps in hedging relationships	0	-622	31,927	31,927	0	0
Commodity swaps	0	-730	3,971	3,146	825	0
Swaption	900	0	50,000	50,000	0	0
Futures	0	-102	11,224	11,224	0	0
	6,622	-1,454	418,549	128,390	67,824	222,335

The interest rate swaps shown in the table as of December 31, 2007 were mainly used for hedging cash flows of the existing variable rate hedged items as well as highly probable forecast transactions.

Commodity swaps are used to hedge price risks from gas sales transactions.

The forward exchange contract is used to hedge a future transaction in USD.

The futures are used to hedge financial risks in accordance with financial risk management objectives and policies (for more information see notes on the special fund).

The hedging relationships meet the requirements for hedge accounting pursuant to IAS 39 and are accounted for accordingly. The forecast transactions on which the hedge is based are highly probable. In addition, the hedges are expected to be highly effective.

The nominal volume of the derivative financial instruments is not disclosed netted with the total of all underlying purchase and sales values.

Fair values with a term of more than five years chiefly relate to 2012 and 2022.



Changes in the value of derivatives concluded to hedge cash flows are recognized directly in equity. Consequently, equity increased by EUR 9,131k in the fiscal year (prior year: increased EUR 4,831k). In fiscal year 2007, EUR 508k (prior year: EUR 0k) was withdrawn from the reserve for unrealized gains or losses and recognized in profit and loss.

As part of a multi-stage acquisition of an equity investment, a number of rights

and obligations were contractually agreed which, according to IAS 39.10, are to be treated as embedded derivatives. This relates to a swap (conversion option) and two call options that are measured as a single combined derivative. This derivative is disclosed under "Financial assets" with a value of zero. No premiums were paid or received for any of the derivatives described. The fair value cannot be reliably determined pursuant to IAS 39.46 in conjunction with IAS 39 AG80 and AG81, and in conjunction with IAS 39.13.

The agreements entitle GASAG AG to acquire additional shares in SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistungen mbH, Cottbus, and obligate GASAG AG to sell the shares it holds in EnergieSüdwest AG, Landau. The transaction volumes have already been agreed for the term of the options. Some of the agreements have an indefinite term. The derivatives substitute each other on exercise.

ruling was the lack of transparency of GASAG AG's price adjustment system; however, it did not rule on the reasonableness of the gas price increase. However, the judgment is not yet final and GASAG AG has appealed. GASAG AG assumes that it is more likely than not that the action will be dismissed.

Furthermore, under the 2008 Corporate Tax Reform adopted in July 2007 in particular with regard to trade and withholding tax, there is a potential obligation to pay Speicher GbR up to EUR 7,380k.

The obligations to take over leases result from the undertaking to take over agreed lease payments in the event of Vattenfall Europe Information Systems GmbH being unable to pay.

There are purchase obligations from natural gas supply agreements with take-or-pay clauses in place between the Group and various upstream gas suppliers. The prices for long-term committed natural gas are based on prices for other sources of energy, reflecting the competitive situation on the market. The provisions

of long-term agreements are reviewed at regular intervals (usually at least once every three years) in negotiations with the parties to the agreements and are thus subject to change. The assumptions used for internal planning purposes are also used to calculate the financial obligations arising from these agreements.

The future lease payments on the basis of non-cancelable operating leases mainly relate to administrative buildings, IT equipment, telecommunications systems and vehicles and break down as follows:

(30) CONTINGENT LIABILITIES, OTHER FINANCIAL OBLIGATIONS AND CONTINGENT ASSETS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Litigation and other risks	26,519	6,304
Refund claim against Speicher GbR	7,380	0
Issue from guarantees	5,124	2,942
Obligations to take over leases	1,000	1,500
Contingent liabilities	40,023	10,746
Natural gas purchase commitments	3,338,359	2,697,293
Rental and lease obligations	29,012	28,452
Purchase commitments	24,685	20,432
Network lease	10,089	12,611
Obligations under operating agreements	2,445	2,725
Obligations from the acquisition of shareholdings	432	782
Other	2,553	1,217
Other financial obligations	3,407,575	2,763,512

Litigation and other risks also includes risks in connection with the class action

in which the Regional Court of Berlin ruled on June 19, 2006 that the gas price

increases were invalid for 38 plaintiffs (of 41). The reason the court gave for its

	NOMINAL VALUE DEC. 31, 2007 EUR k	NOMINAL VALUE DEC. 31, 2006 EUR k
< 1 year	11,997	15,864
1–5 years	16,352	11,710
> 5 years	663	878
	29,012	28,452

The small proportion of obligations due in more than five years is attributable to the term of the existing lease agreements. There are no significant subleases.

The future lease payments for the network in the tariff area of HSW Haveländische Stadtwerke GmbH, Werder, break down as follows:

	NOMINAL VALUE DEC. 31, 2007 EUR k	NOMINAL VALUE DEC. 31, 2006 EUR k
< 1 year	2,522	1,987
1–5 years	7,567	7,656
> 5 years	0	2,968
	10,089	12,611

60% of the purchase commitments relate to property, plant and equipment (prior year: approx. 52%) and 40% to long-term service agreements (prior year: 48%) and have a term of up to ten years.

For maintenance and repair in outlying areas of the State of Brandenburg, NBB uses the support of other service providers. The obligations arising from the operating and service agreements

concluded for this purpose and the resulting terms are shown in the table below.

	NOMINAL VALUE DEC. 31, 2007 EUR k	NOMINAL VALUE DEC. 31, 2006 EUR k
< 1 year	279	279
1–5 years	1,118	1,118
> 5 years	1,048	1,328
	2,445	2,725

With regard to potential financial obligations from shortfalls at the VBL, see our comments on provisions.

(31) NOTES TO THE CASH FLOW STATEMENT

1 ACQUISITION OF SUBSIDIARIES AND ASSOCIATES

The Group acquired the subsidiary NGT in fiscal year 2007. In this connection, cash and cash equivalents totaling EUR 8k were acquired.

2 INTANGIBLE ASSETS

During the fiscal year, the Group's intangible assets included additions of EUR 15,969k (prior year: EUR 2,868k), EUR 94k of which related to finance leases (prior year: EUR 752k). Cash paid for intangible assets amounted to EUR 15,875k (prior year: EUR 2,116k).

3 PROPERTY, PLANT AND EQUIPMENT

During the fiscal year, the Group acquired property, plant and equipment worth EUR 39,210k (prior year: EUR 36,540k), EUR 1,132k of which (prior year: EUR

2,837k) was acquired through finance leases. Cash payments of EUR 38,078k (prior year: EUR 33,704k) were made to purchase property, plant and equipment.

4 FINANCIAL ASSETS

Financial assets specified in the cash flow statement relate to investments in associates and non-current financial assets.

5 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents break down as follows:

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Cash and cash equivalents	27,725	30,277
Short-term investments in money and capital market instruments	0	10,024
Cash and cash equivalents at the end of the period	27,725	40,301

6 INTEREST AND DIVIDENDS PAID AND RECEIVED

The cash flows from operating activities include interest received of EUR 16,475k (prior year: EUR 15,325k), interest paid of EUR 68,913k (prior year: EUR 72,711k) and dividends received of EUR 2,544k (prior year: EUR 1,416k).

The cash flows from financing activities include paid dividends of EUR 53,167k (prior year: EUR 57,315k).

The cash flows from investing activities include dividends received of EUR 1,896k (prior year: EUR 1,046k).

(32) RELATED PARTY RELATIONSHIPS

As of December 31, 2007, Vattenfall Europe AG, Berlin, Germany (hereinafter referred to as "VE"), Gaz de France International S.A.S., Paris, France, and Thüga Aktiengesellschaft, Munich, Germany

(hereinafter also referred to as "Thüga"), received a share of 31.575%, 31.575% and 36.85%, respectively, in GASAG AG's capital stock. The parent company of VE is Vattenfall AB, Stockholm, Sweden; the parent company of Thüga is E.ON AG, Düsseldorf, Germany, and that of Gaz de France International S.A.S., Paris, France, (hereinafter also referred to as "GdF") is Gaz de France S.A, Paris, France.

The Vattenfall Group and the GdF Group exercise significant influence over the GASAG Group, as both groups control GASAG through the consortium agreement. According to the information available to GASAG, the consortial relationship will expire on December 31, 2007. The E.ON Group has significant influence over the GASAG Group due to its 36.85% shareholding.

E.ON Energie AG also holds 49.9% of the shares in Berliner Erdgasspeicher Besitz-

und Verwaltungsgesellschaft bürgerlichen Rechts (hereinafter also referred to as "Speicher-GbR"). GASAG AG is the managing partner and holds 0.22% of the shares in Speicher-GbR. A lease agreement is in place between GASAG AG and Speicher-GbR, which governs the leasing of the natural gas underground storage facility to GASAG AG. Assets from the lease agreement are recognized under property, plant and equipment.

Related parties of the GASAG Group with which the Group concluded transactions in fiscal year 2007 include the shareholders of GASAG and the affiliates and associates of Vattenfall AB, Stockholm, Sweden, Gaz de France International S.A., Paris, France, and E.ON AG, Düsseldorf, Germany.

Transactions entered into with related parties affected the following elements of the financial statements:

	← REVENUE → 2007 EUR k	← REVENUE → 2006 EUR k	← EXPENSES → 2007 EUR k	← EXPENSES → 2006 EUR k	← RECEIVABLES → DEC. 31, 2007 EUR k	← RECEIVABLES → DEC. 31, 2006 EUR k	← LIABILITIES → DEC. 31, 2007 EUR k	← LIABILITIES → DEC. 31, 2006 EUR k
Entities with joint control or significant influence	74,113	90,037	301,764	306,103	22,829	6,363	123,485	144,240
E.ON Group	11,335	22,582	248,403	256,209	8,439	3,781	121,979	137,772
Vattenfall Group	62,654	67,397	12,824	13,371	14,390	2,514	804	1,002
Gaz de France Group	124	58	40,537	36,523	0	68	702	5,466
Associates of the GASAG Group	37,654	8,335	4,769	205	1,408	2,041	-628	190

Transactions with the entities of the E.ON Group mainly relate to natural gas supplies received and the financing of the natural gas storage facility. Expenses primarily comprise the cost of materials from the gas supply and gas procurement agreements and the interest expenses from the financing of the natural gas storage facility.

Transactions with the entities of the Gaz de France Group mainly relate to natural gas supplies received. Expenses principally comprise the cost of materials from the gas supply and gas procurement agreements. Furthermore, the GASAG Group purchases services in connection with the operation of the natural gas storage facility.

The relationships between the entities of the GASAG Group and the Vattenfall Group mainly relate to gas supplies, gas-related services and the provision of data-processing and telecommunications services. Revenue largely comprises income generated from natural gas supply agreements and natural gas supply cooperations. The expenses primarily include hardware and software services.

Receivables and liabilities relate to the outstanding balances in relation to the specified business relationships between the GASAG Group and related parties. EUR 15,149k (prior year: EUR 2,159k) of the receivables relate to trade receivables from entities with joint control or significant influence and EUR 1,240k (prior year: EUR 2,347k) to trade receivables from associates. EUR 7,870k (prior year: EUR 19,332k) of the liabilities relate to trade payables from entities with joint control or significant influence and EUR 203k (prior year: EUR 93k) to trade payables from associates.

Effective as of January 1, 2006, GASAG acquired 51% of the shares in ESW from Vattenfall Europe Berlin AG & Co. KG, Berlin, and will gradually exchange these shares by December 31, 2008 for shares in SpreeGas. The shares in ESW still to be exchanged are disclosed as non-current assets held for sale.

Under the 2008 Corporate Tax Reform adopted in July 2007, there is a potential obligation to pay Speicher GbR up to EUR 7,380k.

In the event of Vattenfall Europe Information Systems GmbH being unable to pay, the obligations to take over leases amount to EUR 1,000k (prior year: EUR 1,500k).

The associates are presented in the list of investments ((3) "Consolidated Group"). Revenue from associates mainly results from gas supplies. Expenses are primarily attributable to services relating to market and sales development in connection with the product natural gas. Receivables and liabilities result from trade.

All business transactions with shareholders and associates were concluded at arm's length.

THE MEMBERS OF THE SUPERVISORY BOARD ARE:

Dr. Karl Kauermann
(Chairman of the supervisory board)
Chairman of the management board of K.M.T. Immobilien AG, Berlin, Germany

Andreas Otte
(Deputy chairman of the supervisory board) Employee (chairman of the works council) at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Bernard Alran
General manager of Gaz de France Deutschland GmbH, Berlin, Germany

Eckhard Beye
(until December 31, 2007)
Divisional head of GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Michael Bölter
Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Uwe Borck
(since January 4, 2007)
District divisional head of public supply and waste disposal, ver.di, Vereinte Dienstleistungsgewerkschaft District of Berlin-Brandenburg, Germany

Thorsten Ciebilski
Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Pierre Clavel
Head of the International group division at Gaz de France S.A., Paris, France

Hans-Jürgen Cramer
Member of the management board of Vattenfall Europe Aktiengesellschaft, Berlin, Germany

Olaf Ditt
Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Mats Fagerlund
(since September 18, 2007)
Member of the management board of Vattenfall Europe Aktiengesellschaft, Berlin, Germany

Philippe Jeunet
Advisor to the chairman of the management board of Gaz de France S.A., Paris, France

Thomas Kokegei
(since January 10, 2008)
Divisional head of GASAG Berliner Gaswerke Aktiengesellschaft, Berlin

Axel Krafcscheck
(until December 31, 2007)
Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Lutz Marowsky
Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany

Dr. Hans-Jürgen Meyer
Member of the management board of Vattenfall Europe Aktiengesellschaft, Berlin, Germany

Monika Nagel
Employee at NBB Netzgesellschaft Berlin-Brandenburg GmbH & Co. KG, Berlin, Germany

Prof. Dr. Klaus Rauscher
(until August 27, 2007)
Former chairman of the management board of Vattenfall Europe Aktiengesellschaft, Berlin, Germany

Dr. Bernhard Reutersberg
(since January 18, 2007)
Member of the management board of E.ON Ruhrgas Aktiengesellschaft, Essen, Germany

Dr. Herbert Rübén
Member of the management board of Thüga Aktiengesellschaft, Munich, Germany

THE FOLLOWING PERSONS WERE MEMBERS OF THE MANAGEMENT BOARD DURING FISCAL YEAR 2007:

Georges Hoffmann
(until December 31, 2007)
(Chairman of the management board)
Responsible for personnel, legal affairs, and procurement

Olaf Czernomoriez
Responsible for administration and IT strategy

Andreas Prohl
Responsible for distribution and technology

Remuneration paid to GASAG's management board members is set by the supervisory board. The current remuneration system provides for fixed basic annual remuneration, due in equal, monthly

installments, as well as a variable annual bonus set by the supervisory board at the end of each fiscal year. The bonus constitutes a variable annual component which is related to personal success and

that of the Company. There are no long-term incentives or risk components, such as stock option plans.

The current members of the management board received remuneration as follows:

	FIXED REMUNERATION EUR k	VARIABLE REMUNERATION EUR k	TOTAL EUR k
2007	605	360	965
2006	605	360	965

Both the fixed and variable remuneration are short-term benefits.

In fiscal year 2007, no loans or advances were granted to members of the management board or supervisory board, nor were any such repaid. There are no contingent liabilities vis-à-vis members of the management board or the supervisory board.

EUR 2,393k (prior year: EUR 2,038k) was accrued for pension obligations to current members of the management board on the balance sheet date. The provision was increased by EUR 363k (prior year: EUR 415k) in the fiscal year. Employer's pension liability insurance of EUR 4,670k (prior year: EUR 3,072) was disclosed netted with the obligation.

In fiscal year 2007, former members of the management board and their surviving dependents received EUR 404k (prior year: EUR 375k). EUR 5,104k (prior year: EUR 5,242k) was accrued for pension obligations to former members of the management board and their surviving dependents on the balance sheet date. The provision was increased by EUR 266k (prior year: EUR 255k) in the fiscal year.

Supervisory board members' expenses of EUR 95k (prior year: EUR 97k) were reimbursed in fiscal year 2007.

The Group did not enter into any significant transactions with related parties.

(33) DISCLOSURE OF CONCESSIONS

The concession agreements in the gas sector are between GASAG AG and the

State of Berlin and between EMB and HSW and the municipalities and local authorities in the State of Brandenburg. SpreeGas has concluded concession agreements with municipalities and local authorities in the States of Brandenburg, Saxony and Saxony-Anhalt. The concession agreements govern the power companies' right to use public trafficways to lay and operate lines for general supply in accordance with the German Energy Industry Act. There is an obligation to pay concession levies to the State of Berlin and to the municipalities in EMB's, HSW's and SpreeGas' supply areas. The amount of the concession levies depends on the annual billed gas supplies (volume consumed). The concession agreement in place between GASAG and the State of Berlin runs until 2013. EMB's and HSW's concession agreements with various municipalities in the State of Branden-

burg expire between 2011 and 2025. The terms of the concession agreements of SpreeGas run from 2011 to 2023. If no new concession agreement is concluded upon expiry of an agreement, the gas supply company has a statutory obligation under the German Energy Industry Act to lease the distribution facilities necessary for general supply to the new concession holder in return for reasonable remuneration.

(34) OTHER NOTES

EVENTS AFTER THE BALANCE SHEET DATE

No events took place between the balance sheet date and the date of preparing the consolidated financial statements which had a significant effect on the Company's net assets, financial position or results of operations, which would need to be included in this report or which would change the statements made in the consolidated financial statements.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements that relate to the continued course of business, including forecasts of economic and political developments as well as the GASAG Group's business development. These statements are based on prudent assumptions made by the management board of GASAG AG. However, due to residual risks and uncertainties, we are unable to give any assurance that these assumptions will prove to be correct collectively or individually.

Berlin, Germany, January 31, 2008

GASAG
Berliner Gaswerke Aktiengesellschaft
The Management Board

Czernomoriez Prohl

CASH FLOW STATEMENT OF THE GASAG GROUP IN ACCORDANCE WITH IFRSs AS OF DEC. 31, 2007

AUDIT OPINION

	2007 EUR k	2006 EUR k
Profit before income taxes	128,826	135,324
- Income taxes paid	-31,541	-31,556
+/- Amortization and depreciation of non-current assets	63,940	65,098
+/- Increase/decrease in provisions	-2,354	21,600
+/- Other non-cash expenses/income	-5,947	-37,520
-/+ Gain/loss on the disposal of non-current assets	345	-1,639
-/+ Increase/decrease in inventories	-7,966	-10,117
-/+ Increase/decrease in receivables	-47,397	28,185
+/- Increase/decrease in liabilities	-3,849	54,452
= Cash flows from operating activities	94,057	223,827
+ Cash received from the disposal of intangible assets	6	0
- Cash paid for investments in intangible assets	-674	-2,116
+ Cash received from the disposal of property, plant and equipment	3,672	12,218
- Cash paid for investments in property, plant and equipment	-32,550	-33,704
+ Cash received from the disposal of/changes to non-current financial assets	42,041	29,638
- Cash paid for investments in non-current financial assets	-59,183	-83,716
- Cash paid in connection with the acquisition of subsidiaries and other business units	-16,415	0
- Cash paid in connection with short-term financial management of cash investments	-1,464	-6,348
+/- Increase/decrease in investment provisions	-4,005	-5,407
+ Cash received from investment grants from third parties	8,067	7,273
= Cash flows from investing activities	-60,505	-82,162
- Cash paid to shareholders	-49,167	-53,217
- Cash paid to minority interests	-4,000	-4,098
+ Cash received from loans	100,839	6,894
- Cash repayments of loans	-91,079	-111,626
- Payment of finance lease liabilities	-2,698	-3,290
= Cash flows from financing activities	-46,105	-165,337
= Change in cash and cash equivalents	-12,553	-23,672
+/- Change in cash and cash equivalents due to fluctuations in value	-23	358
+ Cash and cash equivalents at the beginning of the period	40,301	63,613
= Cash and cash equivalents at the end of the period	27,725	40,301

We have issued the following opinion on the consolidated financial statements and the group management report which has been combined with the Company's management report:

"We have audited the consolidated financial statements prepared by GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany, comprising the balance sheet, the income statement, statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report, which has been combined with the Company's management report, for the fiscal year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 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 mis-statements 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 mis-statements 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 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 relating to future development."

Berlin, Germany, February 1, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Schlösser Diederichs
Wirtschaftsprüfer Wirtschaftsprüfer
[German [German
Public Auditor] Public Auditor]

BALANCE SHEET OF GASAG BERLINER GASWERKE AKTIENGESELLSCHAFT AS OF DEC. 31, 2007

INCOME STATEMENT OF GASAG BERLINER GASWERKE AKTIENGESELLSCHAFT FOR THE PERIOD FROM JAN. 1, 2007 TO DEC. 31, 2007

	NOTES NO.	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
ASSETS			
A. Fixed assets	(1)		
I. Intangible assets	(2)	115,024	118,462
II. Property, plant and equipment	(3)	37,884	38,633
III. Financial assets	(4)	539,902	479,788
		691,910	636,883
B. Current assets			
I. Inventories	(5)	64,851	64,812
II. Receivables and other assets	(6)	308,662	241,166
III. Securities		0	9,910
IV. Cash on hand and bank balances	(7)	8,526	29,574
		382,039	345,462
C. Prepaid expenses		664	1,023
		1,074,613	983,368
EQUITY AND LIABILITIES			
A. Equity	(8)		
I. Subscribed capital		413,100	413,100
II. Capital reserve		42,461	42,461
III. Retained earnings		48,780	49,256
		504,341	504,817
B. Special item	(9)	80,460	85,851
C. Accruals	(10)	285,519	265,931
D. Liabilities	(11)	203,634	125,918
E. Deferred income		659	851
		1,074,613	983,368

	NOTES NO.	2007 EUR k	2006 EUR k
1. Sales	(12)	786,650	965,267
2. Increase or decrease in work in process	(13)	-1,956	-7,245
3. Own work capitalized		0	101
4. Other operating income	(14)	72,346	124,665
5. Cost of materials	(15)	569,753	762,159
6. Personnel expenses	(16)	41,451	81,146
7. Amortization and depreciation on intangible assets and property, plant and equipment	(17)	7,437	8,451
8. Other operating expenses	(18)	201,425	196,576
9. Financial and investment result	(19)	28,545	22,544
10. Result from ordinary activities		65,519	56,999
11. Income taxes	(20)	16,298	7,380
12. Other taxes		531	375
13. Net income for the year		48,690	49,244
14. Profit carryforward		90	12
15. Retained earnings		48,780	49,256

STATEMENT OF CHANGES IN FIXED ASSETS OF GASAG BERLINER GASWERKE AKTIENGESELLSCHAFT FOR THE PERIOD FROM JAN. 1, 2007 TO DEC. 31, 2007

FIXED ASSET ITEM	ACQUISITION AND PRODUCTION COST					CLOSING BALANCE EUR k	AMORTIZATION AND DEPRECIATION				CLOSING BALANCE EUR k	NET BOOK VALUES AS OF DEC. 31, 2007 EUR k	NET BOOK VALUES AT THE END OF THE PRIOR FISCAL YEAR EUR k
	OPENING BALANCE EUR k	ADDITIONS EUR k	DISPOSALS EUR k	RECLASSIFICATIONS EUR k			OPENING BALANCE EUR k	IN THE FISCAL YEAR EUR k	ACCUMULATED DEPRECIATION ON DISPOSALS IN COLUMN 4 EUR k	RECLASSIFICATIONS EUR k			
1	2	3	4	5	6	7	8	9	10	11	12	13	
I. Intangible assets													
1. Franchises, industrial rights and similar rights and assets	201,406	49	0	0	201,455	82,944	3,487	0	0	86,431	115,024	118,462	
2. Payments on account	0	0	0	0	0	0	0	0	0	0	0	0	
	201,406	49	0	+	201,455	82,944	3,487	0	+	86,431	115,024	118,462	
				0					0				
II. Property, plant and equipment:													
1. Land with office, operating and other buildings	55,475	195	307	0	55,363	27,001	1,050	307	0	27,744	27,619	28,474	
2. Land with supervision buildings	825	0	0	0	825	345	16	0	0	361	464	480	
3. Land with residential buildings	620	0	0	0	620	559	5	0	0	564	56	61	
4. Land without buildings	0	0	0	0	0	0	0	0	0	0	0	0	
5. Buildings on third-party land	1,715	332	6	0	2,041	1,112	36	6	0	1,142	899	603	
6. Production and procurement facilities	3,648	99	50	+	3,777	2,980	177	50	0	3,107	670	668	
7. Distribution facilities	64,924	2,263	2,249	+	65,149	58,328	2,223	2,246	0	58,305	6,844	6,596	
8. Plant and machinery	99	0	0	0	99	99	0	0	0	99	0	0	
9. Furniture and fixtures	8,148	298	424	+	8,040	6,789	443	411	0	6,821	1,219	1,359	
10. Payments on account and assets under construction	392	30	0	./.	113	0	0	0	0	0	113	392	
	135,846	3,217	3,036	+	136,027	97,213	3,950	3,020	+	98,143	37,884	38,633	
				309					0				
III. Financial assets:													
1. Shares in affiliated companies	198,438	16,523	15	0	214,946	0	0	0	0	0	214,946	198,438	
2. Loans to affiliated companies	5,400	8,500	0	0	13,900	0	0	0	0	0	13,900	5,400	
3. Equity investments	23,749	0	0	0	23,749	10	0	0	0	10	23,739	23,739	
4. Long-term investments	252,211	9,056	0	0	261,267	0	0	0	0	0	261,267	252,211	
5. Trust assets of GASAG Treuhandverein e.V.	0	25,150	0	0	25,150	0	0	0	0	0	25,150	0	
	479,798	59,229	15	+	539,012	10	0	0	+	10	539,002	479,788	
	817,050	62,495	3,051	+	876,494	180,167	7,437	3,020	+	184,584	691,910	636,883	
				309					0				

NOTES TO THE FINANCIAL STATEMENTS OF GASAG BERLINER GASWERKE AKTIENGESELLSCHAFT 2007



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39.5 °C

37.0 °C

34.5 °C

32.0 °C

29.5 °C

27.0 °C

PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the provisions of the German Commercial Code [“Handelsgesetzbuch“: HGB] as well as in accordance with the German Stock Corporation Act [“Aktengesetz“: AktG] and the German Energy Industry Act [“Energiewirtschaftsgesetz“: EnWG] and are commented on below.

The income statement has been prepared using the cost-summary method.

We have included the additional explanations required for certain items in these notes to the financial statements.

In order to improve the clarity of the financial statements, we have summarized all items designated with Arabic numbers in the balance sheet as well as the sub-items in the income statement and have disclosed and commented on them separately in these notes to the financial statements.

The financial statements for fiscal years 2007 and 2006 are not fully comparable due to the introduction of the new German Energy Tax Act [“Energiesteuergesetz“: EnergieStG] in 2006. Natural gas tax has not been disclosed as a component of sales or cost of materials since August 1, 2006.

ACCOUNTING AND VALUATION METHODS

Accounting and valuation methods remained largely unchanged in comparison to the prior year.

FIXED ASSETS

Purchased intangible assets and property, plant and equipment have been recognized at acquisition or production cost and, if they have a limited life, are amortized/depreciated on a straight-line basis in accordance with their estimated useful lives and the maximum allowable tax depreciation rates. Where permitted, pro rata overheads and administrative expenses have been capitalized in the production cost of internally generated items of property, plant and equipment.

With regard to financial assets, equity investments and securities are recorded at cost while loans are disclosed at nominal value. If impairment is expected as of the balance sheet date, the equity investment is valued in accordance with Sec. 253 (2) HGB and an impairment loss is charged accordingly.

CURRENT ASSETS

Current assets are valued in accordance with the strict principle of lower of cost or market.

Work in process is carried at production cost plus appropriate markups for overheads. Interest on borrowed capital is

not capitalized. Identifiable risks are accounted for pursuant to Sec. 253 (3) Sentence 2 HGB.

The working gas in the natural gas storage facility is valued using the LIFO method in accordance with Sec. 256 HGB. Compared to the valuation using the most recent market price available prior to the balance sheet date, application of the LIFO method led to a difference (LIFO reserve) of EUR 47,169k (prior year: EUR 52,831k).

Receivables and other assets are stated at their nominal value. Specific bad debt allowances are recognized to account for identifiable risks. Other risks are accounted for by general bad debt allowances. The accounting cut-off for gas consumption not billed as of the balance sheet date was performed using an individual IT-based procedure.

Other securities classified as current assets are disclosed at the lower of cost or net realizable value.

DEBT

Accruals for pensions and similar obligations and the obligations from phased retirement arrangements are recognized on the basis of actuarial reports and principles. They include an accrual for a portion of the indirect obligations (shortfall) to the Pension Institution of the Federal Republic of Germany and

the Federal States [“Versorgungsanstalt des Bundes und der Länder“: VBL]. The restructuring contributions payable to the VBL were used as a basis for determining the accrual. According to a cautious estimate on the outcome of the declaration procedure by GASAG, a favorable decision is expected for recognition as a hardship case based on the implementation regulations in Article 65 (5a) of VBL’s articles of incorporation. This was factored into the calculation of the accrual. The obligation to pay restructuring contributions to the VBL is recognized at present value.

A 5.1% interest rate was used to determine accruals for pensions and similar obligations (prior year: 5.0%) and a 4.9% rate for phased retirement obligations (prior year: 4.75%). The adjustment of interest rates did not lead to any major changes in the accrual items.

Tax accruals and other accruals take all identifiable risks, contingent liabilities and expenses pursuant to Sec. 249 (2) HGB into account. They are recorded at the amounts required according to prudent business judgment.

Liabilities are recorded at the amount repayable.

Derivative financial instruments are used to hedge the underlying’s basis of calculation. Valuation units are recognized for derivative financial instruments and underlyings and continue to be valued on a net basis. Derivatives for which no underlying exists are treated in line with the imparity principle.

ASSETS

(1) FIXED ASSETS

The development of fixed assets is shown in the statement of changes in fixed assets.

(2) INTANGIBLE ASSETS

Intangible assets mainly comprise easements of EUR 80,515k (prior year: EUR 81,221k) pursuant to Sec. 9 GBBerG ["Grundbuchbereinigungsgesetz": German Act to Rectify the Land Register] and the right to procure gas from E.ON Ruhrgas AG of EUR 29,557k (prior year: EUR 31,875k).

(3) PROPERTY, PLANT AND EQUIPMENT

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Land and buildings including buildings on third-party land	29,038	29,618
Procurement and distribution facilities	7,514	7,264
Furniture and fixtures	1,219	1,359
Payments on account and assets under construction	113	392
	37,884	38,633

(4) FINANCIAL ASSETS

Information on equity investments is provided under the section on Shareholdings below.

Financial assets comprise a security with a nominal value of EUR 165m which was pledged in connection with a sale and leaseback transaction for the gas network.

In order to protect claims arising from phased retirement arrangements pursuant to Sec. 8a AltTZG ["Altersteilzeitgesetz": German Phased Retirement Act] against insolvency, GASAG Treuhand e.V. was established. The funds of EUR 25,150k transferred to the trustee must

be managed by him, taking appropriate consideration of potential earnings and the maintenance of capital, and may only and irrevocably be used in the future to meet the relevant obligations. The net book value of securities (EUR 25,150k) temporarily exceeds the fair value (EUR 24,898k) due to fluctuations in the capital market.

SHAREHOLDINGS

Under a purchase and assignment agreement dated December 7, 2006, GASAG AG sold a 1.5% interest in NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG to Havelländische Stadtwerke GmbH, Werder, (hereinafter also referred to as "HSW") effective January 1, 2007.

Under a share purchase and transfer agreement dated September 12, 2007, GASAG AG acquired 100% of the shares in NGT Neue Gebäudetechnik GmbH, Essen, (hereinafter also referred to as "NGT") from Elster Service GmbH, Osnabrück, effective October 1, 2007.

On November 12, 2007, GASAG direct GmbH, Berlin, was renamed as DSE Direkt-Service Energie GmbH, Berlin, in the commercial register.

	EQUITY IN EUR k AS OF DEC. 31, 2007	SHARE IN CAPITAL	NET INCOMES/LOSS IN EUR k 2007
BAS Abrechnungsservice Beteiligungs-GmbH, Berlin	30	100 %	3
BAS Abrechnungsservice GmbH & Co. KG, Berlin	3,113	100 %	2,273
BEGA.tec GmbH, Berlin	199	100 %	79
DSE Direkt-Service Energie GmbH, Berlin	277	100 %	46
EMB Beteiligungsgesellschaft mbH, Potsdam ¹	3,906	100 %	550
GASAG Versicherungsvermittlung der Versorgungsunternehmen GmbH, Berlin	60	100 %	1
GASAG WärmeService GmbH, Berlin	4,061	100 %	1,555
NGT Neue Gebäudetechnik GmbH, Essen ⁷	3,258	100 %	1,471
VR Solidus Siebte GmbH & Co. KG, Eschborn ²	3	100 %	0
NBB Netz-Beteiligungs-GmbH, Berlin	29	100 %	2
NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin ³	-7,323	98.5 %	-8,262
EMB Erdgas Mark Brandenburg GmbH, Potsdam	108,278	75.08625 %	14,513
Gasversorgung Zehdenick GmbH, Zehdenick ^{1,4}	1,082	49 %	12
GreenGas Rathenow Verwaltungs GmbH, Rathenow ^{1,6}	25	49 %	-
GreenGas Produktionsanlage Rathenow GmbH & Co.KG, Rathenow ^{1,2}	11	49 %	-4
Energie Südwest AG, Landau ⁴	24,703	41 %	3,689
Havelländische Stadtwerke GmbH, Werder ^{1,5}	12,634	40.2375 %	917
Berliner Energieagentur GmbH, Berlin ²	2,568	25 %	166
Erdgasversorgung Oranienburg GmbH, Oranienburg ^{1,5}	5,289	24.5 %	668
SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	20,144	18.0213 %	6,600
Berliner Erdgasspeicher Besitz- und Verwaltungsgesellschaft bR, Berlin	31,833	0.22 %	31,258

¹ Indirect equity investment of GASAG AG via EMB Erdgas Mark Brandenburg GmbH, Potsdam

² Data taken from the financial statements as of Dec. 31, 2006

³ Thereof 15% indirect equity investment of GASAG AG via EMB Erdgas Mark Brandenburg GmbH, Potsdam

⁴ Forecast net income for 2007

⁵ Provisional net income for 2007

⁶ No forecast made as of the balance sheet date

⁷ Relates to the abbreviated fiscal year from Oct. 1 to Dec. 31, 2007 (provisionally)

(5) INVENTORIES

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Work in process	6,547	8,503
Merchandise	58,304	56,309
	64,851	64,812

Work in process relates to the construction work on GASAG AG's gas network not yet billed to KORDAX in connection with the sale and leaseback transaction

with KORDAX Mobilien-Verwaltungsgesellschaft mbH & Co. KG (hereinafter also referred to as "Kordax").

The portion of working gas disclosed under the item merchandise mainly relates to the underground storage facility in Berlin.

(6) RECEIVABLES AND OTHER ASSETS

	DEC. 31, 2007			DEC. 31, 2006		
	TOTAL	THEREOF DUE IN		TOTAL	THEREOF DUE IN	
	EUR k	LESS THAN ONE YEAR EUR k	MORE THAN ONE YEAR EUR k	EUR k	LESS THAN ONE YEAR EUR k	MORE THAN ONE YEAR EUR k
Trade receivables	108,801	108,801	0	86,282	86,282	0
Receivables from affiliated companies (thereof trade receivables)	45,281 17,049	45,281 17,049	0	33,999 10,480	33,999 10,480	0
Receivables from companies in which equity investments are held	22,532	22,532	0	22,540	4,918	17,621
Other assets	132,048	68,551	63,497	98,345	53,816	44,530
	308,662	245,165	63,497	241,166	179,015	62,151

Trade receivables are largely attributable to gas supplies to GASAG AG's customers. They include unbilled receivables of EUR 338,536k (prior year: EUR 298,927k) which were netted with the unbilled advance payments of EUR 257,783k (prior year: EUR 251,749k).

Receivables from affiliated companies include receivables from the clearing account (EUR 26,866k; prior year: EUR 21,560k), trade receivables (EUR 17,049k; prior year: EUR 10,480k), payments on account for network access charges (EUR 1,103k; prior year: EUR 0k) and other receivables (EUR 264k; prior year: EUR 1,959k). Receivables are mainly due from Erdgas Mark Brandenburg GmbH (hereinafter also referred to as "EMB") (EUR 23,937k; prior year: EUR 21,181k), from GASAG WärmeService GmbH (hereinafter also referred to as "GWS") (EUR 10,406k; prior year: EUR 4,835k) and from NBB

Netzgesellschaft Berlin-Brandenburg mbH & Co. KG (hereinafter referred to as "NBB") (EUR 6,547k; EUR 6,117k).

Receivables from companies in which equity investments are held largely relate to the refund claim against Speicher GbR of EUR 22,532k, which remains unchanged year on year.

Other assets primarily reflect a loan receivable of EUR 66,763k from KORDAX Mobilien-Verwaltungsgesellschaft mbH & Co. KG (prior year: EUR 46,576k), an equity investment held for sale of EUR 40,769k (prior year: EUR 40,769k) and tax receivables of EUR 10,152k (prior year: EUR 1,844k). Tax receivables include receivables from income taxes (EUR 2,952k; prior year: EUR 0k), VAT (EUR 5,590k; prior year: EUR 0k) and other taxes (EUR 1,610k; prior year: EUR 1,844k).

(7) CASH AND CASH EQUIVALENTS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Checks	516	580
Cash on hand	9	19
Bank balances (thereof short-term cash investments)	8,001 (2,300)	28,975 (24,800)
	8,526	29,574

EQUITY AND LIABILITIES**(8) EQUITY**

As of the balance sheet date, CAPITAL STOCK comprised 8,100,000 no-par bearer shares with a notional value of EUR 51.00 and amounted to EUR 413,100k.

The CAPITAL RESERVE exclusively comprises amounts in accordance with Sec. 272 (2) No. 1 HGB.

RETAINED EARNINGS developed as follows:

	2007 EUR k	2006 EUR k
Retained earnings as of Jan. 1, 2007	49,256	53,229
Distribution	49,167	53,217
Net income for the year	48,690	49,244
Retained earnings as of Dec. 31, 2007	48,780	49,256

(9) SPECIAL ITEM

The special item (EUR 80,460k; prior year: EUR 85,851k) contains investment grants from third parties and the building cost contributions received as of December 31, 2002, which are released to income over the useful life of the related assets and released to income at a rate of 5% p.a., respectively.

Since January 1, 2006, only the investment grants for relaying the pipe system and home connections have been

allocated to this item by GASAG AG and released to income over the remaining useful life of the related assets. Investment grants and building cost contributions from third parties ensuing from the Ordinance on the General Terms and Conditions for the Network Collection and Use for Low Pressure Gas Provision ["Verordnung über Allgemeine Bedingungen für den Netzanschluss und dessen Nutzung für die Gasversorgung in Niederdruck": NDAV] as of fiscal year 2006 are collected by NBB.

(10) ACCRUALS

	DEC. 31, 2007 EUR k	DEC. 31, 2006 EUR k
Accruals for pensions and similar obligations	67,869	62,399
Tax accruals	4,262	11,297
Other accruals	213,388	192,235
	285,519	265,931

Accruals for pension obligations break down into pension obligations for management board members, claims to a company pension for employees of the former Berliner Erdgas AG, direct and indirect pension obligations for beneficiaries under the agreement on pensions for salaried employees and wage earners of the State of Berlin ["Vereinbarung über die Versorgung der Angestellten und Arbeiter des Landes Berlin": VVA] and obligations to pay restructuring contributions to the VBL.

The decrease in tax accruals is largely attributable to the end of the tax audit in 2006 and the ensuing tax payments.

Other accruals mainly relate to obligations for risks from compensation for real property rights (EUR 80,515k; prior year: EUR 81,221k), for gas procurement (EUR 28,801k; prior year: EUR 25,457k), for soil cleaning (EUR 19,421k; EUR 19,523k), for phased retirement arrangements (EUR 14,311k; EUR 18,768k) and for the refund claim asserted by Speicher GbR against GASAG (EUR 7,380k; EUR 0k).

Accruals relate to risks for litigation and other risks, including risks in connection with the class action in which the Regional Court of Berlin ruled on June 19, 2006 that the gas price increases were invalid for 38 plaintiffs (of 41). The reason the court gave for its ruling was the lack of transparency of GASAG AG's price adjustment system; but, it did not rule on the reasonableness of the gas price increases. However, the judgment is not yet final and GASAG AG has appealed.

(11) LIABILITIES

	DEC. 31, 2007				DEC. 31, 2006	
	TOTAL	LESS THAN ONE YEAR	THEREOF DUE IN MORE THAN ONE YEAR	MORE THAN FIVE YEARS	TOTAL	THEREOF DUE IN LESS THAN ONE YEAR
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Banks	101,288	1,288	0	100,000	23,657	23,657
Payments received on account	0	0	0	0	20	20
Trade payables	27,159	27,159	0	0	27,346	27,346
Liabilities to affiliated companies	53,560	53,560	0	0	47,041	47,041
Liabilities to companies in which equity investments are held	473	473	0	0	71	71
Other liabilities	21,154	21,154	0	0	27,783	27,783
(thereof for taxes)	(589)	(589)	(0)	(0)	(4,155)	(4,155)
	203,634	103,634	0	100,000	125,918	125,918

Liabilities to banks include bank loans and liabilities from a borrower's note loan, whose bearers are exclusively banks. The increase in liabilities to banks is due to the raising of a loan.

Liabilities to affiliated companies include liabilities from the clearing account (EUR 44,745k; prior year: EUR 24,315k), trade payables (EUR 5,655k; prior year: EUR 12,380k) and other liabilities (EUR 3,160k; prior year: EUR 10,306k). The liabilities

are chiefly attributable to NBB (EUR 39,857k; prior year: EUR 35,191k), GWS (EUR 6,378k; prior year: EUR 3,809k) and BAS Abrechnungsservicegesellschaft mbH & Co. KG (hereinafter referred to as "BAS") (EUR 5,311k; prior year: EUR 6,342k).

NOTES TO THE INCOME STATEMENT

(12) SALES

	2007 EUR k	2006 EUR k
Supply of natural gas	661,470	813,932
Other	125,180	151,335
	786,650	965,267

Sales of natural gas mainly cover the State of Berlin.

The fall in sales can be largely attributed to the change in the German Energy Tax Act in fiscal year 2006 and the warm weather in fiscal year 2007.

Natural gas tax has not been a component of sales since the new German Energy Tax Act came into effect as of

August 1, 2006. Sales from the supply of natural gas in fiscal year 2006 contain natural gas tax of EUR 65,215k for the months January to July.

Other sales mainly relate to income from the leasing of the gas network to NBB and income from gas-related services.

(13) INCREASE/DECREASE IN FINISHED GOODS AND WORK IN PROCESS

Work in process decreased by EUR 1,956k (decrease in the prior year: EUR 7,245k) due to the unbilled construction work on GASAG's gas network in connection with the sale and leaseback transaction with KORDAX Mobilien-Verwaltungsgesellschaft mbH & Co. KG. This unbilled construction work is disclosed under inventories.

(14) OTHER OPERATING INCOME

	2007 EUR k	2006 EUR k
Income from the disposal of sale and leaseback equipment	22,571	23,660
Rental and leasing	6,706	6,872
(thereof with affiliated companies)	(4,744)	(4,995)
Release of building cost contributions and investment grants received	6,134	6,216
Refunds and grants	4,655	5,545
(thereof with affiliated companies)	(-212)	(45)
Income from the reversal of accruals	2,205	13,975
(thereof with affiliated companies)	(23)	(69)
Changes in write-downs	935	1,382
Income not relating to the period	705	698
Disputed payment receipts and cash flows	600	855
Disposal of fixed assets	2	2,253
Refund of leases for prior years from the use of the natural gas storage facility	0	27,087
Other	27,833	36,123
(thereof with affiliated companies)	(22,559)	(31,307)
Total	72,346	124,665
(thereof with affiliated companies)	(27,114)	(36,424)

Income from the disposal of sale and leaseback equipment contrasts with purchased services in the same amount.

Income from transactions with affiliated companies is chiefly attributable to the provision of services, staff leasing and other services.

The decrease in income from the reversal of accruals is mainly due to the reversal of the accrual for repairing the damaged probe B05 of the natural gas storage facility in Berlin (EUR 7,665k) in 2006.

The decrease in other operating income in fiscal year 2006 can be largely attributed to the sale of work in process as of January 1, 2006 (EUR 4,849k) to NBB in connection with the leasing of the gas network to NBB and the sale of stock on hand (EUR 1.497k).

(15) COST OF MATERIALS

	2007 EUR k	2006 EUR k
Cost of raw materials, consumables and supplies and of purchased merchandise	374,884	521,277
Cost of purchased services	194,869	240,882
	569,753	762,159

The cost of materials mainly comprises expenses for directly distributed natural gas, the cost of network access charges and the cost of pipework and civil engineering.

The decrease in the cost of raw materials, consumables and supplies and of purchased merchandise is chiefly the result of the change in the German Energy Tax

Act in fiscal year 2006, higher temperatures and lower gas procurement prices.

Since the introduction of the new German Energy Tax Act as of August 1, 2006, natural gas tax has no longer been disclosed as a component of cost of materials for the procured natural gas volume. Cost of materials includes tax of EUR 64,925k on natural gas sales during

the period from January to July 2006. The decrease in the cost of purchased services can be largely attributed to the decrease in network access charges.

The cost of materials also contains invoice-related refunds of EUR 6,572k (prior year: EUR 3,885k relating to fiscal year 2006).

(16) PERSONNEL EXPENSES

	2007 EUR k	2006 EUR k
Wages and salaries	25,413	29,673
Social security, pension and other benefit costs	16,038	51,473
(thereof for old-age pensions)	(12,200)	(47,451)
	41,451	81,146



Personnel expenses comprise expenses from the allocation to the accrual for restructuring contributions to the VBL (EUR 9,177k; prior year: EUR 25,537k), to the accrual for phased retirement arrangements (EUR 2,569k; prior year: EUR 6,229k) and to the accrual for indirect current pension obligations under the VVA (EUR 57k; prior year: EUR 16,608k).

(17) AMORTIZATION AND DEPRECIATION OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT
No impairment losses were charged in the fiscal year.

(18) OTHER OPERATING EXPENSES

	2007 EUR k	2006 EUR k
Natural gas storage facility and gas pipe system leases	122,054	119,954
IT services	9,876	9,070
(thereof with affiliated companies)	(1,422)	(-36)
Meter-reading and billing services	9,393	9,429
(thereof with affiliated companies)	(9,393)	(9,429)
Advertising and promotional activities	9,342	9,254
(thereof with affiliated companies)	(1,344)	(601)
Legal and consulting fees	8,174	7,156
(thereof with affiliated companies)	(978)	(-9)
Concession levies	6,433	7,242
Rent	4,926	4,739
Derecognition of receivables and bad debt allowances	4,829	7,011
IT leases	2,337	1,579
Insurance	2,283	2,382
Land and building services	1,153	1,267
(thereof with affiliated companies)	(3)	(0)
Waste disposal costs	595	4,828
Losses on the disposal of fixed assets	5	480
(thereof with affiliated companies)	(0)	(280)
Other	20,024	12,187
(thereof with affiliated companies)	(3,028)	(2,671)
Total	201,425	196,577
(thereof with affiliated companies)	(22,599)	(20,179)

The increase in other operating expenses can be largely attributed to the recognition of an accrual of EUR 7,380k for the refund claim asserted by Speicher GbR

against GASAG in connection with the 2008 Corporate Tax Reform adopted in July 2007.

(19) FINANCIAL AND INVESTMENT RESULT

	2007 EUR k	2006 EUR k
Income from equity investments	16,169	12,998
(thereof from affiliated companies)	(13,784)	(12,845)
Income from other investments and long-term loans	9,635	8,668
(thereof from affiliated companies)	(579)	(222)
Other interest and similar income including income from write-ups	6,499	5,412
(thereof from affiliated companies)	(308)	(333)
Interest and similar expenses	3,758	4,524
(thereof to affiliated companies)	(1,745)	(1,405)
Impairment losses on financial assets	0	10
	28,545	22,544

The increase in income from investments is mainly due to profits distributed by Energie Südwest AG, SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH and der BAS Abrechnungsservice GmbH & Co. KG.

(20) INCOME TAXES

Income taxes principally include corporate income tax and solidarity surcharge (EUR 5,963k; prior year: EUR 8,724k) and trade tax (EUR 6,333k; prior year: -EUR 11,463k, thereof EUR 16,076k from the reversal of the trade tax accrual, and EUR 4,583k for trade tax expenses). This item also includes a refund claim from NBB (EUR 4,001k; prior year: EUR 10,118k).

The rise in other interest and similar income is chiefly due to the general increase in interest rates and the increase in the credit portfolio extended to Kordax.

Pursuant to NBB's partnership agreement, the company's limited partners are obligated to bear the trade tax incurred (or trade tax benefits) in the limited partners' special and/or supplementary tax balance sheets.

EXECUTIVE BODIES



REMUNERATION OF THE SUPERVISORY BOARD, THE MANAGEMENT BOARD AND FORMER MEMBERS OF THE MANAGEMENT BOARD



SUPERVISORY BOARD

Dr. Karl Kauermann
(Chairman of the supervisory board)
Chairman of the management board of
K.M.T. Immobilien AG, Berlin, Germany

Andreas Otte
(Deputy chairman of the supervisory
board) Employee (chairman of the works
council) at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Bernard Alran
General manager of Gaz de France
Deutschland GmbH, Berlin, Germany

Eckhard Beye
(until December 31, 2007)
Divisional head of GASAG Berliner
Gaswerke Aktiengesellschaft, Berlin,
Germany

Michael Bölter
Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Uwe Borck
(since January 4, 2007)
District divisional head of public supply
and waste disposal, ver.di, Vereinte
Dienstleistungsgewerkschaft District of
Berlin-Brandenburg, Germany

Thorsten Ciebilski
Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Pierre Clavel
Head of the International group division
at Gaz de France S.A., Paris, France

Hans-Jürgen Cramer
Member of the management board of
Vattenfall Europe Aktiengesellschaft,
Berlin, Germany

Olaf Ditt
Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Mats Fagerlund
(since September 18, 2007)
Member of the management board of
Vattenfall Europe Aktiengesellschaft,
Berlin, Germany

Philippe Jeunet
Advisor to the chairman of the
management board of Gaz de France
S.A., Paris, France

Thomas Kokegei
(since January 10, 2008)
Divisional head of GASAG Berliner
Gaswerke Aktiengesellschaft, Berlin

Axel Krafcscheck
(until December 31, 2007)
Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Lutz Marowsky
Employee at GASAG Berliner Gaswerke
Aktiengesellschaft, Berlin, Germany

Dr. Hans-Jürgen Meyer
Member of the management board of
Vattenfall Europe Aktiengesellschaft,
Berlin, Germany

Monika Nagel
Employee at NBB Netzgesellschaft
Berlin-Brandenburg GmbH & Co. KG,
Berlin, Germany

Prof. Dr. Klaus Rauscher
(until August 27, 2007)
Former chairman of the management
board of Vattenfall Europe Aktiengesell-
schaft, Berlin, Germany

Dr. Bernhard Reutersberg
(since January 18, 2007)
Member of the management board of
E.ON Ruhrgas Aktiengesellschaft, Essen,
Germany

Dr. Herbert Rügen
Member of the management board of
Thüga Aktiengesellschaft, Munich,
Germany

MANAGEMENT BOARD

Georges Hoffmann
(until December 31, 2007)
(Chairman of the management board)
Responsible for personnel, legal affairs,
and procurement

Olaf Czernomoriez
Responsible for administration and
IT strategy

Andreas Prohl
Responsible for distribution and
technology

	2007 EUR k
Remuneration of the supervisory board	95
Accrual for pensions for management board members (thereof for former management board members)	7,456 (4,993)
Remuneration paid to former management board members and their surviving dependents	404
Management board remuneration	965

ANNUAL AVERAGE NUMBER OF EMPLOYEES

(excluding trainees and management
board members)

	2007 NO.	2006 NO.
Wage earners	71	85
Salaried employees	449	483
	520	568

CONTINGENT LIABILITIES



GASAG AG has contingent liabilities of
EUR 11,254k for rental obligations to
Deutsche Leasing AG from heat produc-
tion facilities leased by GWS, EUR 1,000k
for obligations to take over leases for
hardware and software leased from
Siemens Finance & Leasing GmbH & Co.
KG by Vattenfall Europe Informations-
system GmbH and of EUR 2,123k for
guarantees.

OTHER FINANCIAL OBLIGATIONS



	2007 EUR k
Natural gas purchase commitments	3,338,359
Gas facility leases	812,159
Natural gas storage facility lease	275,860
Purchase commitments for investment plans (incl. Kordax) and service agreements	20,117
Other rental and lease obligations	18,155
Storage facility restoration	11,311
Obligations from meter reading and billing services (BAS)	9,402
Natural gas bus leases	1,237
Cooperation agreement "Climate Protection 2006-10"	450
	4,487,050
Thereof to affiliated companies	(9,402)

There are purchase commitments from natural gas supply agreements with take-or-pay clauses in place between GASAG AG and various upstream gas suppliers. The prices for natural gas are based on prices for other sources of energy, reflecting the competitive situation on the market. The provisions of the long-term agreements are reviewed at certain intervals (usually at least every three years) in negotiations with the parties to the agreements and are thus subject to change. The assumptions used for internal planning purposes are also used to calculate the financial obligations arising from these agreements.

The item for gas facility leases relates to the lease agreements on the use of gas distribution facilities, transport, storage and other gas facilities. Lease installments and final payments of EUR 86,763k are due in the following year and EUR 768,871k in the following one to five years.

All employees covered by collective wage agreements and some executive employees of GASAG AG are covered by membership of the VBL. The VBL is an incorporated institution whose purpose is to provide employees of participating employers with supplementary old-age and survivors' pensions through private insurance. The VBL is financed through contributions. The contribution rate for the VBL scheme was 7.86% in the fiscal year for employees under the pay scale area west scheme, with the employer paying 6.45% thereof and the employee

1.41%. In the pay scale area east scheme, the contribution rate was 1.0% and was borne by the employer. In the latter scheme, a contribution to the funding system of 1.0% is also charged which is born equally by the employer and the employee. The contributions payable in the fiscal year came to EUR 16,537k.

An agreement was concluded with NBB in 2006 on the use of the public distribution network leased to NBB for the provision of gas from outfeed points. The agreement runs indefinitely and may be terminated giving three months' notice. The outfeed charges are volume-based and therefore cannot be quantified.

NOTES ON DERIVATIVE FINANCIAL INSTRUMENTS

(in Nominal Amounts)

The market value of derivative financial instruments is calculated using the mark-to-market method. Marking to market involves discounting future cash flows from financial instruments to reflect current market value. The instruments are discounted over their remaining term using market interest rates. This method

is used to calculate the market value of a financial instrument. The main parameters of the mark-to-market valuation are the transaction data for the financial instrument and the interest structure in the currency of the transaction.

	TOTAL (NOMINAL) EUR k	< LESS THAN ONE YEAR EUR k	THEREOF DUE IN BETWEEN ONE AND FIVE YEARS EUR k	> MORE THAN FIVE YEARS EUR k	NET MARKET VALUE DEC. 31, 2007 EUR k
Commodity swaps with valuation units	3,911	3,830	81	0	333
Interest swaps with valuation units	316,607	17,794	198,813	100,000	13,544
	320,518	21,624	198,894	100,000	13,877



NOTES ON MAJOR TRANSACTIONS WITH RELATED PARTIES PURSUANT TO SEC. 10 (2) ENWG

In fiscal year 2007, the following major transactions were performed:

	EUR k
BEGA.tec GmbH as principal	
Services	743
Shareholder loan	500
BEGA.tec GmbH as contractor	
Assumption of phased retirement payments	528
GASAG WärmeService GmbH as principal	
Supply of natural gas	28,850
Shareholder loan	1,500
Services	486
GASAG WärmeService GmbH as contractor	
Contributions for gas connections	715
BAS Abrechnungsservice GmbH & Co. KG as principal	
Services	2,083
BAS Abrechnungsservice GmbH & Co. KG as contractor	
Meter-reading and billing services	8,285
Data processing services	1,358
Assumption of court costs	840
DSE Direkt-Service Energie GmbH as contractor	
Acquisition services	558
EMB Erdgas Mark Brandenburg GmbH as principal	
Shareholder loan (short-term financing)	20,000
Services	1,366
NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG as principal	
Services	13,456
Shareholder loan	11,900
Land and building rent	4,591
Assumption of VAA benefits	1,137
NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG as contractor	
Services	1,108

Furthermore, sales were generated from the lease of the gas network to NBB and expenses incurred from network charges.

The services include the provision of services, staff leasing and data processing services.

Cash pooling agreements with varying volumes are also in place.

DISCLOSURES PURSUANT TO SEC. 160 (1) NO. 8 AKTG

In accordance with Sec. 20 (1) AktG, Gaz de France International S.A.S., Paris, France, has announced that it directly holds more than a quarter of the shares in GASAG AG.

In accordance with Sec. 20 (1) AktG, Vattenfall Europe AG, Berlin, Germany, has announced that it directly holds more than a quarter of the shares in GASAG AG.

In accordance with Sec. 20 (1) AktG, Sweden has announced that it indirectly holds more than a quarter of the shares in GASAG AG. GASAG AG has received the same information from Vattenfall AB and Vattenfall Deutschland GmbH.

In accordance with Sec. 20 (1) AktG, Thüga AG, Düsseldorf, Germany, has announced that it directly holds more than a quarter of the shares in GASAG AG.

PROPOSAL FOR THE APPROPRIATION OF PROFITS

GASAG AG's management board proposes using EUR 48,762,000.00 (prior year: EUR 49,167,000.00) of GASAG's retained earnings for a dividend of EUR 6.02 per share (prior year: EUR 6.07 per share) and carrying forward the remaining EUR 17,557.30 of retained earnings (prior year: EUR 89,137.57) to new account.

Berlin, Germany, January 31, 2008

GASAG
Berliner Gaswerke Aktiengesellschaft
The Management Board

Czernomoriez Prohl

We have issued the following opinion on the financial statements and the management report, which has been combined with the group management report:

“We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which has been combined with the group management report, of GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany, for the fiscal year from January 1 to December 31, 2007. Pursuant to Sec. 10 (4) EnWG [“Energiewirtschaftsgesetz”: German Energy Industry Act], the audit also covered the observance of duties regarding unbundling in the internal accounting system in accordance with Sec. 10 (3) EnWG. The maintenance of the books and records, the preparation of the annual financial statements and management report in accordance with German commercial law, and observance of the obligations set out in Sec. 10 (3) EnWG are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report as well as on the internal accounting system pursuant to Sec. 10 (3) EnWG, based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [“Handelsgesetzbuch”: German Commercial Code] 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 annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance and that reasonable assurance can be provided that the obligations arising under Sec. 10 (3) EnWG are fulfilled in all material respects. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report as well as in

the internal accounting system pursuant to Sec. 10 (3) EnWG are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, evaluating the overall presentation of the annual financial statements and management report and assessing whether the accounts in the internal accounting system within the meaning of Sec. 10 (3) EnWG have been valued and allocated correctly and transparently and whether the consistency principle was observed. We believe that our audit provides a reasonable basis for our opinion.

Our audit of the annual financial statements including the accounting records and management report has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks relating to future development.

The audit of the observance of duties regarding accounting unbundling in the internal accounting system pursuant to Sec. 10 (3) EnWG has not led to any reservations.”

Berlin, Germany, February 1, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Schlösser	Diederichs
Wirtschaftsprüfer	Wirtschaftsprüfer
[German	[German
Public Auditor]	Public Auditor]

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ANNUAL REPORT 2007



GASAG

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