Annual Report 2016

GASAG

KPIs OF THE GASAG GROUP

For fiscal years 2014 to 2016 according to international reporting standards (IFRSs)

	UNIT	2016	2015	2014
Revenue	**€ m**	**1.167**	**1.055**	**1.099**
thereof gas	€ m	857	804	875
Gas sales	**GWh**	**19,202**	**18,686**	**20,370**
Cost of materials	**€ m**	**734**	**728**	**777**
Technical figures for gas				
Length of pipe system	km	13,923	13,860	13,781
High pressure	km	2,949	2,940	2,910
Supply network [1]	km	10,974	10,920	10,871
House connection pipes	units	335,759	331,391	327,028
Installed gas meters	units	788,902	793,589	797,492
Personnel				
Annual average no. of employees	no.	1,559	1,538	1,566
Employees as of Dec. 31	no.	1,566	1,533	1,545
Trainees as of Dec. 31	no.	75	64	59
Capital stock	**€ m**	**413**	**413**	**413**
Profit or loss for the period	**€ m**	**57**	**44**	**32**
Balance sheet total	**€ m**	**2,074**	**2,092**	**2,205**
Non-current assets	€ m	1,781	1,802	1,796
Equity	€ m	757	695	704
Equity ratio	%	36	33	32
Earnings per share	**€**	**5.76**	**4.90**	**2.89**
Assets				
Investments	€ m	144	100	104
(thereof non-current financial assets)	€ m	11	2	7
Amortization and depreciation	€ m	158	87	80
Cash flows from operating activities	**€ m**	**157**	**101**	**194**

[1] The supply network comprises medium and low-pressure lines


KAFFEE
+
KUCHEN
3,50
Mercedes-Benz Arena
GRIPS
THEATER
IMBISS
ZU VERSCHENKEN
Happy Birthday
GASAG STROMFix
U8
Gesundbrunnen
DÖNER KEBAB

GROUP MANAGEMENT REPORT FOR GASAG

GROUP MANAGEMENT REPORT

for GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, for Fiscal Year 2016

GASAG Berliner Gaswerke Aktiengesellschaft, Berlin (the "GASAG Group"), has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU on the basis of Sec. 315a (3) HGB ["Handelsgesetzbuch": German Commercial Code]. All additional disclosures required under the German Commercial Code have been made.

1 BACKGROUND OF THE GROUP

1.1 BUSINESS MODEL

The GASAG Group is a leading energy service provider in the Berlin-Brandenburg metropolitan region. As a company with a tradition spanning 170 years, we primarily ensure a reliable, cost-effective and environmentally friendly provision of energy, the distributed supply of energy and innovative energy services, as well as the production and distribution of renewable energies.

The business activities of the GASAG Group involve the transportation, storage, distribution and sale of natural gas, heat, electricity and water, the production of biogas and electricity from renewable sources, the operation of facilities for distributed energy supply and the provision of energy services. Other areas of activity are consumption-billing and meter-reading services, meter management, and the set-up, repair and overhaul of energy installations. The Group's core business is the transportation, distribution and sale of energy and heat and, to an increasing extent, the provision of energy services.

The economic difficulties surrounding storage facilities are preventing the sustainable operation of the natural gas storage facility in Berlin-Charlottenburg. In view of this, the decision was made at the end of 2016 to initiate decommissioning proceedings in conjunction with the Brandenburg State Office for Mining, Geology and Raw Materials in 2017 and to cease marketing storage capacities as of April 1, 2017.

Our customers include private households, trade and industry, companies in the housing sector, hospitals and municipal entities, redistributors and users of gas transport services. Our business activities focus on the Berlin-Brandenburg metropolitan region.

Our actions in general and our business activities in particular are significantly affected by external factors, which have an effect on our results of operations. These factors primarily include regulatory requirements, the framework for awarding concessions and their usage, as well as the legal requirements in connection with the new energy policy. Temperature trends are also another key factor affecting the results of operations of some companies of the GASAG Group.

In line with its group management function, GASAG Berliner Gaswerke Aktiengesellschaft, Berlin (GASAG), is responsible for steering the companies in the GASAG Group. This includes their strategic focus and ongoing development, financial management, the optimization of their procurement portfolios and opportunity and risk management. Furthermore, GASAG's service units, as part of the shared services function, also provide commercial and administrative services for all group companies. This includes in particular the functions of accounting, financial control and taxes, cash management, energy trading, procurement of other goods and services, HR, legal and real estate management as well as marketing.

The companies and units of the GASAG Group are allocated to the following business areas: **production, energy services, distribution, networks, storage** and **services.**

1.1.1 BUSINESS AREAS OF THE GASAG GROUP

PRODUCTION **ENERGY SERVICES** **DISTRIBUTION** **NETWORKS** **STORAGE** **SERVICES**

- **GASAG** Berliner Gaswerke AG, Berlin
- **NBB** Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin
- **EMB** Energie Mark Brandenburg GmbH, Potsdam
- **SpreeGas** Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus
- **GASAG Contracting** GmbH, Berlin
- **BAS** Abrechnungsservice GmbH & Co. KG, Berlin
- **Stadtwerke Forst** GmbH, Forst (Lausitz)
- **NFL** Netzgesellschaft Forst (Lausitz) mbH & Co. KG, Forst (Lausitz)
- **BES** Berliner Erdgasspeicher GmbH, Berlin
- **umetriq** Metering Services GmbH, Berlin
- **GASAG Bio-Erdgas Schwedt** GmbH, Schwedt (Oder)
- **Bio-Erdgas Neudorf** GmbH, Groß Pankow
- **KKI**–Kompetenzzentrum Kritische Infrastrukturen GmbH, Berlin
- **DSE** Direkt-Service Energie GmbH, Berlin
- **infrest** - Infrastruktur eStrasse GmbH, Berlin
- **WDW** Windpark Dahme – Wahlsdorf 2 GmbH & Co. KG, Zossen OT Kallinchen
- **Provedo** GmbH, Leipzig
- **Solar Project 19** GmbH & Co. KG, Cottbus

The activities of the owners of the energy supply networks and the natural gas storage facility in Berlin related to their asset-owner-function are assigned to the **network** and **storage** business areas.

GASAG, EMB and SpreeGas are engaged in distributed energy supply and generation, as well as heating business operations, including the related infrastructure and energy services. The related activities are assigned to the **energy services** business area.

As a **service unit** and billing service provider, BAS covers the entire customer service process in the energy industry-related areas of electricity, gas, local and district heating, as well as water and sewage. It provides services in these regulated sectors for the market roles of network provider, supplier, metering point operator and metering service provider. umetriq provides metering services as well as meter management and operates smart metering systems and energy management systems for improving energy efficiency.

1.2 STRATEGIES, TARGETS AND MEASURES

In 2016, we continued to pursue our strategic focus of an energy service provider. The aim is to further optimize the GASAG Group's core business, comprising the business areas networks and distribution, expand the production of renewable energies to the extent permitted under current and future conditions and establish and expand energy services in the standardized product and more complex project business in our core regions and beyond. The core business thus remains the basis for achieving our objectives and ensuring the financing of innovations and new developments. The results of benchmarking activities have been incorporated into our planning. Cost-cutting and efficiency targets have been set which will continue to support the optimization of the core business. Our offerings, such as distributed energy solutions, smart metering and control technology and customized billing services, are complemented by energy-related services.

The energy markets have changed radically in the last few years. Through our new modernized branding, which spans from image communication to the sales level, this has been an opportunity for us to highlight GASAG's progression from a pure-play natural gas supplier to a broad-based energy service provider.

Besides the traditional offerings for the provision of electricity, natural gas and heat, we offer our customers a continually growing portfolio of innovative energy solutions. This reflects our forward-looking business strategy in a modern competitive environment. We assume that within a few years, providers from other sectors with digital services will disrupt the structures in the market and established business models in place across the entire industry could be revamped. For this reason, GASAG also backs business solutions developed by startups and offers its support as an industry partner to, for example, the StartGreen Award and the A² Accelerator Program in Berlin-Adlershof. In the course of the digitization of (almost) all business areas, coupled with the challenges posed by the growth of major cities, the Smart City Berlin concept has emerged over the past few years. A reference location for the transformation process is, for example, the EUREF campus in Berlin-Schöneberg – the former GASAG gas works site where energy-optimized buildings, a local micro smart grid and low operating costs thanks to the use of renewable energy are the focus of the development.

In the **production business area,** our strategic aims are focusing in particular on investments in wind turbines following on from the optimization of biogas production in our existing facilities. In 2016, we acquired our first wind farm in Brandenburg. We plan to invest in further turnkey wind farms, collaborate on the development of wind farms and also exploit opportunities that arise from changes in the regulatory framework.

Furthermore we are active in the field of solar energy. SpreeGas has laid the groundwork in this area with several projects for ground-mounted photovoltaic systems in the south of Brandenburg. These systems are set to be built starting in 2017 and serve in particular to strengthen our strong roots in the region.

In the **energy services business area,** our aim is to be successful as a provider of solutions in standard and complex project business. Our product portfolio includes both traditional heating contracting business and innovative energy marketing concepts, such as our virtual power station, and the recording, documentation and evaluation of existing energy data with the aim of identifying efficiency potential for customers and developing energy concepts on this basis. With its energy trading solutions, the GASAG Group has opened up its trading expertise to external customers. Value-added solutions round off the energy services portfolio and include innovative solutions such as smart home. To this end we acquired a controlling interest in the smart home provider Provedo GmbH, Leipzig, in 2016. In the area of eco-mobility, we are paving the way for electric cars that use electricity from a GASAG climate power plant to promote energy-efficient, low-emission mobility. To this end, we teamed up with partners from Berlin's housing sector and developed an e-car sharing model. Our diverse products and solutions can be combined to meet customer-specific requirements from a single source.

Through our investment in G2Plus GmbH, Berlin, and together with the other investors of Gegenbauer Facility Management GmbH, Berlin, we are also focusing on meeting the complex needs of our customers through our cooperations and extending our access to resources, expertise, new customers and regions. In order to bring the internal organization into line with the requirements of the growing business area, we plan to merge the existing energy services units of the GASAG Group (GASAG Contracting GmbH, Berlin, umetriq Metering Services GmbH, Berlin) and the business area of innovative end-to-end customer solutions at GASAG in a new futureproof organization, GASAG Solution Plus GmbH. The merger is a prerequisite for the organization to be able to respond quickly and flexibly to market developments.

The GASAG EcoPool marketing platform offers attractive services for integrated energy supply for commercial customers. The services offered range from traditional marketing services on the German electricity wholesale markets (control power market, spot and futures market) and residual power supply through to tailored consultancy services covering all aspects of distributed energy production. GASAG has been able to win numerous new customers and now bundles more than 120 MW of renewable power stations with an anticipated annual output of 170 GWh; especially biogas, photovoltaic systems and natural gas BTTPs. The volume of electricity sold corresponds to the annual consumption of around 60,000 households.

In the **distribution business area,** our strategy focuses on strengthening our competitiveness in our home market of Berlin-Brandenburg and on building strategic cross-regional growth in selected customer segments.

In 2016, the focus was on digitizing sales and customer service processes and increasing the value of our customer relationships. Furthermore, we are focusing on the successfully established marketing of both gas and electricity. With almost 100,000 customers, electricity sales more than met short-term targets. Important steps in expanding the product portfolio and scope of services have been taken with the introduction of photovoltaics with electricity storage facilities as a product offering for private customers. Profitable growth remains a central component of the sales strategy.

To support the municipalities in their supply area, in 2016 EMB planned the formation of a municipal energy efficiency network (MEEN) with a minimum of 5 and a maximum of 12 municipalities and the additional participation of external consultants and experts for the development and implementation of energy efficiency measures. The network activities will take three years and will receive government funding. More than 12 municipalities have expressed interest in collaboration such that EMB is looking to establish its first MEEN in 2017.

The **networks business area** includes network operations for the gas and electricity business. Maintaining and expanding the network business is an integral part of our strategy. A GASAG Group project was launched in January 2016 to introduce an information security system under DIN ISO / IEC 27001 (ISMS). As critical infrastructure operator, NBB will be the most affected by the launch of the ISMS. NBB is due to be certified pursuant to the IT security catalog in 2017.

Remunicipalization continues to be a key component in concession competition. Municipal participation, such as through cooperation arrangements, thus remains an important aspect of our strategy. Network expansion and compression measures strengthen the market position of natural gas as an energy source.

In 2016, infrest made preparations to provide its services in construction and the planning of infrastructure measures throughout Germany with the eStrasse pipeline information portal from the first quarter of 2017. The Construction Site Atlas is promoted across Germany for network operators and municipalities to coordinate construction sites.

Last year, the BAS **service unit** launched a multi-year transformation program called CustomerPlus-Service. The work involved is mainly determined by bringing various customer service and management processes in line with the requirements and expectations of market players, especially in terms of flexibility, transparency and usability, as well as the ongoing digitization of billing and service processes.

1.3 ENVIRONMENT AND TECHNOLOGY

In 2016, the GASAG Group made a contribution to achieving the climate protection targets with its natural gas and renewable energy sources of biogas, photovoltaics and wind, along with its range of efficiency technologies.

With the fourth climate protection agreement for the period from 2011 to 2020, GASAG is actively supporting the Berlin Senate's energy and climate policy. The climate protection agreements in place between GASAG and the State of Berlin since 1998 target a reduction of 2m metric tons (mt) of CO_2 by 2020. As a result of the measures set out by GASAG in the climate protection agreements with the Federal State of Berlin, CO_2 emissions have already been reduced by approximately 1.43m mt.

Efficiency measures, distributed CHP systems, innovative mobility concepts, smart metering solutions, optimizing the natural gas network and driving forward the energy efficiency of properties and facilities are an example of our activities under the climate protection agreement.

Our companies promote a sustained and systematic reduction of energy-related services through the introduction and maintenance of an energy management system pursuant to DIN ISO 50001.

1.3.1 WIND POWER

In 2016, GASAG acquired a turnkey wind farm that was set up south of Berlin. Total output of the three wind turbines is 7.5 MW. Projected annual electricity production is 21.5m kWh. Up to 15,000 households can be supplied and around 11,500mt CO_2 saved thanks to this volume.

1.3.2 PHOTOVOLTAICS

GASAG operates Berlin's largest ground-mounted PV system in Berlin-Mariendorf. More than 7,000 solar modules are used to generate environmentally-friendly energy, saving a total of around 1,000mt of CO_2 in 2016. With a total output of almost 2 MW, the system can supply some 1,400 households with environmentally-friendly electricity. 10 MW and around 31,000 solar modules are planned for the ground-mounted PV systems in the south of Brandenburg, which will save more than 5,400mt of CO_2.

1.3.3 BIOMETHANE

The biogas plants of GASAG Bio-Erdgas Schwedt GmbH in Schwedt and of Bio-Erdgas Neudorf GmbH in Groß Pankow generate biomethane for municipalities, private customers and operators of block-type thermal power stations and feed it into the natural gas network. The block-type thermal power stations also operated in Schwedt generate electricity from biogas for external marketing purposes.

1.3.4 NATURAL GAS MOBILITY

E-mobility becomes eco-mobility. Eco-mobility stands for low-emission electro and natural gas-powered mobility. The main idea behind it is the use of renewable energies in mobility to achieve CO_2 emission reduction targets.

The GASAG Group operates 18 of the 71 public natural gas stations in Berlin and Brandenburg, mostly in partnership with oil companies. Overall, 33.4m kWh of natural gas was sold at these natural gas stations in 2016 (prior year: 40.6m kWh). Natural gas produces almost no fine particulates and considerably less NO_x and CO_2 than conventional fuels.

1.3.5 NATURAL GAS-PLUS TECHNOLOGIES

Many of our customers choose environmentally friendly and highly-efficient condensing technology with and without supplementary solar heating. Combined heat and power, gas heat pumps and biomethane solutions – in particular in relation to the requirements of the German Energy Conservation Regulation ["Energieeinsparverordnung": EnEV] – also attracted interest on the market.

2 ECONOMIC REPORT

2.1 MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

The German economy, which is of relevance for the GASAG Group's business development, remained on a growth course in 2016 and even saw economic growth pick up slightly at year-end. Real gross domestic product (GDP) in 2016 grew by 1.9 % according to the ifo Institute for Economic Research ["ifo Institut für Wirtschaftsforschung": ifo] and the Federal Statistical Office. A stable development is expected for 2017, with growth of 1.5 % forecast.

At 3.0 %, economic growth for Berlin is expected to be above-average in 2016 according to estimates made by Investitionsbank Berlin (IBB). As in prior years, Berlin is above the national average thanks to its high share of services in the economy, with the digital economy seeing considerable growth in particular, and its fast-growing construction industry.

The economic survey conducted by the Chamber of Industry and Commerce ["Industrie- und Handelskammer": IHK] in fall 2016 for Berlin showed that the business climate index was at the level seen at the start of the year at 136 points.

According to a publication by the Working Group on Energy Balance Sheets ["Arbeitsgemeinschaft Energiebilanzen e. V.": AGEB], energy consumption in Germany was up overall year on year in 2016. At year-end consumption was 1.6 % higher than in the same period a year earlier and is mainly attributable to the leap year, economic growth and growth in the population. The mild weather in comparison with the long-term average temperature trend, coupled with improvements in energy efficiency, reduced consumption over the course of the year.

By contrast consumption of natural gas rose by a considerable 10.0 % year on year. The main reason for the increase was the colder weather compared with the prior year and the increased use of natural gas for power generation both at electricity companies' power stations and industrial power stations.

The GASPOOL day-ahead prices rose from € 15.02 / MWh at the start of the year to € 19.35 / MWh at the start of the new year.

The economic conditions had a positive effect on the GASAG Group's business situation in 2016.

2.2 ENERGY POLICY, LEGAL AND ECONOMIC FRAMEWORK

2016 was shaped by a number of energy-policy related activities. At EU level, climate and energy-policy targets and measures for achieving them were presented. At state level, the digitization of energy supply was regulated by law. At the same time, the federal government strengthened the positioning of energy efficiency and the coupling of sectors as climate protection tools.

The following energy policy activities are highly relevant for the GASAG Group:

2.2.1 EUROPEAN LEGISLATION

At the end of November, the EU Commission presented its Winter Package. It comprised legislation proposed in four policies and four directives for the design of the European energy market and for amendments to the EU Energy Efficiency and Renewable Energy directive. It is proposed, for example, that the 28 member states agree to increase energy efficiency across the EU by 30 % by 2030, with the EU focusing in particular on the energy performance of building renovations. The specific details of the Winter Package will be defined in the subsequent regulatory process.

2.2.2 NATIONAL LEGISLATION

German Incentive Regulation Ordinance

The German Incentive Regulation Ordinance ["Anreizregulierungsverordnung"] was amended and came into force in September 2016. In October 2016, the Federal Network Agency ["Bundesnetzagentur": BNetzA] redefined the rate of return on equity for the third incentive regulation period, reducing the rate to 6.9 % before taxes compared with the second incentive regulation period.

German Law on the Digitization of the Energy Transition

In July 2016, the Upper House of the German Parliament (Bundesrat) ratified the law on the digitization of the energy transition ["Gesetz zur Digitalisierung der Energiewende"] in conjunction with the law on the operation of metering points ["Messstellenbetriebsgesetz"] and published them in the German Federal Gazette in September. The main technical and price stipulations of the law on smart metering and control technology initially relate exclusively to the electricity sector and have been taken into account for the operation of Netzgesellschaft Forst (Lausitz) mbH & Co. KG, Forst, (NFL). The entry into force of the law confirmed that the local distribution system operators, as the underlying metering point operators, will be the main players in the roll-out.

German Renewable Energy Act

In summer, the Lower House of the German Parliament (Bundestag) passed the amendment to the German Renewable Energy Act ["Erneuerbare-Energien-Gesetz": EEG]. From 2017, technology subsidies for wind, photovoltaic and biomass systems will be put to tender such that around 80 % of the annual electricity volume generated by the additional construction of renewable energy systems will be subject to a tender procedure.

Amendment to the German Combined Heat and Power Act and the EEG

In mid-December, the Bundestag and Bundesrat adopted the law to amend the provisions on the generation of electricity from combined heat and power and on self-supply. This law came into force in January 2017 and mainly transposes subsidy provisions of the EU Commission into German law. The core issues are in particular the introduction of tenders in the Combined Heat and Power Act ["Kraft-Wärme-Kopplung-Gesetz": KWKG] for plants between 1 and 50 MW and adjustments to self-supply under the EEG. Self-supply for existing systems (commissioned before August 1, 2014) remains exempt from the EEG levy, from 2018, however, existing self-supply systems are to pay up to 20 % of the EEG levy following substantial modernization.

German Law on the Modernization of Network Charges

In January 2017, the German cabinet approved a draft of the law on the modernization of network charges ["Netzentgeltmodernisierungsgesetz": NeMoG], which for new plants is to do away with the avoided network access charges previously payable for distributed electricity feed-in to operators of CHP systems, for example, and also gradually reduce them to zero for existing plants by 2030.

Climate Action Plan 2050 and Energy Efficiency Green Paper

In preparation for the UN Climate Change Conference in Marrakesh in November 2016, the German cabinet passed the Climate Action Plan 2050 submitted by the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety following controversial debates. It is a roadmap showing how Germany is to become climate neutral by 2050. It defines sector-specific CO_2 emission reduction targets until 2030, with the buildings sector set to contribute the most with a target of 67 %. The guiding philosophy for achieving the targets, which forms the basis of energy policy and is specified in more detail in the energy efficiency green paper, is "Efficiency first, energy efficiency as the central pillar of the energy transition" and the electrification of the heat and transport sectors (sector coupling). In the summer, the Federal Ministry for Economic Affairs and Energy presented the energy efficiency green paper as recommended action. On this basis, suggested measures to implement the energy efficiency strategy and achieve greater coupling among the sectors are to be identified with various stakeholders as part of the consultation process already underway. Results are provisionally expected to be presented in a white paper in spring 2017.

2.2.3 LEGISLATION IN BERLIN

The state of Berlin is to become climate neutral by 2050. This target has now also been formally set forth in the Energy Transition Act for Berlin ["Berliner Energiewendegesetz"], which was passed by the House of Representatives in March 2016.

In its coalition agreement, the new government coalition between SPD, Die Linke and Bündnis 90 / Die Grünen emphasizes that the energy transition and climate protection will be central aims for the next five years.

In this context it also undertakes to implement the targets in its capacity as a public role model and through socially acceptable measures. The recommendations from the Berlin energy and climate protection program (BEC) and the report of the enquête commission are to serve as guiding principles for energy and climate protection policy for the government coalition in this regard.

As a long-standing climate protection partner of the state, this will provide key opportunities for GASAG, for example in the implementation of the development district concepts using distributed CHP stations and in supporting consultancy and information campaigns to improve the percentage of modernized building stock.

2.3 BUSINESS DEVELOPMENT

2.3.1 NETWORKS

Gas Transportation

The gas network transport volumes in the gas network increased by 9.6 % year on year to 40,290.6m kWh, mainly as a result of the weather.

Electricity Transportation

The transport volumes in Forst's electricity network increased by 3.3 % year on year to 53.2m kWh.

2.3.2 DISTRIBUTION

Gas Sales

Temperatures in the sales regions of Berlin and Brandenburg in fiscal year 2016 were above the level of a normal year.

At 10.2 °C, the annual average temperature for Berlin in fiscal year 2016 was 0.5 °C lower than in the prior year (10.7 °C). As a result, heating degree values were up 3.1% compared with the prior year. As in the prior year, the annual average temperature and heating degree values for Brandenburg were at a similar level to those for Berlin.

At 19,201.5m kWh, the Group's gas sales to end customers and redistributors (excluding trading) were up 2.8 % year on year.

Electricity Sales

In fiscal year 2016, electricity sales increased considerably from 332.8m kWh in the prior year to 549.2m kWh. The increase is mainly due to customer wins.

2.3.3 ENERGY SERVICES

Heating Sales

Due in particular to a loss of customers, heating sales generated for the GASAG Group fell by 13.1m kWh to 410.7m kWh in 2016.

Electricity Production From Contracting Facilities

The volumes of electricity produced in the Group from contracting facilities were on a par with the prior year at 66.0m kWh (prior year: 65.7m kWh).

2.3.4 PRODUCTION

Biomethane Production and Feed-in to the Natural Gas Network

The amount of biomethane produced in the fiscal year increased from 167.4m kWh in the prior year to 167.8m kWh.

At GASAG Bio-Erdgas Schwedt GmbH, the feed-in volume rose to 63.7m kWh compared with the prior year (62.5m kWh). Bio-Erdgas Neudorf GmbH fed in 59.3m kWh of biomethane (prior year: 60.4m kWh).

In addition, GASAG Bio-Erdgas Schwedt GmbH produced 17.0m kWh of electricity (prior year: 15.6m kWh).

Wind Power

Total output of the three wind turbines is 7.5 MW. Projected annual electricity production is 21.5m kWh.

Photovoltaics

With fewer hours of sunlight this year compared with 2015, the PV systems operated by GASAG in Berlin-Mariendorf (output: 1.9 MWp) and by Stadtwerke Forst (output: 0.07 MWp) produced electricity of 1.9m kWh (prior year: 2.0m kWh). This was fed into the electricity network or used by Stadtwerke Forst itself.

2.3.5 NATURAL GAS STORAGE FACILITY

In December 2016, the supervisory board of GASAG resolved to initiate decommissioning proceedings for the Berlin natural gas storage facility in 2017. Berliner Erdgasspeicher GmbH (BES) will submit a closure plan for approval to the Brandenburg State Office for Mining, Geology and Raw Materials as the competent authority in 2017. The public agencies concerned will participate in the proceedings. Decommissioning procedures will begin once the closure plan is approved. The economic impact was taken into account in these financial statements.

2.4 OWNERSHIP STRUCTURE

Significant changes in our ownership structure:

In July 2016, NBB acquired 49 % of the shares in WGI GmbH, Dortmund (WGI), from the sole shareholder ITS Informationstechnik Service GmbH, Dortmund. WGI provides geoinformatics services for network operators and utility companies. Its expertise in IT, cadastral issues and telecommunications complements the product portfolios of NBB and infrest.

In July 2016, GASAG acquired all of the shares in Windpark Dahme – Wahlsdorf 2 GmbH & Co. KG, Zossen, from Energiequelle GmbH, Zossen. We are expanding in the area of renewable energies with the acquisition of this company.

In November 2016, EMB acquired 50 % of the shares in Netzgesellschaft Hennigsdorf Gas mbH, Hennigsdorf, from the sole shareholder Stadtwerke Hennigsdorf GmbH, Hennigsdorf. This gives us the network business with due regard to municipal participation.

In November 2016, SpreeGas acquired all of the shares in Solar Project 19 GmbH & Co.KG, Cottbus, from bejulo GmbH, Mainz. Involvement in regional ground-mounted PV projects is allowing us to tap growth potential in renewable energies.

In December 2016, GASAG acquired 56.7 % of the shares in Provedo GmbH, Leipzig, in order to develop potential in smart home solutions for business customers.

In February 2017, GASAG acquired 51 % of the shares in G2plus GmbH, Berlin, from Gegenbauer Facility Management GmbH, Berlin. With this joint venture we are expecting growth in the energy services business area, among other things.

2.5 LEGAL ISSUES

2.5.1 CONCESSION PROCEDURE IN BERLIN

In the lawsuit concerning the award of a new gas network concession, the Regional Court of Berlin ruled on December 9, 2014 that the State of Berlin was not permitted to enter into a gas concession agreement with the State's own company Berlin Energie or a company resulting from the conversion of the State's own company Berlin Energie. No decision has yet been announced in the main proceedings of the appellate proceedings at the Berlin Court of Appeal. In August 2015, however, the Court of Appeal rejected the application for third-party invention made by the State's own company Berlin Energie due to its lack of capacity to be a party to legal proceedings. This decision of the Court of Appeal was confirmed by the Federal Court of Justice in a ruling dated October 18, 2016.

The Federal Cartel Office is a party to the aforementioned proceedings at the Court of Appeal. In fall 2016, GASAG and the State of Berlin concluded a new interim agreement limited until December 31, 2017. GASAG and NBB extended the validity of their concession offers also until December 31, 2017 for the time being.

2.5.2 CHANGE IN GASAG'S NAME

On December 16, 2016, the shareholder meeting of GASAG resolved to change the Company's name to GASAG AG. This change in name has not yet been entered in the commercial register.

3 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

3.1 RESULTS OF OPERATIONS

Revenue rose by € 112.0m year on year to € 1,167.4m (prior year: € 1,055m). Of this, € 986.9m or 84.5 % (prior year: € 907.8m or 86.0 %) relates to natural gas, electricity and heat supply. The increase in revenue is due among other things to changes in the fair value of financial instruments of € 32.1m. Revenue from network access charges increased by € 26.0m to € 152.5m (20.6 %), mainly due to higher volumes.

Other operating income including the **change in inventories** of € 50.3m (prior year: € 98.4m) decreased by € 48.1m (down 48.9 %), mainly due to the partial release recognized in the prior year of the provisions for top-up contributions to the VBL, which was due in turn to a modification of the rate of the top-up contribution and a reimbursement for the years 2013 to 2015.

Cost of materials increased by € 5.3m to € 733.6m compared with the prior year (0.7 %). This stemmed predominantly from expenses from energy trading and higher electricity procurement prices due to the business expansion. The development of gas procurement costs had the opposite effect, as did too the commodity derivatives not designated as part of a hedging relationship. The cost of materials as a percentage of revenue (margin) therefore decreased to 62.8 % (prior year: 69.0 %).

Personnel expenses mainly fell due to the fact that in the prior year a provision had been recognized for personnel-related restructuring measures at a service unit and also due to additional expenses in the networks business area, which arose temporarily as a consequence of regulatory conditions (down € 1.5m or 1.4 % to € 104.5m year on year).

The average number of employees (excluding employees in the release phase of phased retirement) was 1,506 compared with 1,480 in the prior year.

Amortization and depreciation rose by € 70.8m to € 158.0m (81.2 %), with impairment losses of € 80.9m (prior year: € 11.6m) charged on the natural gas storage facility in Berlin.

At € 104.7m, **other operating expenses** were down € 14.3m or 12.0 % due to the prior-year allocations to provisions for litigation pending in the fiscal year.

Profit from operations (EBIT) was on a par with the prior year at € 116.9m taking the abovementioned effects into account (prior year: € 113.3m).

The net total of **finance costs and other financial result** was largely unchanged against the prior year (€ −34.9m; prior year: € −34.8m).

The **investment result** rose to € 1.1m in fiscal year 2016 (prior year: € 1.0m).

Income taxes decreased by € 8.5m year on year to € 26.7m, mainly due to tax rate changes in the prior year in connection with changes in the breakdown of trade tax and due to the findings of tax audits.

This led to a higher **profit for the period** of € 56.5m for 2016 compared with a **profit for the period** of € 44.4m in 2015.

Operating profit before the financial result and taxes (EBIT) contains a **non-operating result** of € −63.4m (prior year: € 24.9m) which mainly relates to the expenses in connection with the decision to initiate decommissioning proceedings for the Berlin natural gas storage facility.

3.2 FINANCIAL POSITION

3.2.1 CAPITAL STRUCTURE

The financial requirements of the GASAG Group are covered by cash flows from operating activities, and by short and long-term bank loans as well as borrower's note loans and lease agreements. The nature and scope of financing are based on the Group's planned investments and operations.

Eleven banks provide the Group with borrowing facilities, some of which have no fixed term. The financing included in current and non-current financial liabilities is spread over 56 banks and other financial partners.

It was also agreed in the network financing to convert the financing into a long-term final loan if the concession is awarded to GASAG or a GASAG subsidiary. The long-term financing of the Berlin gas network is thus secured.

3.2.2 LIQUIDITY

The entities of the GASAG Group use rolling twelve month liquidity plans to determine their liquidity requirements. A uniform group-wide system is used for liquidity planning that supports the liquidity management system and ensures the development of liquidity in the Group is monitored. The group entities were able to meet their financial obligations at all times.

3.2.3 STATEMENT OF CASH FLOWS

In € M	2016	2015
Profit or loss before income taxes	83.2	79.6
Income taxes paid	−28.8	−28.3
Change in working capital	−12.6	−24.4
Change in other items	**114.9**	**73.7**
Cash flows from operating activities	156.7	100.6
Cash flows from investing activities	−62.1	−81.3
Cash flows from financing activities	−108.4	−108.0
Cash and cash equivalents at the end of the period	**67.7**	**81.5**

Cash flows from operating activities of the GASAG Group increased to € 156.7m (prior year: € 100.6m). The increase is mainly due to an improvement in the profit for the period adjusted for non-cash expenses from the decommissioning of the storage facility.

The change in working capital is chiefly based on the increase in receivables by € 18.5m.

Cash flows from investing activities of € −62.1m (prior year: € −81.3m) chiefly comprise cash paid for replacement and expansion investments in gas distribution facilities.

Cash flows from financing activities of € −108.4m (prior year: € −108.0m) mainly include cash outflows of € 35.7m (prior year: outflow of € 30.9m) for GASAG's dividend payment and outflows of € 65.9m (prior year: € 63.2m) for loan repayments.

The cash and cash equivalents comprise bank balances, cash on hand and deposits.

3.2.4 NET FINANCIAL POSITION

The net financial position comprises cash and cash equivalents less financial liabilities.

In € M	2016	2015
Cash and cash equivalents	67.7	81.6
Sub-total current cash	**67.7**	**81.6**
Liabilities to banks	−541.4	−590.5
thereof due in less than 1 year	−61.8	−65.8
thereof due in 1 to 5 years	−297.5	−304.0
thereof due after 5 years	−182.1	−220.7
Other financial liabilities	−36.6	−38.2
thereof due in less than 1 year	−3.0	−3.8
thereof due in 1 to 5 years	−7.6	−8.0
thereof due after 5 years	−26.0	−26.4
Derivatives	−50.1	−134.0
thereof due in less than 1 year	−14.3	−65.1
thereof due in 1 to 5 years	−35.8	−68.9
Net financial position	**−560.4**	**−681.1**

87.6 % of liabilities to banks (prior year: 89.4 %) and 1.0 % of other financial liabilities (as in the prior year) accrue variable interest. The variable rate loans are mainly hedged against interest rate fluctuations by derivatives.

3.3 NET ASSETS

The **non-current assets** (excluding deferred taxes) fell by € 22.5m to € 1,686.6m.

Intangible assets fell € 2.1m to € 195.2m as against December 31, 2015. This includes goodwill of € 156.1m (prior year: € 154.3m).

Investments in **property, plant and equipment** at the GASAG Group decreased by € 8.9m to € 84.8m (excluding the restoration costs recognized in connection with the decision to initiate decommissioning proceedings for the natural gas storage facility in Berlin). € 52.3m relates to investments in gas distribution facilities and € 17.6m to the construction of wind turbines.

Until it is extracted, the base gas of € 41.7m at the Berlin natural gas storage facility is disclosed under property, plant and equipment and not inventories.

Inventories decreased by € 13.2m to € 43.8m (down 23.2 %). They mainly relate to the working gas in the natural gas storage facility.

Trade receivables and other receivables rose by € 17.0m to € 155.1m. At € 97.9m, receivables from gas supplies increased by € 26.3m on the prior year.

Equity fell by € 61.1m to € 756.5m. With lower total assets (down € 18.0m), the equity ratio of the GASAG Group increased to 36.5 % (prior year: 33.2 %). In June 2016, GASAG's shareholders received a dividend of € 35.7m. Please see section 6, (11) Other Comprehensive Income, in the notes to the consolidated financial statements.

45.9 % of **intangible assets and property, plant and equipment** is covered by equity (prior year: 41.4 %).

The reduction in **non-current liabilities** (excluding deferred taxes) by € 41.4m to € 909.7m is mainly due to the scheduled loan repayments and the reduction in the negative fair values of the derivatives. The increase in provisions had the opposite effect.

At € 316.2m, **current liabilities** were € 61.2m lower than in the prior year (prior year: € 377.4m). The reduction is chiefly attributable to the reduction in the negative fair values of the derivatives.

3.3.1 OVERALL PICTURE OF THE BUSINESS DEVELOPMENT AND THE ECONOMIC SITUATION

The GASAG Group's gas sales to end customers fell moderately short of the forecast for 2016, mainly due to the persistently intense competitive situation and to the weather. Due to unforeseen trading volumes, gas sales to redistributors are substantially higher than forecast.

Electricity sales lived up to our expectations and are in line with our forecast.

Transport volumes in the gas network also match our forecast.

Revenue was on target. Despite the impairment loss charged on the Berlin natural gas storage facility, EBIT for fiscal year 2016 almost reached the expected level. Effects from the marking to market of commodity derivatives not designated as part of a hedging relationship as well as from increased other operating income largely offset the earnings effect from the initiation of decommissioning proceedings for the Berlin natural gas storage facility. Profit for the period was slightly below target.

Financial obligations that fell due in 2016 were covered at all times by the available cash flows, financial assets and existing borrowing facilities.

3.4 FINANCIAL PERFORMANCE INDICATORS

3.4.1 FINANCIAL PERFORMANCE INDICATORS

The main financial performance indicator for the GASAG Group is operating profit before the financial result and taxes (EBIT). In addition to EBIT, return on capital employed (ROCE) is the most important performance for the Group. ROCE reflects profit from operations as a percentage of average capital employed. Profit or loss from operations includes EBIT plus investment income. In fiscal year 2016, ROCE stood at 8.3 % (prior year: 8.1 %). The year-on-year increase is mainly attributable to the higher EBIT.

Developments in the Group's key performance indicators and the business areas are regularly analyzed and forecast with regard to the year-end. This enables management to identify when indicators are deviating from targets during the year, to assess the impact on the Group's net assets, financial position and results of operations, and to take and monitor appropriate countermeasures in good time. In addition, opportunities and risks that have not yet been incorporated into the forecasts are assessed at least every quarter.

3.5 NON-FINANCIAL PERFORMANCE INDICATORS

3.5.1 TARGETS TO INCREASE THE PROPORTION OF WOMEN IN MANAGEMENT

Within the scope of the Act on the Equal Participation of Women and Men in Management Positions in the Private and Public Sector, the supervisory board of GASAG set targets for both the supervisory board and the management board in June 2015. The management board of GASAG also defined targets for the two management levels below the management board (divisional management and departmental management).

The targets set for all levels are due to be reached on June 30, 2017 and June 30, 2022.

The following targets for the proportion of women on the relevant levels are due to be reached on June 30, 2017 and June 30, 2022:

%	June 30, 2017	June 30, 2022
Supervisory board	> 14	> 30
Management board	> 30	> 30
First level of management below the management board	> 10	> 25
Second level of management below the management board	> 20	> 30

The proportion of women on the management board as of December 31, 2016 was 33.3 %, on the supervisory 9.5 %, on the first level below the management board 21.4 % and on the second level 20.0 %.

3.5.2 EMPLOYEES

With a view to securing qualified young staff, we have extended our training program to include a technical cooperative study program in Business Information Systems. This further broadens the range of vocational training available within the GASAG Group. In April 2016, a new, group-wide trainee program commenced with eight trainees. The program was recognized by Absolventa and the Ludwig-Maximilian University of Munich. In the winter semester 2016 / 2017, GASAG began sponsoring students at universities in Berlin under the Deutschlandstipendium sponsorship scheme. A group-wide executive development program, which aims to foster the development of employees with potential and promote the internal succession management system, was continued.

GASAG signed the diversity charter in 2016 to recognize diversity inside and outside the organization. Our support for refugees continued and saw us take on three refugees as apprentices in industrial business management in September 2016. The training is carried out in cooperation between GASAG and NBB.

3.5.3 CUSTOMER SERVICE MANAGEMENT

Good customer service is a central component for ensuring customer satisfaction. For this reason we regularly review whether we meet our customers' expectations of modern customer service. Using our GASAG Service Check instrument, we evaluate on an annual basis the quality of telephone, written and personal communication by our customer care centers and identify potential for improvement.

GASAG succeeded in retaining its TÜV SÜD certificate for service quality for the ninth year running, confirming that our organizational structure, service-oriented processes and professional complaints management serve customer needs in the best possible way.

One of the focuses in 2016 was the expansion of digital services. A business partner portal which takes the special needs of major customers into account has been designed and set up. And the functionality of the online MEINE GASAG [MY GASAG] customer portal has been expanded and improved for private customers, with a simplified registration process for our customers, for example. In addition, the entire online presence of GASAG has been revamped and placed on a new platform, thereby optimizing display on mobile end-user devices and navigation. This has laid the groundwork for improving and tailoring the user experience via new personalization techniques.

3.5.4 CUSTOMER CENTER

Our service offering has been optimized and expanded for customers. The energy performance certificate has been added to our services and led to a rise in visitor traffic. Seminars with GASAG's partners from the trade, guild and equipment manufacturing sectors were continued and expanded. The customer center has established itself overall as a sales channel and significantly exceeded all of its targets for signed gas and electricity contracts.

3.5.5 GROUP COMPLAINTS MANAGEMENT

In 2016, the focus of activities in group complaints management was once again on stepping up quality assurance and using information gleaned from complaints. Optimization potential was regularly analyzed, identified and discussed with the departments concerned in order to derive and implement specific measures. In a national comparative study of complaints management by energy providers, we were recognized as a best practice partner according to all of the criteria of the three categories focus & management, functional specifics and resources & systems.

4 SUBSEQUENT EVENTS

There were no significant events after the balance sheet date.

5 OPPORTUNITIES AND RISKS

The ongoing identification, assessment and documentation of opportunities and risks is one of the duties of our executives and employees, besides operational management with the help of suitable measures. Responsibility for processes lies with central risk management, which reports directly to the management board.

Our assessment is mainly based on a business value approach, in which we, in addition to classifying opportunities and risks as earnings, equity or liquidity opportunities or risks, also use parameters to classify all opportunities and risks according to probability of occurrence and effect on image. Probability of occurrence is broken down into the following categories:

DESCRIPTION OF PROBABILITY OF OCCURRENCE
Very low
Low
Medium
High
Very high

Potential opportunities in relation to the GASAG Group's net assets, financial position and results of operations are classified as follows:

CLASSIFICATION OF POTENTIAL OPPORTUNITIES	DESCRIPTION OF THRESHOLDS
Low	Minor improvement
Appreciable	Moderate improvement
Medium	Material positive effect
High	High and potentially permanent improvement
Very high	Material and probably permanent improvement

The following thresholds apply to potential risks:

CLASSIFICATION OF POTENTIAL DAMAGE	DESCRIPTION OF THRESHOLDS
Low	Minor adverse effect
Appreciable	Moderate adverse effect
Serious	Material adverse effect
Potentially dangerous	High and potentially permanent adverse effect
Acutely dangerous	Material and probably permanent adverse effect

We continue to differentiate our opportunities and risks according to a short-term and long-term time horizon, with the short-term view relating to the next fiscal year and the long-term view covering the entire planning period.

The GASAG Group is mainly exposed to the following opportunities and risks:

5.1 MARKET ENVIRONMENT

The Berlin and Brandenburg gas and electricity markets are characterized by fierce competition for customers which is putting additional pressure on prices and margins as well as leading to a loss of customers. In this market environment we see opportunities in gas-to-gas competition and competition with other energy sources based on our systematic customer orientation and the continuous expansion of our product portfolio combined with an attractive price system. We have also successfully established ourselves in the electricity market. Overall this results in significant potential opportunities and risks in the short term.

Our business performance is naturally also subject to weather-related sales fluctuations. The weather-related volume risk in the gas segment is one of the business risks which the GASAG Group bears itself. We regularly review the possibilities of hedging the risk by using energy and weather derivatives. Negative weather conditions from the GASAG Group's perspective could constitute an appreciable risk in the short term with regard to the potential damage, with a low probability of occurrence. On the other hand, medium potential opportunities may arise from weather conditions that are favorable for the GASAG Group.

Decreases in unit sales due to economic and location factors as well as more frugal consumption habits of customers also impact on both the distribution operations and the transportation business. However, we believe that our core region, Berlin and Brandenburg, has location-specific advantages which we will exploit as an end-to-end energy service provider. Berlin, with its buildings and power plants as well as the positive impetus from new construction activity, offers significant market potential and an ideal basis for positioning our products and services in the areas of power generation and supply as well as renovation to improve energy efficiency. We will continue to develop energy concepts for districts, commercial properties and conversion areas, offer affordable renovation of public and private buildings to improve their energy performance and present ourselves as an energy partner for all customer groups, from private households and manufacturing and commercial operations through to major housing construction companies and public authorities. We are very aware of our customers' growing interest in environmentally-friendly, distributed energy solutions and the use of renewable energies. Advances in efficiency, storage and production technologies will ensure that end-to-end energy solutions — which connect distributed and independent producers and consumers — are marketable. We see specific opportunities in the introduction of an energy management system and in smart building automation to improve efficiency in energy consumption. Closely linked to this is the demand for efficient supply concepts for which the use of combined heat and power to produce a distributed supply of heat and electricity plays an important role. In the long term, this will be a significant potential opportunity for the GASAG Group.

5.2 LEGAL AND POLITICAL FRAMEWORK

For the GASAG Group, there is the risk of retroactive payment of increased concession fees if the existing agreement concluded with the State of Berlin proves to be invalid. The State of Berlin has now lodged an appeal. With regard to the potential damage, this constitutes a serious risk in the short term. The GASAG Group still believes the existing agreement to be valid and does not expect a retroactive payment obligation towards the State of Berlin.

With regard to the regulatory environment for our network business, there are risks beyond the 2016 amendment to the German Incentive Regulation Ordinance ["Anreizregulierungsverordnung": ARegV]. The amendment constitutes a low long-term risk with a medium probability of occurrence for the GASAG Group.

5.3 CONCESSION AWARD PROCESS

For a general description of the Berlin concession award process, please refer to section 2.5, Legal Issues.

If the GASAG Group were to lose the concession for Berlin, the materially important network business in Berlin would be lost. Based on our own assessment, this would not take place before March 2021. GASAG would have to sell the Berlin gas network after agreeing a purchase price. This would provide GASAG with liquidity inflows covering in full repayment of all network financing. The loss of the Berlin network business would lead to considerable efficiency losses in areas in which resources are currently being used primarily for the Berlin network. Resources that remain tied up and that had previously been used exclusively in the operation of the Berlin network would not generate any corresponding revenue. With regard to the potential damage, the loss of the Berlin concession constitutes an acutely dangerous risk in the long term. This would have a material adverse effect on the GASAG Group's net assets, financial position and results of operations. We assume that it is more likely than not that we will retain the concession.

We also compete for concession agreements with regard to both existing and new contracts outside of the Berlin network area. In the long term, this constitutes a low potential opportunity from new contracts and a low potential risk from the loss of existing concession agreements.

5.4 DECOMMISSIONING OF THE STORAGE FACILITY

Initiation of the decommissioning proceedings for the Berlin natural gas storage facility gives rise to opportunities and risks, particularly from the volume to be extracted and market price risk in relation to the base gas as well as costs of outsourcing and restoration. Taking the provisions recognized into account, appreciable risks and rewards with a medium probability of occurrence could arise in the course of the decommissioning proceedings.

5.5 MARKET PRICE DEVELOPMENT

Appreciable potential opportunities and damage arise from the development of market prices in energy and finance. We mitigate the resulting risks by means of a targeted risk management process that mostly eliminates risks of changes in market prices affecting cash via hedging transactions. The main components are a group-wide uniform trading, settlement and monitoring process and uniform risk reporting. In doing so, we rely on additional risk management systems and systematic hedging to limit these risks.

We use derivative financial instruments to minimize risks from underlying transactions or forecast transactions. The analysis of risks arising from price changes for derivative financial instruments is performed by measuring the fair value of a financial instrument using the mark-to-market method. The analysis of risks due to price changes for as yet unhedged interest positions is conducted on the basis of statistical simulation models.

5.6 COUNTERPARTY CREDIT RISKS

Counterparty credit risks arise from the supplying of customers, receivables from the transportation business, the procurement of commodities and financial transactions and can generally remain effective in the period after potential insolvency proceedings. We have established a receivables management system based on credit standing for our customers and a uniform group-wide limit system for banks and energy trading partners to manage counterparty credit risks. We use credit insurance where appropriate. Taking into account the provisions recognized, there is a serious short-term risk with a low probability of occurrence from counterparty credit risks.

5.7 GOVERNANCE AND COMPLIANCE

The GASAG Group has expanded its compliance manuals and established rules on handling business invitations. Other compliance manuals in the GASAG Group have been updated. The focus of our operational compliance activities is on training for the Group's employees to avoid corruption and discrimination and the relevant one-on-one consultation.

5.8 OVERALL RISK POSITION

The described risks, especially those arising from the concession award process, could potentially lead to a significant deterioration in the GASAG Group's net assets, financial position and results of operations. However, we believe we can prevent their occurrence through targeted measures.

Based on the overall risk situation, taking into account probability of occurrence and the measures taken, we do not currently see any risks that endanger the ability of the GASAG Group to continue as a going concern.

6 FORECAST

If we are to successfully implement our short-term strategic goals, we will need to retain the Berlin gas network concession. The operational measures planned to further develop and achieve the targets in our forecast are presented in the following sections Measures to Implement the Strategy, Personnel and Investments as well as for the GASAG Group's business areas Sales, Networks and Energy Services.

The forecast period is one year. The assumptions underlying the forecast are explained on the basis of a qualified comparative projection.

6.1 MEASURES TO IMPLEMENT THE STRATEGY

Our core business is primarily dominated by intensive sales competition and the regulatory framework. Projects and measures to optimize core business are therefore implemented on an ongoing basis. This not only involves further digitization and automation to improve process efficiency and effectiveness but also the expansion of digital channels to communicate with our customers. In order to achieve our efficiency and effectiveness targets, all business processes are subjected to regular benchmarking. The Continuous Improvement Process (CIP) is an additional instrument to support this optimization process.

The expansion of our renewable energies portfolio is a cornerstone in the implementation of our strategy. The GASAG Group intends to acquire an additional three onshore wind farms in 2017. Exploiting the opportunities that arise from changes in the regulatory framework is part of our strategic focus.

To support achievement of the growth targets in energy services, we will reorganize all of the companies and divisions in the energy services business area in the GASAG Solution Plus company in 2017. In 2017, we will also focus keenly on meeting complex customer needs through sales cooperations extending our access to resources, expertise, new customers and regions.

Digitization could change the energy sector profoundly. The GASAG Group is adapting to this by aligning its organizational structure and corporate culture to the ensuing challenges and will invest further in these activities in the short term, focusing especially on the development of smart and energy efficient districts with distributed energy supply, energy efficient mobility, smart networks and meters.

6.2 PERSONNEL

In 2017, the average number of employees (excluding employees in the release phase of phased retirement) and personnel expenses are expected to remain on a par with the 2016 level.

6.3 INVESTMENTS

We will continue to invest in the gas network in Berlin and Brandenburg in the coming fiscal year. We expect to make investments of around € 64m in the expansion and maintenance of the networks in 2017. Planned investments in the energy services business area for contracting projects and cross-media energy solutions through market and product expansions, as well as for wind and photovoltaic systems in the production business area, are expected to be significantly higher than in 2016. The future investments are covered by a long-term financing strategy.

6.4 DISTRIBUTION

Gas Sales

In the forecast for fiscal year 2017, we assume long-term average temperature trends. We expect gas sales volumes to end customers and redistributors to be on a par with 2016 in 2017.

Electricity Sales

In our commodities business with electricity, we expect electricity sales to rise significantly in 2017 compared with 2016. This development is to arise from our increased marketing activities in line with our distribution strategy.

6.5 NETWORKS

Gas Transportation

Assuming long-term average temperature trends are correct, we expect transport volumes to fall slightly in fiscal year 2017.

6.6 ENERGY SERVICES

Heating Sales

Activities in the energy services business area will result in higher investments in 2017. We expect heating sales in 2017 to be on a par with 2016.

6.7 DEVELOPMENT OF REVENUE AND EARNINGS

For 2017, we expect revenue from end customers and redistributors to fall slightly compared with 2016 due to changes in the price of gas. In electricity, we expect revenue to increase strongly due to the growing scope of business.

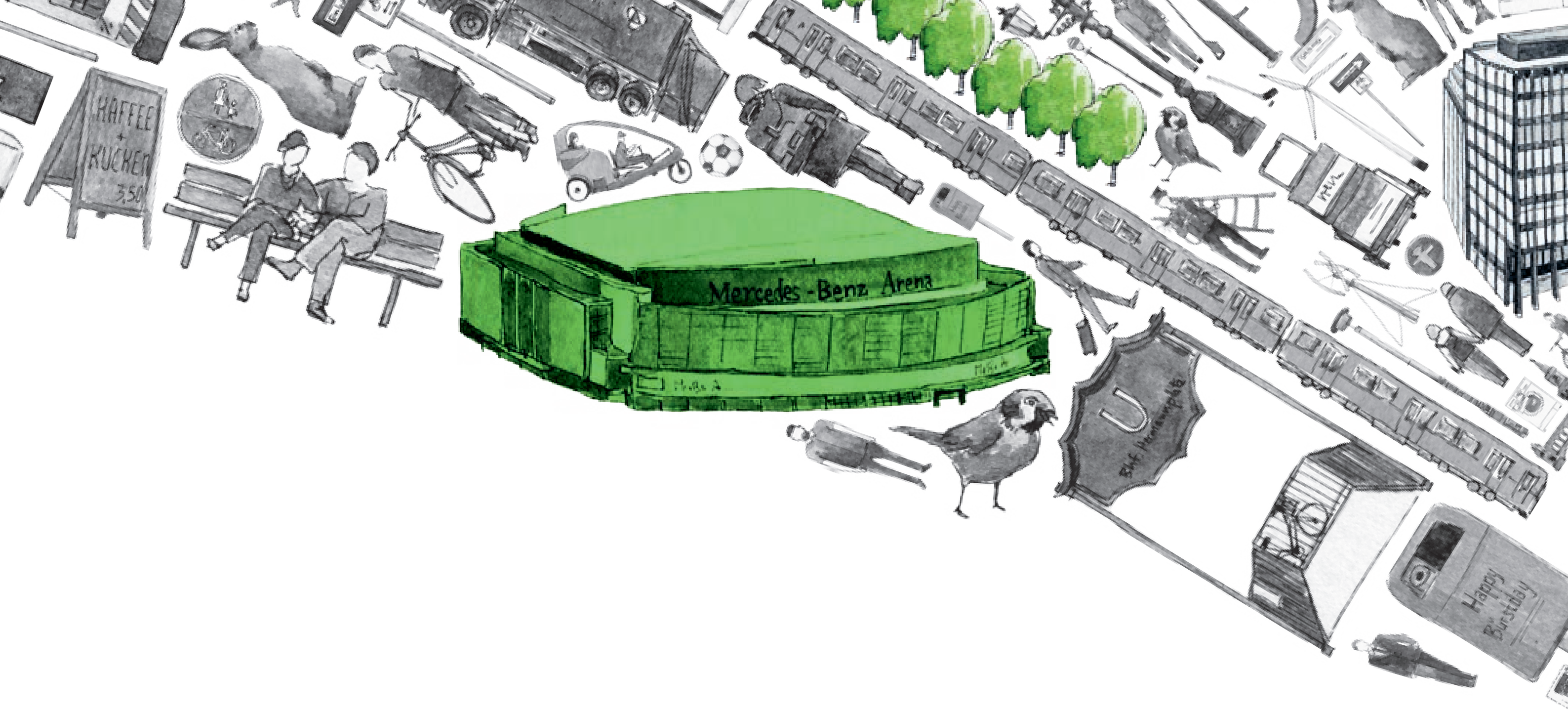
The forecast for 2017 and the medium-term planning assume the retention of the Berlin gas network concession. Operating profit before the financial result and taxes (EBIT) in 2017 is expected to be on a par with the EBIT generated in 2016. The forecast financial result is set to grow strongly year on year thanks to the changes expected in the value of interest derivatives that are not designated as part of a hedging relationship. Overall we are anticipating a moderate rise in profit in 2017.

Due to EBIT on a par with that in 2016 and virtually stable operating assets, ROCE of around 8.0 % is expected.

Berlin, February 17, 2017

GASAG
Berliner Gaswerke Aktiengesellschaft
The Management Board

Vera Gäde-Butzlaff | Dr. Jürgen Schmidberger | Matthias Trunk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3,50
Mercedes-Benz Arena

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

FINANCIAL STATEMENTS

of the GASAG Group in Accordance with IFRSs as of Dec. 31, 2016

BALANCE SHEET OF THE GASAG GROUP

In Accordance with IFRSs As Of Dec. 31, 2016

ASSETS

In € k	NOTES NO.	DEC. 31, 2016	Dec. 31, 2015
A. Non-current assets			
1. Intangible assets	(13)	195,249	197,268
2. Property, plant and equipment	(14)	1,452,735	1,482,698
3. Investments in associates	(15)	10,901	9,277
4. Financial assets	(16)	27,702	19,911
5. Deferred taxes	(17)	94,222	92,860
		1,780,809	**1,802,014**
B. Current assets			
1. Inventories	(18)	43,838	57,049
2. Financial assets	(16)	6,075	2,812
3. Income tax receivables	(19)	15,987	9,680
4. Trade receivables and other receivables	(20)	155,080	138,092
5. Cash and cash equivalents	(21)	67,740	81,563
6. Assets held for sale	(22)	4,051	381
		292,771	**289,577**
		2,073,580	**2,091,591**

EQUITY AND LIABILITIES

In € k	NOTES NO.	DEC. 31, 2016	Dec. 31, 2015
A. Equity	(23)		
1. Subscribed capital		413,100	413,100
2. Share premium		42,461	42,461
3. Reserve for unrealized gains or losses		−33,812	−80,114
4. Retained earnings		270,493	259,561
5. Non-controlling interests		64,306	60,345
		756,548	**695,353**
B. Non-current liabilities			
1. Deferred income	(24)	240,513	242,025
2. Provisions	(25)	119,851	79,797
3. Financial liabilities	(26)	549,085	628,000
4. Other liabilities	(27)	198	1,309
5. Deferred taxes	(17)	91,037	67,819
		1,000,684	**1,018,950**
C. Current liabilities			
1. Deferred income	(24)	9,333	9,192
2. Provisions	(25)	70,530	77,255
3. Financial liabilities	(26)	79,033	134,777
4. Income tax liabilities	(28)	19,447	14,857
5. Trade payables and other liabilities	(27)	136,694	141,111
6. Liabilities associated with assets held for sale	(22)	1,311	96
		316,348	**377,288**
		2,073,580	**2,091,591**

STATEMENT OF COMPREHENSIVE INCOME

of the GASAG Group in Accordance with IFRSs for the Period from January 1 to December 31, 2016

INCOME STATEMENT

In € k	NOTES NO.	JAN. 1 TO DEC. 31, 2016	Jan. 1 to Dec. 31, 2015
1. Revenue	(1)	1,167,414	1,055,398
2. Change in inventories		−745	877
3. Other operating income	(2)	50,987	97,537
4. Cost of materials	(3)	733,607	728,320
5. Personnel expenses	(4)	104,505	105,985
6. Amortization and depreciation	(5)	157,971	87,180
7. Other operating expenses	(6)	104,676	119,013
8. Profit from operations		**116,897**	**113,314**
9. Share in profit or loss of associates	(7)	238	332
10. Profit from other equity investments	(7)	923	699
11. Finance costs	(8)	31,262	36,461
12. Other financial result	(9)	−3,607	1,711
13. Profit before taxes		**83,189**	**79,595**
14. Income taxes	(10)	26,652	35,235
15. Profit for the period		**56,537**	**44,360**
16. Non-controlling interests		9,884	4,654
17. Profit for the period excluding non-controlling interests		**46,653**	**39,706**
18. Earnings per share (in €)	**(12)**	**5.76**	**4.90**

STATEMENT OF COMPREHENSIVE INCOME

In € k	NOTES NO.	JAN. 1 TO DEC. 31, 2016	Jan. 1 to Dec. 31, 2015
1. Profit for the period		**56,537**	**44,360**
2. Available-for-sale financial assets		440	0
3. Income tax effects		–70	0
		370	**0**
4. Cash flow hedges		70,100	–17,694
5. Income tax effects		–21,198	5,508
		48,902	**–12,186**
6. Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**49,272**	**–12,186**
7. Actuarial profit or loss		–2,778	–439
8. Income tax effects		836	152
		–1,942	**–287**
9. Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**–1,942**	**–287**
10. Other comprehensive income	**(11)**	**47,330**	**–12,473**
11. Total comprehensive income		**103,867**	**31,887**
12. Total comprehensive income attributable to non-controlling interests		10,912	3,994
13. Total comprehensive income excluding non-controlling interests		**92,955**	**27,893**

STATEMENT OF CHANGES IN EQUITY

of the GASAG Group in Accordance with IFRSs as of Dec. 31, 2016
See note (23)

In € k	SUBSCRIBED CAPITAL	SHARE PREMIUM
As of: Jan. 1, 2015	**413,100**	**42,461**
Total comprehensive income		
thereof profit for the period		
thereof other comprehensive income pursuant to IAS 39		
thereof other comprehensive income pursuant to IAS 19		
Dividend distribution to owners		
As of: Dec. 31, 2015	**413,100**	**42,461**
Total comprehensive income		
thereof profit for the period		
thereof other comprehensive income pursuant to IAS 39		
thereof other comprehensive income pursuant to IAS 19		
Dividend distribution to owners		
Acquisition of subsidiaries		
As of: Dec. 31, 2016	**413,100**	**42,461**

	RESERVE FOR UNREALIZED GAINS OR LOSSES	RETAINED EARNINGS	SUBTOTAL FOR THE GROUP	NON-CONTROLLING INTERESTS	TOTAL
	−68,301	**250,797**	**638,057**	**65,895**	**703,952**
	−11,813	39,706	27,893	3,994	31,887
		39,706	39,706	4,654	44,360
	−11,536		−11,536	−650	−12,186
	−277		−277	−10	−287
		−30,942	−30,942	−9,544	−40,486
	−80,114	**259,561**	**635,008**	**60,345**	**695,353**
	46,302	46,653	92,955	10,912	103,867
		46,653	46,653	9,884	56,537
	48,173		48,173	1,099	49,272
	−1,871		−1,871	−71	−1,942
		−35,721	−35,721	−6,627	−42,348
				−324	−324
	−33,812	**270,493**	**692,242**	**64,306**	**756,548**

STATEMENT OF CASH FLOWS

for the GASAG Group in Accordance with IFRSs as of Dec. 31, 2016

In € k	2016	2015
Profit or loss before income taxes	83,189	79,595
– Income taxes paid	−28,844	−28,282
+ / – Write downs / write-ups of non-current assets	157,971	87,180
+ / – Increase / decrease in provisions	−11,001	−26,024
+ / – Other non-cash expenses / income	−32,380	12,834
+ Dividends received from associates	232	0
– / + Gain / loss on the disposal of non-current assets	140	−267
– / + Increase / decrease in inventories	13,290	−703
– / + Increase / decrease in receivables	−18,473	30,481
+ / – Increase / decrease in liabilities	−7,375	−54,194
= Cash flows from operating activities	**156,749**	**100,620**
+ Cash received from the disposal of intangible assets	42	300
– Cash paid for investments in intangible assets	−2,920	−3,616
+ Cash received from the disposal of property, plant and equipment	3,202	3,803
– Cash paid for investments in property, plant and equipment	−66,549	−94,642
+ Cash received from the disposal of non-current financial assets	517	436
– Cash paid for investments in non-current financial assets	−2,241	−675
– Cash paid in connection with the acquisition of consolidated entities and other business units	−3,686	0
+ Cash received from investment subsidies from third parties	9,509	13,102
= Cash flows from investing activities	**−62,126**	**−81,292**
– Cash paid to owners	−35,721	−30,942
– Cash paid to non-controlling interests	−6,628	−9,545
+ Cash received from the raising of loans	491	549
– Cash repayments of loans	−65,966	−63,155
– Payment of finance lease liabilities	−668	−4,877
+ Cash received from the raising of loans from non-controlling interests	100	0
– Cash repayments of loans from non-controlling interests	−54	−40
= Cash flows from financing activities	**−108,446**	**−108,010**
= Change in cash and cash equivalents	−13,823	−88,682
+ Cash and cash equivalents at the beginning of the period	81,563	170,245
= Cash and cash equivalents at the end of the period	**67,740**	**81,563**

NOTES

to the Consolidated Financial Statements of GASAG as of Dec. 31, 2016 (IFRSs)

1 PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS OF GASAG

The Group's parent is GASAG Berliner Gaswerke Aktiengesellschaft, Berlin (GASAG), which is headquartered at Henriette-Herz-Platz 4, 10178 Berlin, Germany, and entered in the Berlin-Charlottenburg commercial register under HRB No. 44343.

On December 16, 2016, the shareholder meeting of GASAG resolved to change the Company's name to GASAG AG. This change in name has not yet been entered in the commercial register.

The management board prepared the consolidated financial statements as of December 31, 2016 and the management report for the GASAG Group for the fiscal year from January 1 to December 31, 2016 and authorized them for issue to the supervisory board on February 17, 2017.

The business activities of the GASAG Group involve the transportation, storage, distribution and sale of natural gas, heat, electricity and water, the production of biogas and electricity from renewable sources, the operation of facilities for distributed energy supply and the provision of energy services. Other areas of activity are consumption-billing and meter-reading services, meter management, and the set-up, repair and overhaul of energy installations. The Group's core business is the transportation, distribution and sale of energy and heat and, to an increasing extent, the provision of energy services.

The economic difficulties surrounding storage facilities are preventing the sustainable operation of the aquifer natural gas storage facility in Berlin-Charlottenburg. The Group will cease to market storage capacities from April 1, 2017.

Our customers include private households, trade and industry, companies in the housing sector, hospitals and municipal entities, redistributors and users of gas transport services. Our business activities focus on the Berlin-Brandenburg metropolitan region.

The consolidated financial statements have been prepared in accordance 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 and available-for-sale financial assets, which are measured at fair value.

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

For the sake of clarity, items have been combined in the statement of comprehensive income and balance sheet and disclosed 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 APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The International Financial Reporting Standards / International Accounting Standards (IFRSs / IASs) effective as of the balance sheet date were applied in preparing GASAG's consolidated financial statements. The applicable interpretations of the International Financial Reporting Standards Interpretations Committee / Standing Interpretations Committee (IFRICs / SICs) were also observed.

GASAG's consolidated financial statements comply in all respects with IFRSs / IASs and the IFRICs / SICs.

CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the prior fiscal year.

In fiscal year 2016, the Group also adopted the new and amended IFRSs / IASs and IFRS interpretations which have already been endorsed by the European Union and which are effective for fiscal years beginning on January 1, 2016:

Amendments to IFRS 11, "Joint Arrangements":
These amendments were published by the IASB on May 6, 2014 and adopted into European law on November 25, 2015. They govern the accounting treatment of the acquisition of interests in a joint operation which constitutes a business within the meaning of IFRS 3, "Business Combinations." The amendments are effective for fiscal years beginning on or after January 1, 2016. They did not have any effect on the consolidated financial statements.

Amendments to IAS 1, "Presentation of Financial Statements":
These amendments were published by the IASB on December 18, 2014 and adopted into European law on December 21, 2015. They relate to the notes to the financial statements and consequential amendments to IAS 34 and IFRS 7. The amendments are effective for fiscal years beginning on or after January 1, 2016. They did not have any effect on the consolidated financial statements.

Amendments to IAS 16, "Property, Plant and Equipment," and IAS 38, "Intangible Assets":
These amendments were published by the IASB on May 12, 2014 and adopted into European law on December 3, 2015. They provide guidance on how to determine acceptable methods of depreciation and amortization. The amendments are effective for fiscal years beginning on or after January 1, 2016. They did not have any effect on the consolidated financial statements.

Amendments to IAS 16, "Property, Plant and Equipment," and IAS 41, "Agriculture":

These amendments were published by the IASB on June 30, 2014 and adopted into European law on November 24, 2015. They include allocation rules for the accounting treatment of bearer plants under IAS 16 and their produce under IAS 41. The amendments are effective for fiscal years beginning on or after January 1, 2016. They did not have any effect on the consolidated financial statements.

Amendments to IAS 27, "Separate Financial Statements":

These amendments were published by the IASB on August 12, 2014 and adopted into European law on December 23, 2015. They principally reinstate the equity method as an accounting option. The amendments are effective for fiscal years beginning on or after January 1, 2016. They did not have any effect on the consolidated financial statements.

Collection of Amendments, "Improvements to IFRSs 2012 to 2014":

This collection of amendments was endorsed by the EU on December 15, 2015. The amendments relate to IFRS 5, IFRS 7, IAS 19 and IAS 34. They did not have any effect on the consolidated financial statements.

IFRSs and IFRS interpretations that are not mandatory yet, those that have not yet been endorsed by the European Union and those which are not yet effective for fiscal years beginning on January 1, 2016 were not taken into account. These relate to the following:

IFRS 9 (2010), "Financial Instruments":

On July 24, 2014, the final version of the new standard was issued and the project launched in 2008 was concluded. The standard was endorsed by the EU on November 22, 2016. The new standard includes revised requirements for the classification and measurement of financial assets, including impairment provisions, and complements the hedge accounting rules issued in 2013. It is effective for fiscal years beginning on or after January 1, 2018. GASAG has not yet completed its detailed analysis of IFRS 9, but does not expect the first-time application of this standard to have a significant impact on its consolidated financial statements. The new requirements for the classification and measurement of financial assets that are based on the entity's business model will not have any significant effects on measurement and presentation in GASAG's consolidated financial statements. In some cases, expected losses may have to be expensed earlier due to the new impairment provisions. The effects of the new hedge accounting provisions are currently being assessed, but they are not expected to be significant.

IFRS 15, "Revenue from Contracts with Customers":

This common standard was issued by the IASB and the Financial Accounting Standards Board (FASB) on May 28, 2014. On April 12, 2016, the IASB issued the final version of IFRS 15 containing clarifications on various provisions of the new standard and simplified transition requirements. The standard was endorsed by the EU on September 22, 2016. The aim of the new standard on revenue recognition is to consolidate the large number of provisions previously included in different standards and interpretations. One of the focal points is the accounting treatment of multiple-element arrangements which are not governed by the previous IAS 18, "Revenue Recognition." The standard is effective for fiscal years beginning on or after January 1, 2018. GASAG has not yet completed its detailed analysis of IFRS 15. The effects of the new standard are being evaluated as part of a group-wide project to implement IFRS 15. The quantitative impact cannot be assessed reliably before completion of the project, but the Group does not expect the standard to have a significant effect.

IFRS 16, "Leases":

The IASB issued the standard IFRS 16 on January 13, 2016. It has yet to be endorsed by the EU. The new standard basically requires lessees to recognize all leases and the related contractual rights and obligations in their balance sheets. Lessees will no longer need to distinguish between finance and operating leases, as they were required to by IAS 17. The standard is effective for fiscal years beginning on or after January 1, 2019. The adoption of the new standard will have an impact on the consolidated financial statements. Total assets and total equity and liabilities are expected to increase as a result of the first-time application of IFRS 16 as both fixed assets and financial liabilities will be higher due to the new requirement to recognize right-of-use assets and lease liabilities from payment obligations under operating leases in the balance sheet. To date, such payment obligations have been disclosed in the notes to the financial statements. In the income statement, the Group will be required to recognize depreciation charges and interest expenses instead of lease expenses, resulting in higher EBITDA. A similar increase in cash flows from operating activities is expected for the cash flow statement. The overall impact is being evaluated as part of a project to implement IFRS 16. A reliable assessment of the quantitative impact, however, will not be possible before completion of the project.

IFRS 2, "Share-based Payment":

The IASB issued amendments to IFRS 2 on June 20, 2016. These amendments must be applied to payment transactions for which the grant or modification date is within a fiscal year beginning on or after January 1, 2018. They will not have any effect on the consolidated financial statements.

IAS 12, "Income Taxes":

The IASB issued amendments to IAS 12 on January 19, 2016. These amendments clarify the accounting of unrealized losses on debt instruments and related deductible temporary differences. The amendments are effective for fiscal years beginning on or after January 1, 2017. They will not have any effect on the consolidated financial statements.

IAS 7, "Statement of Cash Flows":

The IASB issued amendments to IAS 7 on January 29, 2016. The aim of these amendments is to improve the information provided on changes in an entity's debt. The amendments are effective for fiscal years beginning on or after January 1, 2017. They will not have any effect on the consolidated financial statements.

IFRS 4, "Insurance Contracts":

On September 12, 2016, the IASB issued amendments to IFRS 4 relating to the first-time application of IFRS 9 by insurance companies. The amendments are effective for fiscal years beginning on or after January 1, 2018. They will not have any effect on the consolidated financial statements.

IAS 40, "Investment Property":

The IASB issued clarifying amendments to IAS 40 on December 8, 2016. These amendments are effective for fiscal years beginning on or after January 1, 2018. They will not have any effect on the consolidated financial statements.

IFRIC 22, "Foreign Currency Transactions and Advance Consideration":
The IASB issued IFRIC 22 on December 8, 2016. This interpretation clarifies the date that should be used for foreign currency translation. IFRIC 22 is effective for fiscal years beginning on or after January 1, 2018. The amendments will not have any effect on the consolidated financial statements.

Collection of Amendments, "Annual Improvements to IFRSs 2014 to 2016":
The IASB issued this collection of amendments on December 8, 2016. The amendments relate to IFRS 1, IFRS 12 and IAS 28. Of these amendments, those relating to IFRS 12 are effective for fiscal years beginning on or after January 1, 2017 and those relating to IFRS 1 and IAS 28 for fiscal years beginning on or after January 1, 2018. The amendments will not have any effect on the consolidated financial statements.

No other standards or interpretations were issued in fiscal year 2016.

3 CONSOLIDATED GROUP

In addition to GASAG, 22 German subsidiaries were fully consolidated, 10 associates and 2 joint operations were accounted for in accordance with the equity method in the consolidated financial statements.

CHANGES TO THE CONSOLIDATED GROUP

The consolidated group changed as follows in the fiscal year:

Subsidiaries:
Under the share purchase and assignment agreement dated December 9, 2016, GASAG acquired 56.7 % of the shares in Provedo GmbH, Leipzig.

Under the contribution agreement dated December 16, 2016, GASAG assigned its shares in the limited partnership Berliner Erdgasspeicher GmbH & Co. KG, Berlin, to Berliner Erdgasspeicher Verwaltungs-GmbH, Berlin. With GASAG's contribution of its equity investment to Erdgasspeicher Verwaltungs-GmbH, all of the assets of the limited partnership were transferred to Berliner Erdgasspeicher Verwaltungs-GmbH by way of universal succession without the limited partnership being liquidated, such that it ceased to exist as a result of this accrual of assets. Upon entry in the commercial register under HRB No. 55594 B, Berliner Erdgasspeicher Verwaltungs-GmbH was renamed Berliner Erdgasspeicher GmbH on December 29, 2016.

Pursuant to the minutes of incorporation dated April 20, 2016, GASAG founded GASAG Windpark Verwaltungs-GmbH, Berlin, as its sole shareholder. GASAG Windpark Verwaltungs-GmbH is the registered general partner of Windpark Dahme – Wahlsdorf 2 GmbH & Co. KG, Zossen.

Under the purchase and assignment agreement dated July 25, 2016, GASAG acquired 100 % of the shares in Windpark Dahme – Wahlsdorf 2 GmbH & Co. KG, Zossen, from Energiequelle GmbH, Zossen.

Associates / joint ventures:
Under the share purchase and assignment agreement dated December 10, 2015, EMB Energie Mark Brandenburg GmbH, Potsdam, sold 23.9 % of its shares in Gasversorgung Zehdenick GmbH, Zehdenick, to Stadtwerke Zehdenick GmbH, Zehdenick, with economic effect as of January 1, 2015.

As of December 31, 2015, the effectiveness of the agreement was subject to the condition precedent that a capital increase carried out in connection with the share sale must be entered in the commercial register. The share sale was effectively executed as of February 10, 2016.

Under the share purchase and assignment agreement dated November 17, 2016, EMB acquired 50 % of the shares in Netzgesellschaft Hennigsdorf Gas mbH, Hennigsdorf, from the sole shareholder Stadtwerke Hennigsdorf GmbH, Hennigsdorf.

Under the transfer agreement dated December 8, 2015, ARGE Großräschen, Cottbus, transferred all rights and obligations arising from existing agreements to ARGE Wärmelieferung, Cottbus, with effect as of January 1, 2016. ARGE Großräschen was terminated by a shareholder resolution dated December 8, 2015 with effect as of January 1, 2016.

Under the share purchase and assignment agreement dated July 21, 2016, NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin, acquired 49 % of the shares in WGI GmbH, Dortmund, from the hitherto sole shareholder ITS Informationstechnik Service GmbH, Dortmund.

SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus, established SpreeGas Verwaltungs-GmbH, Cottbus, by virtue of the operating agreement for a limited liability company dated October 26, 2016. It holds a 100 % interest in SpreeGas Verwaltungs-GmbH.

Under the sale and transfer agreement for limited partner interests dated November 18, 2016, SpreeGas acquired 100 % of the shares in Solar Project 19 GmbH & Co. KG, Cottbus, the general partner of which is SpreeGas Verwaltungs-GmbH.

OUTLOOK FOR 2017:

Subsidiaries:

In accordance with a resolution adopted by the supervisory board on December 16, 2016, GASAG Contracting GmbH, Berlin, will transfer all of its assets in exchange for shares in the transferee entity by way of dissolution without liquidation (pursuant to Sec. 2 No. 1 UmwG ["Umwandlungsgesetz": German Law of Reorganizations]) to umetriq Metering Services GmbH, Berlin (merger by acquisition). The asset transfer will become effective as of January 1, 2017.

Associates / joint ventures:

Under the share purchase and assignment agreement dated August 24, 2016, GASAG acquired 51 % of the shares in G2plus GmbH, Berlin, from Gegenbauer Facility Management GmbH, Berlin, with effect not before January 1, 2017. Gegenbauer Facility Management GmbH will continue to be the owner of the remaining 49 % interest. The two parties concluded a syndicate agreement governing their joint control over G2plus GmbH.

LIST OF EQUITY INVESTMENTS	Direct shareholdings
Fully consolidated entities	
1. BAS Abrechnungsservice Beteiligungs-GmbH, Berlin [1]	100 %
2. BAS Abrechnungsservice GmbH & Co. KG, Berlin [1]	100 %
3. Berliner Erdgasspeicher GmbH, Berlin [1, 11]	100 %
4. Bio-Erdgas Neudorf GmbH, Groß Pankow [1, 4]	74.9 %
5. DSE Direkt-Service Energie GmbH, Berlin [1]	100 %

LIST OF EQUITY INVESTMENTS	Direct shareholdings
6. EMB Beteiligungsgesellschaft mbH, Potsdam [1, 4]	100 %
7. EMB Energie Mark Brandenburg GmbH, Potsdam [1]	73.30987 %
8. GASAG Bio-Erdgas Schwedt GmbH, Schwedt (Oder) [1]	100 %
9. GASAG Contracting GmbH, Berlin [1]	100 %
10. GASAG Windpark Verwaltungs-GmbH, Berlin [1]	100 %
11. infrest - Infrastruktur eStrasse GmbH, Berlin [1, 8]	67.36 %
12. KKI–Kompetenzzentrum Kritische Infrastrukturen GmbH, Berlin [1, 8]	74.9 %
13. NBB Netz-Beteiligungs-GmbH, Berlin [1]	100 %
14. NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin [1, 5]	100 %
15. Netzgesellschaft Forst (Lausitz) mbH & Co. KG, Forst (Lausitz) [1, 6]	100 %
16. Provedo GmbH, Leipzig [1]	56.6648 %
17. Solar Project 19 GmbH & Co. KG, Cottbus [1, 7]	100 %
18. SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus [1]	66.338 %
19. SpreeGas Verwaltungs-GmbH, Cottbus [1, 7]	100 %
20. Stadtwerke Forst GmbH, Forst (Lausitz) [1]	74.9 %
21. umetriq Metering Services GmbH, Berlin [1]	100 %
22. Windpark Dahme – Wahlsdorf 2 GmbH & Co. KG, Zossen [1]	100 %
Entities accounted for using the equity method	
23. ARGE Wärmelieferung, Cottbus [7, 10]	50 %
24. Berliner Energieagentur GmbH, Berlin, Germany [2]	25 %
25. Gas-Versorgungsbetriebe Cottbus GmbH, Cottbus [2, 7]	37 %
26. Gasversorgung Zehdenick GmbH, Zehdenick [2, 4]	25.1 %
27. GreenGas Produktionsanlage Rathenow GmbH & Co. KG, Rathenow [2, 4]	49 %
28. GreenGas Rathenow Verwaltungs GmbH, Rathenow [2, 4]	49 %
29. Rathenower Netz GmbH, Rathenow [2, 4]	35 %
30. Tevaro GmbH, Berlin [2]	33.33 %
31. Netzgesellschaft Hennigsdorf Gas mbH, Hennigsdorf [4, 10]	50 %
32. NGK Netzgesellschaft Kyritz GmbH, Kyritz [2, 4]	49 %
33. Netzgesellschaft Hohen Neuendorf Gas GmbH & Co. KG, Hohen Neuendorf [2, 4]	49 %
34. WGI GmbH, Dortmund [2, 8]	49 %
Other shareholdings	
35. BEGA.tec GmbH, Berlin [3]	19 %
36. local energy GmbH, Greifswald [3, 4]	19.77309 %
37. Partner für Berlin – Gesellschaft für Hauptstadt-Marketing mbH, Berlin [3]	< 1 %
38. Stadtwerke Brandenburg an der Havel GmbH & Co. KG, Brandenburg an der Havel [3, 9]	12.25 %
39. Stadtwerke Brandenburg Verwaltungs GmbH, Brandenburg an der Havel [3, 9]	12.25 %
40. Stadtwerke Premnitz GmbH, Premnitz [3, 4]	10 %

[1] Included due to controlling influence

[2] Significant influence exists

[3] Not included as GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, has neither a controlling nor a significant influence

[4] Indirect equity investment through EMB Energie Mark Brandenburg GmbH, Potsdam

[5] Thereof 80.5 % directly and 16.5 % indirectly through EMB Energie Mark Brandenburg GmbH and 3 % indirectly through SpreeGas GmbH

[6] Indirect equity investment through Stadtwerke GmbH, Forst (Lausitz)

[7] Indirect equity investment through SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus

[8] Indirect equity investment through NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin

[9] Indirect equity investment through EMB-Beteiligungs-gesellschaft mbH, Potsdam

[10] Joint control

[11] Renamed after the merger by accrual of Berliner Erdgasspeicher GmbH & Co. KG

4 BASIS OF CONSOLIDATION

The consolidated financial statements include GASAG and the subsidiaries that it controls. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control. The acquisition of non-controlling interests is accounted for in accordance with the entity method. Consolidation ends as soon as the parent ceases to have control. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intragroup balances, transactions, unrealized gains and losses and dividends resulting from intragroup transactions are eliminated in full.

Losses incurred by subsidiaries are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the parent loses control over a subsidiary, it derecognizes the assets and liabilities of its former subsidiary from the consolidated balance sheet. Any equity investment retained is recognized at fair value and the gain or loss associated with the loss of control attributable to the former controlling interest is also recognized.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses and disclosed in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

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.

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 reported 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 about the future and other major sources of estimation uncertainty at the balance sheet date that have a significant risk of resulting in 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.

Assumptions and estimates are made, among other things, when valuing the natural gas storage facility in connection with its imminent decommissioning, assessing financial instruments, recognizing provisions (especially personnel-related provisions relating to the Pension Institution of the Federal Republic of Germany and the Federal States ["Versorgungsanstalt des Bundes und der Länder": VBL], based in Karlsruhe), measuring repayment claims and performing impairment tests.

The effects of assumptions and estimates on the balance sheet are presented in the notes to the relevant balance sheet items.

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 been transferred to the buyer. Revenue from the sale of natural gas, heat, electricity and water to end users and redistributors as well as from network access charges is recognized when these resources are used 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.

Interest expenses are recognized as finance costs in the period to which they relate.

Borrowing costs attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Regulatory deferral accounts (assets and liabilities) differ from the definition of assets and liabilities laid down in IFRSs and are thus not recognized.

INTANGIBLE ASSETS

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest over the net identifiable assets acquired and the liabilities assumed by the Group. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognized in profit or loss.

Goodwill is not amortized. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested for impairment on an annual basis and when there is any indication that it may be impaired. This requires an estimate of the value in use of the cash-generating units to which goodwill is allocated and the application of an appropriate discount rate to determine the present value of the related cash flows.

Impairment is identified by measuring the recoverable amount for each cash-generating unit. 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 IAS 36, goodwill impairment may not be reversed.

The medium-term forecasts for a period of three years form the basis for determining the value in use for the cash-generating entities.

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 6.50 % (prior year: 6.30 %) based on a beta factor of 0.79 (prior year: 0.81). Cost of debt is derived from the long-term borrowing rate for new loans and other arm's length borrowing rates and amounts to 1.36 % (prior year: 1.99 %) after taxes. The discount rate also depends on the ratio of equity and debt employed. The resulting WACC stands at 6.16 % (prior year: 7.54 %) before taxes. The discount rate should be used consistently across the Group and in all measurement periods to determine 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. The growth rate subsequent to the forecasting period was 0.5 % (prior year: 0.5 %) as of December 31, 2016.

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 recognized pursuant to IAS 38 if, and only if, an entity can demonstrate all of the following:

- The technical feasibility and intention to complete
- Its ability to use or sell the intangible asset
- How the intangible asset will generate future economic benefits based on the existence of a market or the usefulness of the asset for internal use
- The availability of adequate technical, financial and other resources to complete the development of the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development

After initial recognition, internally generated intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses in accordance with the cost model. Cost comprises all directly attributable costs necessary to create, produce and prepare the asset. Research expenditure 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.

With the exception of the goodwill disclosed, all other acquired and internally generated intangible assets 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. If there are such indications, an impairment test is performed.

Intangible assets with indefinite useful lives are tested for impairment at least once a year either individually or at cash-generating unit level. These intangible assets are not amortized.

Uniform group-wide useful lives are applied as follows:

INTANGIBLE ASSETS	Useful life
Goodwill	indefinite
Acquired intangible assets	5 to 20 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 necessary overheads. Received building cost contributions and investment subsidies and grants are disclosed as deferred income and not directly deducted from cost.

The cost of an item of property, plant and equipment acquired in a business combination is its fair value at the acquisition date. After initial recognition, the cost model is applied.

Restoration obligations are recognized as part of cost at the present value when the obligation is incurred, and are amortized pro rata 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]) and the base gas required to operate the natural gas storage facility in Berlin which have an indefinite useful life, all items of property, plant and equipment are depreciated on a straight-line basis.

The following useful lives are used throughout the Group for the depreciation of property, plant and equipment with limited useful lives:

PROPERTY, PLANT AND EQUIPMENT	Useful life
Procurement, production and distribution facilities	5 to 50 years
Buildings	30 years
Other property, plant and equipment	2 to 13 years

The carrying amounts of items of property, plant and equipment are reviewed for impairment as of each balance sheet date. If indications of possible impairment are found, an impairment test is performed. 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

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 risks and rewards incidental to ownership pursuant to IAS 17. The party to a lease who bears substantially all the risks and rewards incidental to the asset is considered to be the economic owner of the leased assets.

In cases where the GASAG Group as the lessee 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. If the GASAG Group as the lessee is not the economic owner of the leased asset, the lease is recognized as an operating lease and the lease payments are disclosed under other operating expenses.

If the GASAG Group is the lessor and the lease is classified as a finance lease, a receivable in the amount of the net investment in the lease is recognized. Lease payments received are divided into repayments of the lease receivable and finance income recognized in profit or loss. The receivable under the lease is amortized and recognized in accordance with the effective interest method.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Joint ventures within the meaning of IFRS 11 are based on joint arrangements whereby the parties that have joint control have rights to the net assets of the arrangement. In accordance with IFRS 11.24, the carrying amount of the investments in joint ventures is recognized using the equity method pursuant to IAS 28.

The investments in associates and joint ventures, which are measured using the equity method in accordance with IAS 28, are recognized at cost. The carrying amount of the investments is increased or decreased in line with the pro rata profit or loss of the investee. Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment.

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.

On each balance sheet 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 decreased. 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. Reversals of impairment losses recognized for goodwill are not permitted.

FINANCIAL ASSETS

Financial assets within the meaning of IAS 39 are classified as financial assets 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 other 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, depending on which category they belong to, using the effective interest method.

In fiscal years 2015 and 2016, the GASAG Group did not hold any financial instruments that were classified as held-to-maturity investments. The category financial assets at fair value through profit or loss exclusively comprises derivative financial instruments.

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.

The long-term investments in unquoted equity instruments are classified into the available-for-sale category. The assets are recognized at fair value. Gains and losses arising from changes in fair value are recognized directly in equity. 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.

If an available-for-sale asset is either significantly or permanently impaired, an amount equal to the difference between its cost and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is reclassified to profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

Derivative financial instruments are classified as held for trading, unless they are designated hedging instruments and are effective as such. 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 values under equity and liabilities. Derivatives that are classified as held for trading are subsequently measured at fair value through profit or loss.

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 used only cash flow hedges in fiscal years 2015 and 2016.

Cash flow hedges hedge the exposure to variability in future cash flows of financial assets and liabilities and forecast transactions. The hedges are recognized at fair value. Any gains or losses arising from changes in the fair value of the ineffective portion are recognized in profit or loss. In contrast, changes in the effectively hedged portion are recognized directly in other comprehensive income. Amounts recognized as other comprehensive income are only reclassified to profit or loss when the gains or losses of the effectively hedged portion affect profit or loss.

A hedging relationship no longer qualifies for hedge accounting if the hedging instrument is de-designated by the Group, if it expires or is sold, terminated or exercised or if it is no longer effective. The fair value gain or loss recognized in equity until that point in time will remain in equity in its entirety and will not be transferred to profit or loss until the forecast transaction is also recognized in the income statement. If the forecast transaction is no longer expected to occur, the entire gain or loss previously recognized in equity is transferred to profit or loss.

The contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements (own use) are not recognized as derivatives under IAS 39, but as pending contracts in accordance with IAS 37. The volume flexibilities included in the contracts fall under the “own use” exemption and are not recognized separately.

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. 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.

The cost of raw materials, consumables and supplies as well as natural gas inventories is calculated on the basis of the weighted average prices.

The costs of conversion of work in process include the cost of direct materials and labor and an appropriate proportion of manufacturing overheads based on normal capacity; they exclude borrowing costs.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables are recognized at the original invoice amount less any impairment losses. Impairment losses are recognized to take account of any expected credit risk; in specific cases of default, the relevant receivables are written off. For the purpose of assessing impairment, financial assets with a potential impairment risk are grouped on the basis of similar credit risk characteristics, collectively assessed for impairment and written down if necessary. When the expected future cash flows of the portfolios are calculated for this purpose, prior cases of default are taken into account in addition to the cash flows set out in the contract.

The accounting cut-off for unbilled natural gas, heat, electricity and water consumption of tariff customers and special contract customers and of standard load profile (SLP) and registered power metering (RLM) customers as of the balance sheet date is performed using an individual computerized prediction.

CASH AND CASH EQUIVALENTS

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of the cash and cash equivalents defined above.

ASSETS HELD FOR SALE

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This is the case when the sale is highly probable, the asset or the disposal group is available for immediate sale in its present condition and the sale will be completed within one year from the date of classification.

As the carrying amount of depletable assets is recovered by the sale and not by use, amortization or depreciation ends at the date of reclassification. Any related liabilities or deferred income are reported as “Liabilities associated with assets held for sale.”

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 balance sheet liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the balance sheet.

Deferred tax liabilities are recognized for all taxable temporary differences unless 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.

- Taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures may not be recognized 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 loss carryforwards, interest carryforwards and tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unused tax loss carryforwards and tax credits can be utilized, unless the deferred tax asset 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 accounting profit nor taxable profit or loss.

- Taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where 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 to allow the benefit of part or all of the deferred tax assets to 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 at the tax rates that are 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 the amount of VAT (sales taxes) except:

- Where the VAT incurred on a 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 acquisition of the asset or as part of the expense item as applicable.

- Where receivables and liabilities are stated with the amount of VAT included.

The net 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 for assets as deferred income. In addition to government investment grants, this item also includes building cost contributions and investment subsidies 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. Government grants are recognized in accordance with the provisions of IAS 20 and grants from third parties pursuant to IFRIC 18.

Deferred income is released to other operating income 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 subsidies (pursuant to NDAV and concession agreements)	45 years
Other investment subsidies	depending on asset

The building cost contributions and investment subsidies received for the pipe network 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) as a result of 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 reimbursed, for example under an insurance contract, then the reimbursement is treated as a separate asset.

The net obligation under **defined benefit plans** is calculated separately for each plan under provisions for **post-employment benefits.**

The obligation under the defined benefit plan is determined using the projected unit credit method.

Remeasurements of the net defined benefit liability are immediately recognized in the balance sheet and transferred to retained earnings via other comprehensive income in the period in which they occur. These remeasurements may not be reclassified to profit or loss in subsequent years. They comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling unless these are already included in net interest, which is calculated by applying the discount rate to the net defined benefit liability. The calculation is based on the discount rate used at the beginning of the annual reporting period. Net interest on the defined benefit obligation is recognized in profit or loss under finance costs.

Any change or curtailment of the benefits granted under a plan and any resulting gain or loss are recognized in profit or loss under personnel expenses.

The employees' company pension scheme with the VBL is 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 long-term provision (10 years) was recognized according to IAS 19.37 for the top-up contributions payable to the VBL.

Provisions for **other long-term employee benefits** mainly include obligations from phased retirement arrangements ["Altersteilzeit": ATZ]. These relate to benefits to encourage voluntary early retirement. The provisions are set up on the basis of the works agreements for all employees who have concluded a phased retirement agreement. Deferred performance, top-up amounts, compensation payments for reduced pension benefits and hardship funds are included when accounting for the provisions. These expenses are accrued pro rata. The amounts expected to be paid are calculated in accordance with actuarial principles and recognized at present value. The remeasurements are recognized immediately in profit or loss pursuant to IAS 19.154. The portion of the provision for phased retirement arrangements attributable to deferred performance is 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 to determine the present value:

FISCAL YEAR / TERM In %	2016	2015
Up to 5 years	1.75	1.95
5 to 10 years	2.25	2.60
Over 10 years	3.00	3.35

This does not include provisions for post-employment benefits and for other long-term employee benefits, which are subject to the specific provisions of IAS 19.83. For more information, please see note (25) Provisions.

Pursuant to IFRIC 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities," changes in estimates which are attributable to an adjustment in respect of the timing of cash flows, the amount of cash outflow 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 less transaction costs that are attributable to 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.

Liabilities from finance leases are recognized at the present value of the future minimum lease payments as of the date of recognition of the leased 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 recognized immediately as an expense.

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

CONTINGENT LIABILITIES, OTHER FINANCIAL OBLIGATIONS AND CONTINGENT ASSETS

Contingent liabilities are possible or present obligations that arise from past events and which are not expected to result in an outflow of resources. If they were not assumed in a business combination, they are disclosed off the face of the balance sheet in the notes to the financial statements. The amounts stated reflect the scope of liability as of the balance sheet date.

Future (guaranteed) third-party claims for payments from 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 will be confirmed only by the occurrence or non-occurrence of uncertain future events.

FOREIGN CURRENCY TRANSLATION

The Group's functional and reporting currency is the euro (€). 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 translation are disclosed in the consolidated income statement.

6 NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(1) REVENUE

In € k	2016	2015
Natural gas supply	857,197	804,606
Network access charges	152,537	126,500
Electricity supply	96,254	64,570
Heating supply	33,382	38,614
Other	28,044	21,108
	1,167,414	**1,055,398**

Revenue was mainly generated from the supply of natural gas. € 445,367k (prior year: € 432,413k) relates to the Berlin city district, € 314,358k (prior year: € 324,740k) to other federal states and € 97,472k (prior year: € 47,453k) to redistributors.

Revenue includes remuneration provided under the German Renewable Energies Act ["Erneuerbare-Energien-Gesetz": EEG] and other similar remuneration of € 3,676k (prior year: € 3,477k) which is offset by material costs in the same amount.

Revenue also comprises netted income and expenses from commodity derivatives not designated as part of a hedging relationship, which should be accounted for in accordance with IAS 39. These revenue components are presented on a net basis, amounting to € 32,283k (prior year: material costs of € 21,222k).

(2) OTHER OPERATING INCOME

In € k	2016	2015
Reversal of provisions	13,057	48,890
Reversal of deferred income	9,569	9,468
Derecognition of accrued liabilities	9,407	10,427
Own work capitalized	5,269	5,359
Reimbursement of dunning and court costs	3,684	3,364
Reversal of bad debt allowances	1,680	3,533
Income from the disposal of non-current assets	905	1,196
Reimbursement of top-up contributions to the VBL	0	5,417
Miscellaneous	7,416	9,883
	50,987	**97,537**

The decrease in reversals of provisions is mainly due to the partial reversal of the provisions for top-up contributions to the VBL in the prior year relating to a modification of the rate of the top-up contribution and a reimbursement for the years 2013 to 2015.

(3) COST OF MATERIALS

In € k	2016	2015
Cost of raw materials, consumables and supplies and of purchased merchandise	558,999	561,534
Cost of purchased services	174,608	166,786
	733,607	**728,320**

Cost of materials includes expenses for natural gas distributed directly to end users, transferred to redistributors and used by the Group itself. Expenses were also incurred for repairs and maintenance, other construction and purchased services and the procurement of electricity.

(4) PERSONNEL EXPENSES

In € k	2016	2015
Wages and salaries	86,569	88,277
Social security, pension and other benefit costs	17,936	17,708
	104,505	**105,985**

Personnel expenses fell by € 1.5m year on year to € 104.5m (down 1.4 %). This decrease is chiefly due to the absence of one-off effects that were reflected in the financial statements for 2015, relating to an allocation to the provision for restructuring measures at a service unit and additional expenses in the networks business area, which arose temporarily as a consequence of regulatory conditions.

Directly staff-related personnel expenses were slightly higher in 2016 than in the prior year.

The average number of employees (excluding employees in the release phase of phased retirement) was 1,506 compared with 1,480 in the prior year.

Social security costs include contributions to the statutory pension insurance fund of € 6,750k (prior year: € 6,944k).

Pension costs amounted to € 3,970k (prior year: € 3,845k) in the fiscal year.

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

NUMBER OF EMPLOYEES [1]	2016	2015
Women	668	672
Men	891	866
	1,559	**1,538**
thereof in the release phase of phased retirement	53	58

[1] Excluding trainees and management board members

(5) AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortization, depreciation and impairment losses for fiscal years 2015 and 2016 breaks down as follows:

In € k	2016	2015
Intangible assets	6,967	9,406
Amortization	6,967	9,406
Property, plant and equipment	151,004	77,774
Depreciation	67,243	65,978
Impairment losses	83,761	11,796
	157,971	**87,180**

€ 4,320k (prior year: € 5,277k) of the amortization expense for **intangible assets** for the fiscal year relates to software licenses, € 1,983k (prior year: € 3,352k) to customer bases and € 397k (prior year: € 397k) to brands. € 253k (prior year: € 356k) was recorded for granted conversion allowances and incentive subsidies.

The impairment losses of € 83,761k recognized for **property, plant and equipment** in the fiscal year relate exclusively to procurement, production and distribution facilities.

Of these impairment losses, € 80,907k (prior year: € 11,622k) was incurred in connection with the natural gas storage facility in Berlin. For more information, please see the explanations in note (14) Property, Plant and Equipment of these notes to the consolidated financial statements.

Impairment losses of € 2,854k (prior year: € 0k) relate primarily to a biogas feed-in facility which is no longer part of the network due to the insolvency of the operator of the biogas plant and to a pipe segment that was temporarily disconnected from the supply network.

The impairment test did not lead to the recognition of any impairment loss on land (prior year: € 137k) or on the natural gas stations and related facilities (prior year: € 37k) in the current fiscal year.

(6) OTHER OPERATING EXPENSES

In € k	2016	2015
Advertising and promotional activities	23,872	16,663
IT services	16,989	18,332
Concession levies	14,746	11,744
Legal and other consulting fees, including audit fees	13,370	12,184
Lease payments under operating leases	9,141	9,547
Other services and purchased services	6,630	6,278
Derecognition of and bad debt allowances on receivables	5,841	8,410
Insurance	3,236	3,396
Postage and freight costs	2,400	2,028
Entertainment and travel expenses	1,112	1,033
Losses on the disposal of non-current assets	1,045	929
Other taxes	397	418
Provisions for litigation	0	22,051
Miscellaneous	5,897	6,000
	104,676	**119,013**

(7) INVESTMENT RESULT

In € k	2016	2015
Investment result		
thereof from entities accounted for using the equity method	238	332
thereof from other investments	923	699
	1,161	**1,031**

The investment result includes profit contributions from operating investments. The operating activities of these investees are closely related to those of the Group.

The investment result includes all income and expenses related to these unquoted equity instruments. All shares held in entities accounted for using the equity method and other shareholdings as of December 31, 2016 are disclosed in the list of equity investments in section 3 "Consolidated Group."

(8) FINANCE COSTS

In € k	2016	2015
Interest on overdrafts and loans from banks	24,711	27,668
Interest from other financial liabilities	3,919	6,816
Unwinding of the discount for provisions	2,440	1,572
Interest on finance leases	192	405
	31,262	**36,461**
thereof on a historical cost basis	31,262	36,461

(9) OTHER FINANCIAL RESULT

In € k	2016	2015
thereof on a historical cost basis	2,826	2,985
Remeasurement of derivatives	−6,433	−1,274
	−3,607	**1,711**
thereof on a historical cost basis	2,826	2,985

The item "Remeasurement of derivatives" reflects changes in the value of interest rate derivatives which are not in hedging relationships. These derivatives are used as hedges, but they no longer meet the requirements for hedge accounting.

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

(10) INCOME TAXES

In € k	2016	2015
Corporate income tax	7,860	12,319
Trade tax	17,368	16,541
Current income taxes	25,228	28,860
Deferred taxes	1,424	6,375
thereof on temporary differences	43,913	6,740
thereof on tax loss carryforwards	−42,489	−365
Income taxes	**26,652**	**35,235**

Deferred taxes were determined using a group tax rate of 30.18 %. In addition to corporate income tax of 15.00 %, the solidarity surcharge of 5.50 % on corporate income tax and the average trade tax rate of 14.35 % were taken into account.

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

In € k	2016	2015
Profit before income taxes	83,189	79,595
Group tax rate	30.18 %	30.18 %
Theoretical income tax expense / income	25,106	24,022
Tax effects from		
Differences and changes in tax rates	−211	2,900
Tax-free income	−244	−94
Non-deductible business expenses	511	2,288
Effect of taxes from prior years recognized in the fiscal year	1,345	4,227
Utilization of loss carryforwards not used in the prior year	−947	0
Additions to / reductions in trade tax	940	1,236
Other	152	656
Effective income tax expense / income	**26,652**	**35,235**
Effective tax rate	32.0 %	44.3 %

The decrease in the item "Differences and changes in tax rates" is due to differences in tax rates arising only between the Group and individual entities and differences in trade tax multipliers existing solely between corporations and partnerships in 2016, while a change in the allocation of the tax base to various municipalities based on allocation keys resulting from the tax audit led to higher taxes in the prior year.

The year-on-year decrease in non-deductible business expenses is primarily attributable to the reduction in the non-deductible interest expenses included in business expenses.

Taxes from prior years are mainly composed of effects from the tax audit for the years 2007 to 2010 and a tax backpayment of € 483k made in connection with Berliner Erdgasspeicher Besitz- und Verwaltungsgesellschaft, which was liquidated in 2011.

The utilization of loss carryforwards not used in the prior year is attributable to the merger by accrual of Berliner Erdgasspeicher GmbH & Co. KG into Berliner Erdgasspeicher GmbH and the resulting usability of interest carryforwards that were not usable in the past. It also reflects the utilization of losses incurred by NBB GmbH & Co. KG that were not usable in the prior year.

Other effects mainly include the correction of the tax base of Stadtwerke Brandenburg GmbH & Co. KG and the derecognition of the shares in VR-Leasing SOLIDUS Siebte GmbH & Co. Immobilien KG, Eschborn, for tax purposes.

In 2016, deferred taxes relating to components of other comprehensive income caused equity to change by € −20,432k (prior year: € 5,660k).

(11) OTHER COMPREHENSIVE INCOME

DISCLOSURE OF COMPONENTS OF OTHER COMPREHENSIVE INCOME

In € k	2016	2015
Available-for-sale financial assets:		
Profit or loss for the period	440	0
	440	**0**
Cash flow hedges:		
Profit or loss for the period	40,262	−36,216
Plus reclassification adjustments to profit or loss	29,838	18,522
	70,100	**−17,694**
Remeasurement of assets:		
Actuarial profit or loss	−2,778	−439
Other comprehensive income before taxes	**67,762**	**−18,133**
Income taxes relating to components of other comprehensive income	−20,432	5,660
Other comprehensive income	**47,330**	**−12,473**
Other comprehensive income attributable to non-controlling interests	−1,028	660
Other comprehensive income excluding non-controlling interests	**46,302**	**−11,813**

(12) EARNINGS PER SHARE

Earnings per share in the income statement are calculated by dividing the profit for the period excluding non-controlling interests by the average number of shares. GASAG has only issued ordinary shares.

This figure could be diluted by potential shares (above all, stock options and convertible bonds). The Group has neither issued nor has any plans to issue potential shares in the form of stock options or convertible bonds.

		2016	2015
Profit or loss for the period excluding non-controlling interests	€ k	46,653	39,706
Number of shares outstanding (weighted average)	Thousands of units	8,100	8,100
Earnings per share (GASAG Group)	€	5.76	4.90
Dividends to owners	€ k	7,751 [1]	35,721 [2]
Dividend per share of GASAG	€	0.96 [1]	4.41 [2]

[1] Proposed

[2] Paid out in 2016

7 NOTES TO THE BALANCE SHEET

(13) INTANGIBLE ASSETS

Intangible assets developed as follows in fiscal years 2015 and 2016:

In € k	Goodwill	Acquired intangible assets	Internally generated intangible assets	TOTAL
Cost				
As of Jan. 1, 2015	155,848	108,188	7,701	271,737
Additions	0	3,616	0	3,616
Disposals	0	6,668	0	6,668
As of Dec. 31, 2015	155,848	105,136	7,701	268,685
Amortization and impairment				
As of Jan. 1, 2015	1,500	59,215	7,664	68,379
Additions	0	9,383	23	9,406
Disposals	0	6,368	0	6,368
As of Dec. 31, 2015	1,500	62,230	7,687	71,417
Residual carrying amounts as of Dec. 31, 2015	**154,348**	**42,906**	**14**	**197,268**
Cost				
As of Jan. 1, 2016	155,848	105,136	7,701	268,685
Changes to the consolidated group	1,713	33	0	1,746
Additions	0	3,244	0	3,244
Disposals	0	2,373	0	2,373
As of Dec. 31, 2016	157,561	106,040	7,701	271,302
Amortization and impairment				
As of Jan. 1, 2016	1,500	62,230	7,687	71,417
Additions	0	6,953	14	6,967
Disposals	0	2,331	0	2,331
As of Dec. 31, 2016	1,500	66,852	7,701	76,053
Residual carrying amounts as of Dec. 31, 2016	**156,061**	**39,188**	**0**	**195,249**

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

In € k	DEC. 31, 2016	Dec. 31, 2015
EMB Energie Mark Brandenburg	120,180	120,180
SpreeGas	28,808	28,808
GASAG Contracting	4,901	4,901
Provedo GmbH	1,703	0
Other	469	459
	156,061	**154,348**

The impairment test showed that no impairment is required on goodwill.

Acquired intangible assets mainly include customer bases of € 27,174k (prior year: € 29,157k). This item also includes the conversion allowances and incentive subsidies of € 415k (prior year: € 638k) granted to special contract customers and software of € 10,954k (prior year: € 12,103k).

The additions mainly relate to software and granted conversion allowances / incentive subsidies. The latter were derecognized at the end of the period they were granted for.

Apart from conversion allowances and incentive subsidies, disposals are predominantly composed of software systems which are no longer used and have already been amortized in full.

Software of € 1,357k (prior year: € 2,276k) is not yet ready for operation.

Restrictions on title or disposal in the form of land charges or collateral assignments only exist to a very limited extent.

(14) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment developed as follows in 2015 and 2016:

In € k	Procurement, production and distribution facilities	Land and buildings	Other property, plant and equipment	TOTAL
Cost				
As of Jan. 1, 2015	2,828,677	59,376	21,617	2,909,670
Additions	86,044	3,878	3,702	93,624
Disposals	14,883	459	3,086	18,428
Reclassifications	−162	9	1	−152 [1]
As of Dec. 31, 2015	2,899,676	62,804	22,234	2,984,714
Depreciation and impairment				
As of Jan. 1, 2015	1,399,018	23,988	16,530	1,439,536
Additions	74,110	1,749	1,915	77,774
Disposals	11,891	362	3,018	15,271
Reclassifications	−23	7	−7	−23 [1]
As of Dec. 31, 2015	1,461,214	25,382	15,420	1,502,016
Residual carrying amounts as of Dec. 31, 2015	**1,438,462**	**37,422**	**6,814**	**1,482,698**
Cost				
As of Jan. 1, 2016	2,899,676	62,804	22,234	2,984,714
Changes to the consolidated group	17,897	664	106	18,667
Additions	106,860	932	1,594	109,386
Disposals	17,601	2,833	893	21,327
Reclassifications	−5,653	−570	0	−6,223 [2]
As of Dec. 31, 2016	3,001,179	60,997	23,041	3,085,217
Depreciation and impairment				
As of Jan. 1, 2016	1,461,214	25,382	15,420	1,502,016
Additions	147,315	1,702	1,987	151,004
Disposals	15,213	2,326	823	18,362
Reclassifications	−2,176	0	0	−2,176 [2]
As of Dec. 31, 2016	1,591,140	24,758	16,584	1,632,482
Residual carrying amounts as of Dec. 31, 2016	**1,410,039**	**36,239**	**6,457**	**1,452,735**

[1] Thereof reclassified to assets held for sale: € −158k (cost component) and € −23k (impairment loss)
Thereof transferred back from assets held for sale: € +6k (cost component)

[2] Thereof reclassified to assets held for sale: € −6,223k (cost component) and € −2,176k (impairment loss)

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 € 11,803k (prior year: € 10,701k).

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 € 2,218k (prior year: € 2,803k).

There are restoration obligations with a carrying amount of € 16,279k (prior year: € 5,461k) for the Berlin natural gas storage facility. The change on the prior year is chiefly attributable to the provision adjustment performed in accordance with IFRIC 1 and the recognition of an impairment loss for the Berlin natural gas storage facility.

The economic viability of storage operations has been deteriorating for several years due to the ongoing poor market situation and harsh energy policy situation. It is no longer economically sensible for the Group to continue its storage activities. On December 16, 2016, the supervisory board therefore approved the proposal to apply for decommissioning proceedings at the Brandenburg State Office for Mining, Geology and Raw Materials in 2017. Thus, an impairment loss of € 80,907k (prior year: € 11,622k) was recognized for the Berlin natural gas storage facility as of the balance sheet date. This amount does not include expected future revenue of € 41,694k from the extraction of base gas.

The additions mainly relate to the expansion of the gas distribution plants (replacement and new investments).

The disposals are chiefly attributable to the restoration of the gas transfer stations in Waltersdorf and Ketzin in connection with the construction of a new facility. In addition, they relate to the pipe and house connection network and to heat production facilities. The € 2,389k decrease in the carrying amount is primarily attributable to the sale of several heat production facilities and the restoration of a number of gas distribution plants due to replacement investments.

With regard to **land and buildings,** € 11,032k (prior year: € 11,327k) relates to land which is mainly recognized at historical carrying amounts. Provisions were set up in prior years for contaminated land at former gas production sites, which only had to be minimally adjusted in fiscal year 2016 (IFRIC 1).

Disposals chiefly relate to the restoration of buildings at the gas transfer stations in Waltersdorf and Ketzin and to the sale of the holiday camp in Ferch on lake Schwielowsee including the land used for the camp and the buildings situated thereon.

In addition, carrying amounts of € 258k (prior year: € 387k) relate to a finance lease.

Other property, plant and equipment principally includes equipment. IT hardware of € 1,047k (prior year: € 1,379k) is attributable to a finance lease and is secured by retention of title by the lessor.

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

Overall, property, plant and equipment includes assets under construction of € 46,560k (prior year: € 75,303k). These primarily comprise investments in gas distribution facilities, including feed-in and feed-back facilities for biomethane, and heat production facilities which are currently under construction.

(15) INVESTMENTS IN ASSOCIATES

Goodwill attributable to associates is not disclosed under intangible assets but rather as a component of the carrying amount of investments in associates pursuant to IAS 28.42.

As in the prior year, no goodwill attributable to associates was recognized in the fiscal year.

The following table shows summarized financial information about associates and joint ventures (calculated as 100 % shareholdings):

ASSOCIATES

In € k	DEC. 31, 2016	Dec. 31, 2015
Non-current assets	58,214	58,006
Current assets	11,034	11,711
Non-current liabilities	17,454	18,480
Current liabilities	27,854	29,259
Balance sheet total	69,248	69,717
Revenue	37,592	37,734
Profit for the period	381	574

JOINT VENTURES

In € k	DEC. 31, 2016	Dec. 31, 2015
Non-current assets	258	300
Current assets	66	151
Non-current liabilities	4	0
Current liabilities	13	54
Balance sheet total	324	451
Revenue	176	284
Profit for the period	32	54

(16) FINANCIAL ASSETS

NON-CURRENT FINANCIAL ASSETS

In € k	DEC. 31, 2016	Dec. 31, 2015
Other loans	3,355	3,548
Investments in unquoted equity instruments	11,642	11,202
Receivables from finance leases	5,735	3,957
Derivatives	6,970	1,204
	27,702	**19,911**
thereof classified as held for trading	3,477	1,204

Investments in unquoted equity instruments relate to entities included in the list of equity investments under other shareholdings. These are available-for-sale equity investments in unlisted entities. See (29) Reporting on Financial Instruments for details on valuation. The Group also concluded option contracts to buy or sell equity investments. These options had no significant market values as of the balance sheet date.

Non-current financial assets also include the non-current portion of **lease receivables** from leases classified as finance leases. GASAG Contracting GmbH is the lessor in the contracting projects. If substantially all the risks and rewards from the contracts concluded are transferred to the lessee, the leased asset is derecognized and a receivable in the amount of the net investment is reported. The following table shows the minimum lease payments as well as the reconciliation to the gross investment in the leases:

DEC. 31, 2016 In € k	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	UNEARNED FINANCE INCOME	GROSS INVESTMENT
Due in less than 1 year	609	873	1,482
Due in 1 to 5 years	2,410	2,433	4,843
Due after 5 years	3,325	1,527	4,852
	6,344	**4,833**	**11,177**

For comparison, the prior-year figures:

DEC. 31, 2015 In € k	Present value of minimum lease payments	Unearned finance income	Gross investment
Due in less than 1 year	424	590	1,014
Due in 1 to 5 years	1,904	1,611	3,515
Due after 5 years	2,053	1,009	3,062
	4,381	**3,210**	**7,591**

Information on derivatives is provided separately under note (29) Reporting on Financial Instruments.

CURRENT FINANCIAL ASSETS

In € k	DEC. 31, 2016	Dec. 31, 2015
Other loans	0	1
Receivables from finance leases	609	424
Derivatives	5,466	2,387
	6,075	**2,812**
thereof classified as held for trading	5,192	2,387

(17) DEFERRED TAXES (ASSETS AND LIABILITIES)

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

In € k		DEC. 31, 2016 DEFERRED TAX ASSETS	DEC. 31, 2016 DEFERRED TAX LIABILITIES	Dec. 31, 2015 Deferred tax assets	Dec. 31, 2015 Deferred tax liabilities
Intangible assets	(1)	2,238	8,386	89	9,210
Property, plant and equipment	(2)	2,887	66,283	14,113	44,759
Investments in associates		44	0	57	0
Financial assets	(3)	151	9,109	152	3,469
Inventories	(4)	133	2,428	135	4,360
Trade receivables and other receivables	(5)	3,369	82	3,314	19
Deferred income	(6)	4,063	2,103	3,534	2,423
Provisions	(7)	16,144	2,017	24,833	3,013
Financial liabilities	(8)	18,504	322	41,804	405
Trade payables and other liabilities		196	307	825	161
		47,729	**91,037**	**88,856**	**67,819**
Tax loss carryforwards	(9)	46,493		4,004	
		94,222	**91,037**	**92,860**	**67,819**

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

(1) The increase in deferred tax assets related to intangible assets is attributable to the recognition of goodwill for tax purposes in connection with the merger by accrual of Berliner Erdgasspeicher GmbH & Co. KG into Berliner Erdgasspeicher GmbH.

These deferred tax assets also include conversion allowances / investment subsidies recognized in accordance with IAS 38 and assets identified in business combinations recognized as prescribed by IFRS 3. In addition, valuation differences result from the useful lives applied, which generally cover a longer period under IFRSs.

(2) The major change in deferred tax assets and liabilities is chiefly attributable to the recognition of a write-down on the Berlin natural gas storage facility. A subsequent tax depreciation of the buildings on which a write-down had already been charged under IFRSs led to a decrease in deferred tax assets. Simultaneously, the storage facility carried under "plant" was also treated as fully written off, which caused the difference between the IFRS balance sheet and the tax accounts to widen and deferred tax liabilities to increase.

In addition, 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, derivatives are recognized at fair value in accordance with IAS 39.

(4) The working gas in GASAG's natural gas storage facilities is measured using the weighted average cost method; by contrast, in the tax base, the LIFO method is used.

(5) Deferred tax assets from trade receivables are attributable to the non-recognition of the collective impairment loss by the tax auditor.

(6) Deferred tax assets related to deferred income stem from the differences between IFRSs and tax accounting regarding the reversal of the special item for investment subsidies. The deferred tax liabilities are attributable to the special item with an equity portion recognized by SpreeGas GmbH for tax purposes.

(7) The decrease in deferred tax assets is mainly due to the recognition of tax provisions for restoration obligations arising in connection with the deterioration of the economic viability of the storage facility and to the reversal of accounting provisions for repayment claims, which were not matched by tax provisions in an equal amount.

Differences in provisions are also attributable to the different treatment of the pension provisions, the provisions for phased retirement arrangements and top-up contributions to the VBL. Indirect pension obligations (largely under the agreements on pensions for salaried employees and wage earners in the State of Berlin and top-up contributions to the VBL) are recognized in accordance with IFRSs. Furthermore, different actuarial inputs are used. The other non-current provisions (term of over 12 months) are discounted under IFRSs, in contrast to the treatment for tax purposes.

(8) The decrease in deferred taxes from financial liabilities is chiefly due to the reduction in negative fair values of derivatives.

(9) Pursuant to IAS 12, deferred taxes are recognized for tax loss carryforwards.

The increase in tax loss carryforwards is mainly attributable to the recognition of write-downs and provisions for follow-up expenses.

In the fiscal year, deferred taxes of € −15,005k (prior year: € −35,437k) were charged directly to equity.

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:

In € k	DEC. 31, 2016	Dec. 31, 2015
Corporate income tax (included solidarity surcharge)	186,739	12,133
Trade tax	124,730	14,804

Deferred taxes from unused tax loss carryforwards have been recognized to the extent that it is sufficiently probable that they will be realized.

(18) INVENTORIES

In € k	DEC. 31, 2016	Dec. 31, 2015
Raw materials, consumables and supplies	2,359	2,214
Merchandise	40,421	52,745
Work in process	1,051	2,090
Prepayments made	7	0
	43,838	**57,049**

Of the inventories disclosed under merchandise, € 40,395k relates to the working gas in the storage facilities (prior year: € 52,745k).

There is no restriction on the disposal of inventories, nor are there any other charges.

(19) INCOME TAX RECEIVABLES

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

(20) TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade and other receivables are non-interest-bearing receivables.

In € k	DEC. 31, 2016	Dec. 31, 2015
Trade receivables:	134,128	96,334
from gas supplies	97,858	71,559
from network access charges	20,288	11,849
from heat and electricity supplies	10,845	9,727
from other trade	5,137	3,199
Other receivables	**20,952**	**41,758**
	155,080	**138,092**

In addition to goods and services billed to customers, trade receivables include unbilled receivables from gas, heat and electricity supplies and network access charges of € 542,519k (prior year: € 519,769k), which were offset against the unbilled advance payments of € 449,953k (prior year: € 466,797k).

€ −746k (prior year: € 119k) of other receivables relates to VAT refund claims and € 11,828k (prior year: € 21,181k) to other taxes.

Overdue, unimpaired trade receivables break down as follows:

In € k	Carrying amount	Not due	Overdue by between 1 and 30 days	Overdue by between 30 and 60 days	Overdue by between 60 and 120 days	Overdue by between 120 and 360 days	Overdue by more than 360 days
Trade receivables before bad debt allowances as of Dec. 31, 2016	**148,650**	**111,667**	**9,813**	**2,911**	**999**	**7,784**	**15,476**
Bad debt allowances	**14,522**	**1,797**	**575**	**424**	**171**	**2,121**	**9,434**
Trade receivables as of Dec. 31, 2016	**134,128**	**109,870**	**9,238**	**2,487**	**828**	**5,663**	**6,042**
Trade receivables before bad debt allowances as of Dec. 31, 2015	111,346	69,609	12,471	3,967	2,287	8,452	14,560
Bad debt allowances	15,012	2,998	−333	379	213	2,064	9,691
Trade receivables as of Dec. 31, 2015	96,334	66,611	12,804	3,588	2,074	6,388	4,869

Billed trade receivables generally fall due within 16 days.

With respect to the overdue trade receivables that are not impaired, 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:

In € k	2016	2015
Bad debt allowances		
As of Jan. 1	15,682	18,210
Allocations (expenses for bad debt allowances)	641	993
Utilization	222	76
Reversal	1,579	3,445
As of Dec. 31	**14,522**	**15,682**

The total amount of the allocations of € 641k (prior year: € 993k) comprises allocations due to specific bad debt allowances of € 115k (prior year: € 760k) and flat-rate specific bad debt allowances of € 526k (prior year: € 233k). Reversals include reversals of specific bad debt allowances of € 500k (prior year: € 368k) and of flat-rate specific bad debt allowances of € 1,079k (prior year: € 3,077k).

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.

The following table shows expenses for the complete derecognition of receivables and income from the receipt of payments on receivables derecognized in the prior year:

In € k	2016	2015
Expenses for the complete derecognition of receivables	5,243	7,834
Income from the receipt of payments on receivables derecognized in the prior year	1,542	1,109

The ratio of expenses for the derecognition of trade receivables to bad debt allowances on trade receivables results from the special posting system used by the GASAG Group for flat-rate specific bad debt allowances, in which allowances made during the year are not charged against the flat-rate specific bad allowance but recognized directly as an expense. Receipts of payments on impaired receivables are disclosed in other operating income. The bad debt allowance on trade receivables is determined as of the reporting date as the balance of the allowance already recognized and the write-down requirement identified, with the corresponding amount being allocated or released. This posting system does not have any effect on earnings.

In fiscal year 2016, interest income of € 468k (prior year: € 392k) on derecognized or impaired receivables was recognized.

(21) CASH AND CASH EQUIVALENTS

In € k	DEC. 31, 2016	Dec. 31, 2015
Cash on hand / checks	76	104
Bank balances	18,364	19,159
Short-term deposits	49,300	62,300
	67,740	**81,563**

(22) ASSETS AND LIABILITIES HELD FOR SALE

SpreeGas and Versorgungsbetriebe Hoyerswerda GmbH, Hoyerswerda, are currently negotiating the sale of the gas pipes for the district of Geierswalde and the related gas pressure regulators. By selection decision of June 21, 2016, the municipality of Elsterheide awarded the new concession agreement to provide Geierswalde with gas to Versorgungsbetriebe Hoyerswerda GmbH. Gas meters installed in the network area at the extraction points of the network's end customers are sold by NBB. The assets were still owned by SpreeGas or NBB as of December 31, 2016; they are deemed highly likely to be sold in the following year.

EMB and Stadtwerke Hennigsdorf GmbH, Hennigsdorf (SWH), are currently negotiating the sale of the gas pipes for the district of Hennigsdorf and the related gas pressure regulators. In the town council meeting held on December 21, 2016, the town of Hennigsdorf resolved to award the easement of access agreement for the gas network to SWH. Gas meters installed in the network area at the extraction points of the network's end customers are sold by NBB. The assets were still owned by EMB or NBB as of December 31, 2016; they are deemed highly likely to be sold in the following year.

The assets held for sale of SpreeGas, NBB and EMB were classified as held for sale as of December 31, 2016.

With the exception of distribution facilities with a value of € 4k, all assets and liabilities classified as held for sale as of December 31, 2015 were sold in the course of fiscal year 2016. The facilities that are not yet sold will be transferred to the buyer in fiscal year 2017.

The composition of assets and liabilities held for sale is presented below:

In € k	DEC. 31, 2016	Dec. 31, 2015
Distribution facilities	4,051	134
Associates	0	247
Assets held for sale	**4,051**	**381**
Special item for investment subsidies in connection with assets held for sale	**1,311**	**96**

(23) EQUITY

The statement of changes in equity shows the breakdown and development of equity and non-controlling interests.

Subscribed Capital

Subscribed capital is divided into 8,100,000 no-par value bearer shares with a notional value of € 51.00. All shares have been issued and fully paid in. Subscribed capital has not changed since December 31, 2015 and amounts to € 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 ["Aktiengesetz": German Stock Corporation Act], 10 % of GASAG's capital stock may not be distributed from the legal reserve (restricted use). The remaining amount of € 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 hedges at fair value as well as remeasurements of defined benefit pension obligations.

Retained Earnings

Retained earnings include the profit for the period remaining after transfer to other retained earnings, other retained earnings and the reserve arising from the first-time application of IFRSs and undistributed profits from prior years. The reserves arising from the first-time application of IFRSs come to € 90,843k.

Non-Controlling Interests

Non-controlling interests represent third-party shareholdings in group entities. As of December 31, 2016, these non-controlling interests amounted to € 64,306k (prior year: € 60,345k) and related to the non-controlling interests held by Bio-Erdgas Neudorf GmbH, Groß Pankow, EMB, KKI–Kompetenzzentrum Kritische Infrastrukturen GmbH, Berlin, Stadtwerke Forst GmbH, Forst (Lausitz), SpreeGas and infrest - Infrastruktur eStrasse GmbH, Berlin.

The following table shows financial information on subsidiaries with significant non-controlling shareholders (presented before the elimination of intragroup transactions):

	EMB Energie Mark Brandenburg GmbH, Potsdam		SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	
In € k	2016	2015	2016	2015
Non-controlling interests in %	26.69013	26.69013	33.662	33.662
Attributable to non-controlling interests:				
Share in equity	38,906	36,317	21,233	21,233
Share in profit for the period	6,763	6,072	1,454	808
Key financial items of the subsidiaries:				
Dividend paid in the fiscal year	19,324	26,796	4,200	7,000
Assets	388,693	388,590	129,361	126,989
Liabilities	242,924	252,519	66,284	63,913
Revenue	271,525	295,105	67,581	66,848
Profit for the period	25,340	22,749	4,319	2,400
Other comprehensive income	3,682	–2,432	–119	–30
Total comprehensive income	**29,022**	**20,317**	**4,200**	**2,370**

(24) DEFERRED INCOME

Deferred income developed as follows in fiscal years 2015 and 2016:

In € k	Jan. 1, 2015	Allocations	Reversals	Reclassifications	Repayments	Dec. 31, 2015
Government grants	2,489	0	105	0	0	2,384
Investment grants	2,489	0	105	0	0	2,384
thereof short-term (< 1 year)						105
Grants from third parties	245,192	13,102	9,363	–96[1]	2	248,833
Building cost contributions / investment subsidies (pursuant to NDAV and concession agreements)	240,594	11,281	8,514	–96	2	243,263
thereof short-term (< 1 year)						8,409
Other investment subsidies	4,598	1,821	849	0	0	5,570
thereof short-term (< 1 year)						678
Total	**247,681**	**13,102**	**9,468**	**–96[1]**	**2**	**251,217**
thereof short-term (< 1 year)						9,192
thereof long-term (> 1 year)						242,025

[1] Reclassified to assets held for sale

In € k	Jan. 1, 2016	Alloca-tions	Reversals	Reclassifi-cations	Repay-ments	DEC. 31, 2016
Government grants	2,384	0	106	0	0	2,278
Investment grants	2,384	0	106	0	0	2,278
thereof short-term (< 1 year)						105
Grants from third parties	248,833	9,511	9,464	−1,311 [1]	1	247,568
Building cost contributions / investment subsidies (pursuant to NDAV and concession agreements)	243,263	8,655	8,647	−1,311	1	241,959
thereof short-term (< 1 year)						8,550
Other investment subsidies	5,570	856	817	0	0	5,609
thereof short-term (< 1 year)						678
Total	**251,217**	**9,511**	**9,570**	**−1,311 [1]**	**1**	**249,846**
thereof short-term (< 1 year)						9,333
thereof long-term (> 1 year)						240,513

[1] Reclassified to assets held for sale

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 investment grants available are from prior years.

The building cost contributions and investment subsidies are principally paid to finance investments in the distribution facilities.

(25) PROVISIONS

In € k	DEC. 31, 2016	Dec. 31, 2015
Non-current provisions		
Provisions for defined benefit plans	40,597	38,220
Other provisions	79,254	41,577
	119,851	**79,797**
Current provisions		
Provisions for defined benefit plans	1,375	2,536
Other provisions	69,155	74,719
	70,530	**77,255**
	190,381	**157,052**

Provisions for Defined Benefit and Defined Contribution 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 € 3,754k (prior year: € 3,632k) were made in the fiscal year and allocated to the reporting period.

According to IAS 19, the 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 belonging 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 plan. A provision was recognized for the top-up contributions payable 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 pension funds) 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 input parameters. The actuarial calculations of the benefit obligations and the result for the period were based on the following average inputs:

In %	2016	2015
Interest rate	1.4	2.0
Average future salary increase	2.0	2.0
Average future pension increase	1.0	1.0

The assumptions on mortality and the resulting life expectancy are based on the 2005G mortality tables published by Klaus Heubeck.

The following table shows a summary of defined benefit plans with and without plan assets.

In € k	DEC. 31, 2016	Dec. 31, 2015
Defined benefit plans without plan assets	37,048	31,952
Defined benefit plans with plan assets	4,924	8,804
Total defined benefit plans (netted)	**41,972**	**40,756**
Fair value of plan assets	7,683	7,622

The plan assets are insurance policies used to cover benefits. In 2016, the actual return on plan assets was € 215k (prior year: € −63k). 12 % of the plan assets (excluding German endowment insurance policies) comprise fund assets from external welfare funds (prior year: 12 %) and 89 % employer's pension liability insurance (prior year: 89 %). € 63k is expected to be paid into the plan assets in 2017.

The following table shows the development of the defined benefit obligation and the fair value of plan assets.

In € k	Present value of the defined benefit obligation	Fair value of plan assets	Defined benefit liability
Jan. 1, 2015	49,781	7,826	41,955
Pension costs recognized in profit or loss			
Current service cost	373		373
Interest expense / income	988	157	831
Subtotal recognized in profit or loss for the period	**1,361**	**157**	**1,204**
Benefits paid	−2,984	−217	−2,767
Remeasurement gains / losses recognized in other comprehensive income			
Return on plan assets		−220	220
Actuarial gains and losses due to changes in financial assumptions	0	0	0
Other changes in value	220	0	220
Subtotal recognized in other comprehensive income	**220**	**−220**	**440**
Employer’s contributions		76	−76
Dec. 31, 2015	**48,378**	**7,622**	**40,756**

In € k	PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	FAIR VALUE OF PLAN ASSETS	DEFINED BENEFIT LIABILITY
Jan. 1, 2016	48,378	7,622	40,756
Pension costs recognized in profit or loss			
Current service cost	296		296
Interest expense / income	960	152	808
Subtotal recognized in profit or loss for the period	**1,256**	**152**	**1,104**
Benefits paid	−2,877	−212	−2,665
Remeasurement gains / losses recognized in other comprehensive income			
Return on plan assets		0	0
Actuarial gains and losses due to changes in financial assumptions	−967	0	−967
Other changes in value	3,865	65	3,800
Subtotal recognized in other comprehensive income	**2,898**	**65**	**2,833**
Employer’s contributions		56	−56
Dec. 31, 2016	**49,655**	**7,683**	**41,972**

The following table shows a quantitative sensitivity analysis of the key assumptions as of Dec. 31, 2016:

		Changes in defined benefit obligations			
ASSUMPTIONS	CHANGE IN %	DEC. 31, 2016 IF THE ASSUMPTIONS INCREASE IN € k	DEC. 31, 2016 IF THE ASSUMPTIONS DECREASE IN € k	Dec. 31, 2015 if the assumptions increase in € k	Dec. 31, 2015 if the assumptions decrease in € k
Interest rate	1.0	−5,634	6,926	−5,178	6,333
Future salary increases	1.0	484	−434	501	−446
Future pension increases	1.0	5,646	−4,779	5,100	−4,344

The above sensitivity analysis uses a procedure whereby the effect of realistic changes in the key assumptions as of the end of the reporting period is extrapolated to the defined benefit obligation.

As of the end of the reporting period, the average term of the defined benefit obligation was 11 years (prior year: 11 years).

Payments of € 2,342k are expected to be made under defined benefit obligations within the next 12 months (prior year: € 2,536k).

Other Provisions

Provisions – Terms

	DEC. 31, 2016	Thereof residual term of		Dec. 31, 2015	Thereof residual term of	
In € k	TOTAL	≤ 1 YEAR	> 1 YEAR	Total	≤ 1 year	> 1 year
Other personnel provisions	13,864	337	13,527	16,358	4,231	12,127
Provisions for soil cleaning	7,522	7,522	0	7,514	7,514	0
Provisions for the restoration of facilities	70,167	9,854	60,313	25,060	798	24,262
Provisions for litigation	30,360	30,360	0	38,202	38,202	0
Other provisions	26,496	21,082	5,414	29,162	23,974	5,188
	148,409	**69,155**	**79,254**	**116,296**	**74,719**	**41,577**

Statement of Provisions

In € k	Jan. 1, 2016	With-drawal	Reversal	Allocation	Unwinding of the discount for changes in interest rates [1]	Change to the consolidat-ed group	DEC. 31, 2016
Other personnel provisions	16,358	−4,389	−1,461	2,743	613	0	13,864
Provisions for soil cleaning	7,514	−208	0	205	11	0	7,522
Provisions for the restoration of facilities	25,060	−83	−9,188	34,162	19,674	542	70,167
Provisions for litigation	38,202	−1,364	−9,585	3,107	0	0	30,360
Other provisions	29,162	−9,834	−3,469	10,568	69	0	26,496
	116,296	**−15,878**	**−23,703**	**50,785**	**20,367**	**542**	**148,409**

[1] Unwinding of the discount for provisions; interest effects due to the changes in interest rates and terms including the effects recognized without an effect on profit or loss in accordance with IFRIC 1

Other Personnel Provisions

Personnel provisions of € 13,864k (prior year: € 16,358k) primarily relate to obligations to pay top-up contributions to the VBL. These top-up 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 top-up contribution places considerable emphasis on the ratio between the participant's (employer) expenses for the supplementary pension scheme and its pension obligations. When measuring the provisions, recognition as a hardship case based on the implementation regulations in Art. 65 (5a) of the VBL's articles of incorporation was assumed. The VBL approved the use of hardship rules in prior years.

In fall 2015, the administrative board of the VBL decided to return the top-up contributions paid for the years 2013 to 2015. Furthermore, the rate for the top-up contribution payable was reduced from 2.00 % to 0.14 % of the assessment base relating to the contribution period from January 1, 2016 to December 31, 2022. The provision was partly reversed. The obligation to pay top-up contributions to the VBL is recognized at present value. The provisions were measured assuming an interest rate of 1.25 % (prior year: 2.06 %) and a term of 15 years (prior year: 16 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 inputs used for measuring these obligations are as follows:

In %	2016	2015
Interest rate	0.7	1.2
Average future salary increase	2.0	2.0
Average future pension increase	1.0	1.0

The expenses for phased retirement obligations are disclosed under the operating result and interest expenses relating to 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 € 6,312k (prior year: € 5,905k) transferred to the trustee must be managed by the trustee 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. The fair value of the plan assets of € 6,403k (prior year: € 5,995k) was netted with the obligations.

Provisions for Soil Cleaning

The provisions for cleaning contaminated land of € 7,522k (prior year: € 7,514k) 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.

The net changes in the interest rates and terms of the obligations led to an adjustment of the present value of the provisions for soil cleaning of € −123k (prior year: € 119k), € −90k (prior year: € −76k) thereof was recognized without an effect on profit or loss, in accordance with IFRIC 1.

Provisions for the Restoration of Facilities

Provisions for the restoration of facilities and the preservation of historic buildings and monuments of € 70,167k (prior year: € 25,060k) are mainly recognized due to public obligations.

The increase in the provision for the restoration of the Berlin natural gas storage facility is attributable to the initiation of decommissioning proceedings in 2017 and the related restoration obligation. Berliner Erdgasspeicher GmbH will submit a closure plan for approval to the Brandenburg State Office for Mining, Geology and Raw Materials as the competent authority in 2017. The public agencies concerned will participate in the proceedings. Decommissioning procedures will begin once the closure plan is approved.

The net changes in the interest rates and terms of the obligations led to an adjustment of the present value of the provisions for the restoration of facilities and the preservation of historic buildings and monuments of € 18,985k (prior year: € −1,206k), € 18,975k (prior year: € −910k) thereof was recognized without an effect on profit or loss, in accordance with IFRIC 1.

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

Provisions for Litigation

Energy and in particular gas provision is subject to a number of typical contractual risks. The legal situation has not been conclusively clarified regarding repayment claims by household customers due to past price adjustments and regarding the use of price adjustment clauses with reference to general terms and conditions. Provided any claims asserted were not dismissed as unfounded on the basis of the highest court rulings, provisions were recognized to cover the risks pertaining to potential subsequent claims from litigation.

Other Provisions

Other provisions relate to other legal or constructive obligations existing as of the balance sheet date as well as obligations from onerous contracts. In particular, they include provisions for compensation for easements pursuant to Sec. 9 GBBerG.

(26) FINANCIAL LIABILITIES

In € k	DEC. 31, 2016	Dec. 31, 2015
Liabilities to banks and borrower's note loans	541,424	590,578
thereof due in less than 1 year	61,759	65,835
thereof due in 1 to 5 years	297,517	304,004
thereof due in 1 to 2 years	59,964	59,017
thereof due in 2 to 3 years	59,870	59,081
thereof due in 3 to 4 years	127,801	58,987
thereof due in 4 to 5 years	49,882	126,919
thereof due after 5 years	182,148	220,739
thereof due in 5 to 6 years	136,732	49,004
thereof due in 6 to 7 years	11,512	135,850
thereof due after 7 years	33,904	35,885
Other financial liabilities	36,621	38,198
thereof due in less than 1 year	3,019	3,845
thereof due in 1 to 5 years	7,625	7,963
thereof due in 1 to 2 years	3,816	2,649
thereof due in 2 to 3 years	1,342	2,060
thereof due in 3 to 4 years	1,259	1,283
thereof due in 4 to 5 years	1,208	1,971
thereof due after 5 years	25,977	26,390
thereof due in 5 to 6 years	1,423	950
thereof due in 6 to 7 years	11,135	1,186
thereof due after 7 years	13,419	24,254
Derivatives	50,073	134,001
thereof due in less than 1 year	14,255	65,097
thereof due after 1 year	35,818	68,904
	628,118	**762,777**
thereof current	79,033	134,777
thereof non-current	549,085	628,000

Financial liabilities largely comprise liabilities to banks and liabilities from capital market transactions.

Other financial liabilities also include obligations from finance leases.

The interest rates of fixed-interest financial liabilities range between 1.34 % and 5.05 % (prior year: 2.0 % and 5.9 %).

87.6 % (prior year: 89.4 %) of liabilities to banks and, as in the prior year, 1.0 % of other financial liabilities accrue variable interest. The variable rate loans are largely secured by derivatives.

The following table shows the contractually agreed (undiscounted) cash flows relating to the primary financial liabilities and derivatives. All instruments held as of December 31, 2016 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, 2016.

			Thereof in the periods		
In € k	CARRYING AMOUNT DEC. 31, 2016	Cash flows Total	2017	2018 to 2021	2022 and thereafter
Financial liabilities to banks and borrower's note loans	−541,424	−572,181	−67,398	−318,209	−186,574
Other financial liabilities	−36,621	−48,485	−4,863	−11,482	−32,140
Derivative financial liabilities	−50,073	−170,689	−80,766	−87,520	−2,403
Derivative financial assets	12,436	−51,936	−39,795	−12,141	0

For comparison, the prior-year figures:

			Thereof in the periods		
In € k	Carrying amount Dec. 31, 2015	Cash flows Total	2016	2017 to 2020	2021 and thereafter
Financial liabilities to banks and borrower's note loans	−590,578	−630,733	−72,630	−330,772	−227,331
Other financial liabilities	−38,198	−51,520	−5,044	−12,869	−33,607
Derivative financial liabilities	−134,001	−290,052	−160,228	−125,983	−3,841
Derivative financial assets	3,591	−7,391	−5,391	−2,000	0

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

In € k	MINIMUM LEASE PAYMENT 2016	Minimum lease payment 2015	PRESENT VALUES AS OF DEC. 31, 2016	Present values as of Dec. 31, 2015
Due in less than 1 year	1,503	1,642	1,493	1,641
Due in 1 to 5 years	2,062	4,034	1,941	4,006
Due after 5 years	547	0	489	0
	4,112	**5,676**	**3,923**	**5,647**

Information on derivatives is provided separately under note (29) Reporting on Financial Instruments.

(27) TRADE PAYABLES AND OTHER LIABILITIES

		Thereof due in			Thereof due in	
In € k	DEC. 31, 2016	≤ 1 YEAR	> 1 YEAR	Dec. 31, 2015	≤ 1 year	> 1 year
Trade payables	88,820	88,820	0	89,058	89,058	0
Liabilities arising from the procurement of natural gas	50,043	50,043	0	52,080	52,080	0
Miscellaneous liabilities	38,777	38,777	0	36,978	36,978	0
Other liabilities	48,072	47,874	198	53,362	52,053	1,309
	136,892	**136,694**	**198**	**142,420**	**141,111**	**1,309**

Other liabilities chiefly comprise obligations of € 7,555k (prior year: € 9,270k) arising from payments to personnel due in 2016, tax liabilities of € 15,717k (prior year: € 10,701k), prepayments received of € 1,662k (prior year: € 1,788k), transitory deferred income of € 4,286k (prior year: € 5,140k) and debtors with credit balances of € 10,557k (prior year: € 17,323k).

(28) INCOME TAX LIABILITIES

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

8 OTHER NOTES

(29) REPORTING ON FINANCIAL INSTRUMENTS

Financial instruments include primary and derivative financial instruments.

On the assets side, primary financial instruments mainly comprise receivables and cash and cash equivalents. On the equity and liabilities side, primary financial instruments mainly include loans to banks, borrower’s note loans and trade payables.

The following table shows the carrying amounts, fair values and measurement categories of all the financial instruments disclosed in the consolidated financial statements.

In € k	Measurement category pursuant to IAS 39	Measured at [1]	CARRYING AMOUNT DEC. 31, 2016	FAIR VALUE DEC. 31, 2016	Carrying amount Dec. 31, 2015	Fair Value Dec. 31, 2015
Assets						
Financial assets			33,777	33,837	22,723	22,759
Other loans	lar	AC	3,355	3,415	3,549	3,585
Investments in unquoted equity instruments	afs	FVTOCI	11,642	11,642	11,202	11,202
Receivables from finance leases	–	–	6,344	6,344	4,381	4,381
Derivatives not designated as hedging instruments	fahft	FVTPL	8,669	8,669	3,591	3,591
Derivatives designated as hedging instruments	–	FVTOCI	3,767	3,767	0	0
Trade receivables and other assets			155,080	155,080	138,092	138,092
Trade receivables	lar	AC	134,128	134,128	96,334	96,334
Other assets	–	–	20,952	20,952	41,758	41,758
Cash and cash equivalents	lar	AC	67,740	67,740	81,563	81,563
Equity and liabilities						
Financial liabilities			628,119	634,894	762,777	794,439
Financial liabilities to banks and borrower's note loans	ofl	AC	541,424	544,331	590,578	613,137
Other financial liabilities	ofl	AC	36,621	40,489	38,198	47,301
Derivatives not designated as hedging instruments	flhft	FVTPL	38,882	38,882	69,130	69,130
Derivatives designated as hedging instruments	–	FVTOCI	11,192	11,192	64,871	64,871
Trade payables and other liabilities			136,892	136,892	142,420	142,420
Trade payables	ofl	AC	114,666	114,666	124,257	124,257
Other liabilities	–	–	22,226	22,226	18,163	18,163
Thereof aggregated according to the measurement categories						
Available-for-sale securities [afs]			11,642	11,642	11,202	11,202
Loans and receivables [lar]			205,223	205,283	181,446	181,482
Financial assets held for trading [fahft]			8,669	8,669	3,591	3,591
Financial liabilities held for trading [flhft]			38,882	38,882	69,130	69,130
Financial liabilities [ofl]			692,711	699,486	753,033	784,695

[1] Measured at:
AC – amortized cost
FVTOCI – fair value through other comprehensive income
FVTPL – fair value through 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 assets approximated their fair values as of the balance sheet date.

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.

In accordance with IFRS 13, the following hierarchy is used to determine and disclose the fair value of financial instruments:

Level 1: Fair values based on quoted prices in active markets.

Level 2: Fair values that are determined on the basis of valuation techniques which use inputs that have a significant effect on the recorded fair value and are based on observable market data.

Level 3: Fair values that are determined on the basis of valuation techniques which use inputs that have a significant effect on the recorded fair value and are not based on observable market data.

Financial assets and liabilities measured at fair value and the hierarchy level to which they are assigned in accordance with IFRS 13 are presented in the following table:

In € k	Measurement category pursuant to IAS 39	Measured at [1]	CARRYING AMOUNT DEC. 31, 2016	LEVEL 1	LEVEL 2	LEVEL 3
Assets						
Financial assets						
Investments in unquoted equity instruments	afs	FVTOCI	11,642	0	0	11,642
Derivatives not designated as hedging instruments	fahft	FVTPL	8,669	0	8,669	0
Derivatives designated as hedging instruments	–	FVTOCI	3,767	0	3,767	0
Equity and liabilities						
Financial liabilities						
Derivatives not designated as hedging instruments	flhft	FVTPL	38,882	0	38,882	0
Derivatives designated as hedging instruments	–	FVTOCI	11,192	0	11,192	0

[1] Measured at:
FVTOCI – fair value through other comprehensive income
FVTPL – fair value through profit or loss

In € k	Measurement category pursuant to IAS 39	Measured at[1]	Carrying amount Dec. 31, 2015	Level 1	Level 2	Level 3
Assets						
Financial assets						
Investments in unquoted equity instruments	afs	FVTOCI	11,202	0	0	11,202
Derivatives not designated as hedging instruments	fahft	FVTPL	3,591	0	3,591	0
Equity and liabilities						
Financial liabilities						
Derivatives not designated as hedging instruments	flhft	FVTPL	69,130	0	69,130	0
Derivatives designated as hedging instruments	–	FVTOCI	64,871	0	64,871	0

[1] Measured at:
FVTOCI – fair value through other comprehensive income
FVTPL – fair value through profit or loss

In fiscal year 2016, there were no reclassifications between fair value measurement at Level 1 and Level 2 and no reclassifications into or out of Level 3.

No fair values are readily available for the other equity investments disclosed as investments in unquoted equity instruments due to the lack of an active market. Their fair values are therefore determined using a valuation technique (capitalization of earnings method). The following table shows the significant unobservable inputs used in the capitalization of earnings method and their effects on the valuation of investments in unquoted equity instruments:

SIGNIFICANT OBSERVABLE INPUTS	Range	Effect of changes in the inputs on fair value (sensitivity analysis)
Terminal growth rate	0.5 %	A decrease in the growth rate of 0.5 percentage points would lead to a decrease of around € 0.5m in fair value. An increase in the growth factor is deemed unrealistic.
Return on sales (in relation to profit for the period)	10.0 %	An increase (decrease) in profit for the period of 10 percentage points would lead to an increase of around € 0.9m (decrease of around € 0.9m) in fair value.
Capitalization rate	6.56 %	An increase (decrease) in the capitalization rate of 1 percentage point would lead to a decrease of around € 2.0m (increase of around € 2.0m) in fair value.

The following table shows the changes in the other equity investments recognized as investments in unquoted equity instruments:

In € k	2016	2015
Jan. 1	11,202	11,198
Additions	440	4
Disposals	0	0
Dec. 31	**11,642**	**11,202**

NET RESULT BY MEASUREMENT CATEGORIES

In € k	2016	2015
Loans and receivables [lar]	1,207	819
Financial instruments held for trading [hft / fahft / flhft]	26,389	−10,768
Financial liabilities [ofl]	−25,431	−28,672

The net gains and net losses include interest income, interest expenses as well as valuation effects from interest derivatives, commodity swaps and other commodity derivatives not designated as part of a hedging relationship.

Derivative Financial Instruments and Hedging Relationships

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

In € k	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOMINAL VOLUME	Nominal volume by maturity < 1 YEAR	1 TO 5 YEARS	> 5 YEARS
Interest rate swaps in hedging relationships	0	−10,951	122,750	13,000	100,500	9,250
Interest rate swaps not in hedging relationships	0	−35,512	336,826	39,121	161,744	135,961
Commodity swaps in hedging relationships	11,233	−5,678	149,117	90,627	58,490	0
Commodity derivatives not in hedging relationships	10,985 [1]	−6,300	125,161	98,839	26,322	0
	22,218	**−58,441**	**733,854**	**241,587**	**347,056**	**145,211**

[1] Thereof volume flexibilities of € 1,562k derecognized with an effect on other comprehensive income

For comparison, the prior-year figures:

In € k	Positive fair value	Negative fair value	Nominal volume	Nominal volume by maturity < 1 year	1 to 5 years	> 5 years
Interest rate swaps in hedging relationships	0	−13,038	135,750	13,000	109,000	13,750
Interest rate swaps not in hedging relationships	0	−39,503	391,947	55,121	173,099	163,727
Commodity swaps in hedging relationships	0	−51,833	209,434	91,586	117,848	0
Commodity derivatives not in hedging relationships	3,591 [1]	−29,627	145,452	98,913	46,539	0
	3,591	**−134,001**	**882,583**	**258,620**	**446,486**	**177,477**

[1] Thereof volume flexibilities of € 1,248k derecognized with an effect on other comprehensive income

The interest rate swaps in hedging relationships shown were used for hedging cash flows of the existing variable rate hedged items. These are effective cash flow hedges. They are measured at fair value using the mark-to-market method, which 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. 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.

Interest rate swaps not in hedging relationships comprise swaps used as hedges which do not meet the requirements for hedge accounting as of the balance sheet date. The changes in the fair value of these hedges which were recognized in equity during the term of the effective hedging relationship, in other words, until December 31, 2014, are taken to profit or loss when the hedged cash flows occur. Since January 1, 2015, changes in the fair value of interest rate swaps not in hedging relationships have been recognized directly in profit or loss.

Commodity swaps are used to hedge price risks from gas procurement transactions. The commodity swaps in hedging relationships meet the requirements for hedge accounting pursuant to IAS 39 and are accounted for accordingly. In addition, they are expected to be highly effective.

Commodity derivatives not designated as part of a hedging relationship include procurement agreements that do not fall under the own use exemption, any flexibilities with regard to volume provided by such agreements, financial hedges and procurement transactions based on oil prices. Changes in value attributable to commodity derivatives which are not designated as part of a hedging relationship are recognized in profit or loss. If a financial asset is matched by a financial liability these items are released to other comprehensive income in the event of a contract modification or termination.

The analysis of risks due to price changes for commodity swaps in hedging relationships and commodity derivatives not designated as part of a hedging relationship is conducted using the mark-to-market method and available forward prices, supplemented, if necessary, by extrapolated prices. The future cash flows calculated are discounted over their remaining term using market interest rates. Optional components of existing procurement agreements are measured using statistical valuation models.

Counterparty credit risk is also taken into account when determining the fair value of derivative financial instruments. This risk is recorded for financial assets using a credit value adjustment, while the Group's own credit risk relating to financial liabilities is recognized using a debit value adjustment.

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 2022 to 2024.

Derivative financial instruments are subject to market netting agreements. They are traded on the basis of the framework agreement for financial futures and the EFET agreements (European Federation of Energy Traders). The table below shows the financial assets and financial liabilities which are offset pursuant to IAS 32 or netted under enforceable global netting agreements:

DEC. 31, 2016 In € k	GROSS AMOUNT	OFFSETTING	COLLATERAL	CARRYING AMOUNT	AMOUNT NOT OFFSET	NET AMOUNT
Derivatives (assets)	22,218	−8,148	−1,634	12,436	10,075	2,361
Derivatives (liabilities)	−58,441	8,148	220	−50,073	−50,018	−55

For comparison, the prior-year figures:

DEC. 31, 2015 In € k	Gross amount	Offsetting	Collateral	Carrying amount	Amount not offset	Net amount
Derivatives (assets)	3,751	–160	0	3,591	1,881	1,710
Derivatives (liabilities)	–134,421	160	260	–134,001	–131,345	–2,656

(30) ENERGY AND FINANCIAL RISK MANAGEMENT

Objectives and Policies

In the course of its business activities, GASAG is exposed to a number of risks arising from energy and financial transactions. GASAG minimizes these risks by applying systematic risk management and controlling processes, which are integral components of the energy procurement and finance business processes.

The internal guidelines govern the uniform group-wide trading, settlement and monitoring processes as well as uniform risk reporting. These risk management processes are designed to enable GASAG to identify risks at an early stage, to analyze them as a whole and to determine the resulting risk management measures to be incorporated into business policies.

Energy Price and Quantity Risk Management

The GASAG Group distinguishes between quantity and price risks. Quantity risks involve the potential loss that arises when purchase or delivery obligations cannot be met. The market price risk is defined as the risk of potential losses from open positions due to changes in the market prices for energy trade transactions. Quantity and market price risks can also arise in combination.

Risks due to price changes in sales and procurement transactions are reduced and innovative price offers are hedged using physical and financial forward contracts. In line with the risk strategy in place, risk positions between fixed and variable cash flows from sales and procurement transactions are generally hedged once they reach a certain maximum volume. Hence, GASAG has only a very small volume of positions which are not part of a hedging relationship. With respect to gas, risks arising due to changes in the value of unhedged positions from sales and procurement transactions are measured performing a scenario analysis based on a historical simulation, with a holding period of 14 days and a residual risk of 2.5 %. The risks attaching to an unhedged position of gas amounted to € 9k (prior year: € 59k) as of the balance sheet date. The risks existing with respect to electricity are measured according to the value-at-risk method, with a confidence interval of 95 % and a holding period of 25 days. On the basis of historical fluctuations in value, the value at risk for electricity positions amounted to € 26k (prior year: € 23k) as of the balance sheet date.

Market price risk in connection with financial commodity derivatives that are part of a hedging relationship relates to the risk that the value of the derivatives recognized directly in equity will fluctuate because of changes in market prices. On the basis of historical market price fluctuations for benchmark market prices, the commodity derivatives were revalued at the changed market prices. The market prices used were changed by parallel shifts ranging from 28 % for natural gas to 31 % for electricity. The potential risk from a reduction in equity was determined at € 28,643k (prior year: € 35,452k).

Financial commodity derivatives which are used for hedging purposes but do not qualify for hedge accounting are subject to an earnings risk arising from changed market prices. A risk potential of € 2,476k (prior year: € 7,577k) was determined for these derivative instruments on the basis of the above scenario analysis.

Physical forward contracts which do not fall under the own use exemption may be subject to an earnings risk arising from changes in market prices. The potential risk from a decrease in earnings was determined at € 12,645k (prior year: € 4,596k).

Given the flexibilities with regard to quantities in the procurement agreements under which GASAG is an option holder, there is a continued risk that changes in market prices will result in value losses for these options. The options are valued based on the volatility of market prices and the contractually agreed price indices. The potential risk from a decrease in earnings (taking into account the development of contractual quantities), determined using the scenario for fluctuations in commodity prices described above, amounted to € 5k (prior year: € 184k).

Trading activities linked to oil prices are subject to the risk of a divergence in oil and gas prices. Embedded derivatives are revalued on the basis of the standard deviations of historical market price fluctuations for benchmark market prices. The most unfavorable scenario for GASAG would be a combination of rising oil prices and falling gas prices. For this scenario, a shift in the respective future market rates of 9 % to 21 % for oil prices and 28 % to 31 % for gas prices is assumed, resulting in an earnings risk of € 1,144k (prior year: € 156k).

Management of Financial Risks

Financial risks for GASAG involve interest, currency and other risks from market price changes. These result from existing and planned financial transactions that are exposed to changes in market prices. Liquidity risks are also part of financial risk management.

GASAG and its affiliates use the same method for measuring risks for the purpose of comparing different risk positions. Derivative financial instruments are used to reduce exposure to market price risk.

Interest Rate Risk

There are interest rate risks for liabilities to banks, issued borrower’s note loans, other financial liabilities, interest rate swaps and receivables from banks.

In the case of interest-bearing financial instruments, changes in the relevant market interest rates can lead to fluctuations in the fair value or future cash flows of a financial instrument.

GASAG eliminates the risk of fluctuations in the future cash flows of interest-bearing liabilities by using derivative financial instruments. There were no significant liabilities accruing variable interest that were not part of a hedging relationship as of December 31, 2016.

Changes in the market interest rates for primary financial instruments with fixed interest only affect the result if such instruments are recognized at fair value. In this way, no financial instruments with fixed interest recognized at amortized cost in accordance with IAS 39 are subject to interest rate risk within the meaning of IFRS 7.

Interest rate risk in connection with interest rate derivatives that are part of an economic but not an accounting hedging relationship as of the balance sheet date relates to the risk that the value of the derivatives recognized with an effect on profit or loss will fluctuate because of changes in market interest rates. Changes in the value of hedging derivatives to which hedge accounting is applied, by contrast, are recognized directly in equity. On the basis of historical fluctuations in benchmark interest rates, the interest rate derivatives were revalued at the changed interest rates. The interest rates used were changed by a parallel shift of 55 basis points. Taking the future nominal volume of the interest rate derivatives into account, the potential risk from a decrease in the financial result amounts to € 5,564k (prior year: € 6,913k) and the potential risk from a reduction in equity to € 1,858k (prior year: € 2,623k).

Currency Risk

Almost all financial transactions are carried out in the currency of the respective group entities so there is no significant currency risk. As of the balance sheet date, there were no forward exchange contracts to hedge future transactions.

Liquidity Risk

The aim of liquidity management is to secure liquidity in the Group and at the individual entities of the GASAG Group at all times. GASAG is responsible for identifying, measuring and controlling liquidity positions in cooperation with the subsidiaries, with the aim of ensuring financial flexibility. Rolling 12-month liquidity plans are used for this purpose.

Counterparty Credit Risk

Counterparty credit risk relates to potential financial losses which may arise in connection with the non-fulfillment of contractual obligations by a counterparty.

The maximum theoretical credit risk of derivative transactions results from the sum of the positive fair values of all instruments which give rise to claims against counterparties. This risk is reduced for counterparties with which there are offsetting arrangements in place.

Credit risk in relation to energy and finance counterparties is managed using a uniform group-wide limit system. The limit of a counterparty is mainly calculated using external credit ratings, along with selected metrics. Changes in these parameters are continuously monitored as part of standardized risk management processes. In addition, potential credit risks are calculated using a Monte Carlo simulation, taking into account the probability of default of counterparties and corresponding risk positions. With a probability of 99 %, the potential damage will not exceed € 5m.

Capital Structure Management

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

In the GASAG Group, financial ratios relating to capital structure, financial strength and profitability are determined on the basis of the annual financial statements, long-term corporate planning and forecasts. The objective of strategic capital structure management is to optimize these financial ratios, while tactical capital structure management aims to ensure adherence to these financial ratios. The Group manages its capital structure and makes adjustments in response to changes in economic conditions. In order to optimize the capital structure, the Group can, among other things, alter its dividend payments to shareholders.

No changes were made to the objectives, policies and methods for capital structure management as of December 31, 2016 or December 31, 2015.

The Group's net financial position is presented below. It comprises cash and cash equivalents less financial liabilities.

In € M	2016	2015
Cash and cash equivalents	67.7	81.6
Sub-total current cash	**67.7**	**81.6**
Liabilities to banks	−541.4	−590.6
Other financial liabilities	−36.6	−38.2
Derivatives	−50.1	−134.0
Net financial position	**−560.4**	**−681.2**

(31) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities mainly relate to legal disputes and other risks amounting to € 38,989k (prior year: € 40,792k).

Other financial obligations are as follows as of the balance sheet date:

In € k	DEC. 31, 2016	Dec. 31, 2015
Biomethane or natural gas purchase commitments	248,486	1,025,994
Upstream network costs	76,787	123,282
Raw biomethane and substrate supply agreements	60,127	62,011
Purchase commitments	39,227	46,636
Rental and lease obligations	56,734	38,017
Electricity purchase commitments	29,082	16,788
Network lease	14,373	14,543
Miscellaneous	12,011	7,648
Other financial obligations	**536,827**	**1,334,919**

There are purchase commitments from long-term biomethane or natural gas supply agreements with take-or-pay clauses with various suppliers. The contracting parties can submit price adjustment requests at regular intervals (generally every three years). Taking the individual terms into account, this means that the nominal amount of financial obligations in the period to 2020 is € 333m. The purchase commitments as of December 31, 2016 presented in the above table are stated at the discounted amount.

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:

NOMINAL VALUE In € k	DEC. 31, 2016	Dec. 31, 2015
< 1 year	14,694	11,957
1 to 5 years	29,399	23,589
> 5 years	12,641	2,471
	56,734	**38,017**

There are no significant subleases.

The obligations under supply agreements for raw biomethane and substrates relate to the biomethane production facilities of GASAG Bio-Erdgas Schwedt GmbH, Schwedt, and Bio-Erdgas Neudorf.

The € 76,787k (prior year: € 123,282k) for upstream network costs resulted from short-term agreements in connection with the ordering of network capacities in upstream networks.

The following table shows a breakdown of the purchase commitments:

SHARE In %	DEC. 31, 2016	Dec. 31, 2015
Purchase commitments for property, plant and equipment	43.4	55.9
Purchase commitments for operational expenditure	49.2	37.2
Purchase commitments for long-term service agreements	6.7	5.2
Renewable resources	0.7	1.7
	100	**100**

(32) NOTES TO THE STATEMENT OF CASH FLOWS

Intangible Assets

The Group’s intangible assets include additions of € 4,990k (prior year: € 3,616k). Cash paid for intangible assets amounted to € −2,920k (prior year: € −3,616k).

Property, Plant and Equipment

The Group acquired property, plant and equipment worth € 66,667k (prior year: € 96,167k), € 118k of which (prior year: € 1,526k) was acquired through finance leases. Cash payments of € −66,549k (prior year: € −94,641k) were made to purchase property, plant and equipment.

Financial Assets

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

Cash and Cash Equivalents

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

In € k	DEC. 31, 2016	Dec. 31, 2015
Cash and cash equivalents	67,740	81,563
Cash and cash equivalents at the end of the period	**67,740**	**81,563**

Interest and Dividends Paid and Received

The cash flows from operating activities include interest received of € 2,818k (prior year: € 2,985k), interest paid of € 29,175k (prior year: € 35,163k) and dividends received of € 1,393k (prior year: € 1,032k).

The cash flows from financing activities include paid dividends of € 42,349k (prior year: € 40,487k).

(33) RELATED PARTIES

As of December 31, 2016, Vattenfall GmbH, Berlin (Vattenfall), and ENGIE Beteiligungs GmbH, Berlin (ENGIE), each held a 31.575 % interest in GASAG's capital stock. In addition, E.ON Beteiligungen GmbH, Düsseldorf, had a 36.85 % interest in GASAG. The parent of Vattenfall is Vattenfall AB, Stockholm, Sweden; the parent of E.ON Beteiligungen GmbH is E.ON SE, Düsseldorf, and that of ENGIE is ENGIE Deutschland AG, Berlin.

On June 24, 2015, Vattenfall and ENGIE (formerly GDF SUEZ) concluded a syndicate agreement, which was approved by the EU Commission on December 8, 2015. According to notifications submitted by the two syndicate members, they jointly hold a controlling interest in GASAG.

Related parties of the GASAG Group with which the Group concluded transactions in fiscal year 2016 include the shareholders of GASAG and the affiliates of Vattenfall AB, Stockholm, Sweden, ENGIE S.A., Paris, France, and E.ON SE, Düsseldorf.

The shareholders have a significant influence over the GASAG Group due to their shareholdings.

Transaction entered into with related parties led to the following disclosures in the financial statements:

	Revenue		Expenses		Assets		Liabilities	
In € k	2016	2015	2016	2015	DEC. 31, 2016	Dec. 31, 2015	DEC. 31, 2016	Dec. 31, 2015
Entities with significant influence	82,489	61,278	232,192	291,464	10,084	11,578	20,279	46,393
E.ON Group	12,792	8,273	109,537	224,300	1,638	1,149	689	15,869
Vattenfall Group	61,316	51,764	82,242	23,621	8,269	10,227	13,248	2,740
ENGIE Group	8,381	1,241	40,413	43,543	177	202	6,342	27,784
Associates of the GASAG Group	**13,673**	**10,685**	**5,660**	**6,695**	**711**	**1,775**	**212**	**1,799**

Transactions with the entities of the E.ON Group mainly relate to natural gas supplies received. Expenses principally comprise the cost of materials from gas procurement agreements.

The relationships between the entities of GASAG Group and the Vattenfall Group mainly relate to gas supplies. Revenue largely comprises income generated from natural gas supply agreements. The expenses primarily include the cost of materials from gas procurement agreements and hardware and software services.

Transactions with the entities of the ENGIE Group mainly relate to natural gas supplies received. Expenses principally comprise the cost of materials from gas procurement agreements.

Assets and liabilities relate to the outstanding balances in relation to the specified business relationships between the GASAG Group and related parties. € 10,084k (prior year: € 11,577k) of the assets relates to trade receivables from entities with significant influence and € 711k (prior year: € 1,775k) to trade receivables from associates. € 20,279k (prior year: € 46,393k) of the liabilities relates to trade payables to entities with significant influence and € 212k (prior year: € 1,797k) to trade payables to associates.

The associates are presented in the list of equity 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.

The members of the **supervisory board** in fiscal year 2016 were:

Dr. Lothar Kramm	(Chairman of the supervisory board) Business consultant, Berlin
Andreas Otte	(Deputy chairman of the supervisory board) Employee (chairman of the works council) at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin
Ingo Breite	Employee at BAS Abrechnungsservice GmbH & Co. KG, Berlin
Stefan Dohler	Chief Financial Officer of Vattenfall AB, Stockholm
Georg Friedrichs	General manager of Vattenfall Europe Windkraft GmbH, Hamburg
Marian Goetz (until March 18, 2016)	Member of the management board of ENGIE Deutschland AG, Berlin
Thomas Henn (since July 1, 2016)	Commercial manager of the energy division and head of operations Renewable energies ENGIE Deutschland GmbH, Berlin
Gerhard Jochum (until June 30, 2016)	Business consultant, Berlin
Peter Kamin	Employee at NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin
Dr. Karl Kauermann	Chairman of the management board of K.M.T. Immobilien AG, Berlin
Dr. Thomas König	Member of the management of E.ON Deutschland / E.ON SE, Essen
Thomas Kokegei	Divisional head of GASAG Berliner Gaswerke Aktiengesellschaft, Berlin
Dr. Uwe Kolks	Member of the management of E.ON Energie Deutschland GmbH, Munich
Annette Krafscheck	Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin
Anke Langner (until February 29, 2016)	Executive director of Enovos Deutschland SE, Saarbrücken

Thorsten Neumann	Employee at NBB Netzgesellschaft Berlin-Brandenburg mbH & Co.KG, Berlin
Manfred Schmitz (since March 15, 2016)	Chairman of the management board of ENGIE Deutschland AG, Berlin
Can Sekertekin	Employee at GASAG Berliner Gaswerke Aktiengesellschaft, Berlin
Marcus Sohns (since March 15, 2016)	Head of Strategic Alliances at ENGIE Deutschland AG, Berlin
Norbert Speckmann (since March 19, 2016)	Head of the energy services division of ENGIE Deutschland AG, Bochum
Susanne Stumpenhusen	District head of ver.di, Vereinte Dienstleistungsgewerkschaft, District of Berlin-Brandenburg, Berlin
Andreas Tabor	Employee at BAS Abrechnungsservice GmbH & Co. KG, Berlin
Lutz Wegner	Head of legal distribution, sales & heat Germany at Vattenfall GmbH, Berlin
Ewald Woste	Business consultant, Gmund am Tegernsee

Management Board

At the beginning of fiscal year 2016, the management board was structured into the following divisions:

Division I (chairwoman):

Vera Gäde-Butzlaff — Business development, legal affairs (included committee management), communication (included marketing communication), personnel, property management, occupational health and safety, compliance, end-to-end customer solutions, IT, internal audit and data protection

Division II (trading and distribution):

Energy procurement / trade, distribution, contracting, renewable energies, customer service and energy billing

Division III (commercial functions and networks):

Dr. Jürgen Schmidberger — Accounting, financial control, finance, procurement, risk management, metering, natural gas storage facilities and networks

As the general manager in charge of distribution had resigned effective December 31, 2015, Division II (trading and distribution) and the IT division (formerly Division I) were reallocated by the remaining members of the management board on a temporary basis as follows, taking into account the original allocation of functions:

Division I (chairwoman):

Vera Gäde-Butzlaff	Distribution, renewable energies, contracting, customer service and energy billing.

Division III (commercial functions and networks):

Dr. Jürgen Schmidberger	Energy procurement / trade and IT.

The supervisory board appointed Mr. Matthias Trunk as an additional member of the management board of GASAG Berliner Gaswerke Aktiengesellschaft with effect from September 1, 2016. Mr. Matthias Trunk assumed responsibility for Division II (trading and distribution) in the respective management board structure. As a result, the members of the management board are now again in charge of the divisions originally allocated to them.

Following the admission of a new member to the management board and the pertaining organizational changes, the management board functions were reorganized effective October 7, 2016 and the wording regarding the allocation of functions was adjusted to correspond to the description of the divisions of GASAG Berliner Gaswerke Aktiengesellschaft, resulting in the following divisions:

Division I (chairwoman):

Vera Gäde-Butzlaff	Business development, management board office and strategic management, investment management; personnel (included occupational safety and health) and legal affairs, group communications incl. marketing, compliance, networks

Division II (distribution):

Matthias Trunk (since September 1, 2016)	Distribution, energy procurement, energy services (included contracting and metering), renewable energies, customer service, IT

Division III (finance):

Dr. Jürgen Schmidberger	Accounting, financial control (included financing), procurement, group risk management; internal audit and data protection, property management and natural gas storage facilities

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.

Overall, the members of the management board received remuneration as follows:

In € k	2016	2015
Fixed remuneration	745	925
Variable remuneration	411	512
	1,156	**1,437**

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

In fiscal year 2016, 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.

In fiscal year 2016, former members of the management board and their surviving dependents received € 809k (prior year: € 1,510k). As of the balance sheet date, provisions of € 16,392k (prior year: € 15,228k) were recognized for obligations to former members of the management board and their surviving dependents. Employer's pension liability insurance of € 6,563k (prior year: € 6,538k) was disclosed netted with the obligations to current and former members of the management board or their surviving dependents.

Supervisory board members' expenses of € 175k (prior year: € 156k) were reimbursed. The employee representatives on the supervisory board who are salaried employees also receive a regular salary in accordance with their employee contracts. Their salary is based on the provisions of the German Works Constitution Act ["Betriebsverfassungsgesetz": BetrVG] and reflects appropriate remuneration for the corresponding function or activity within the Company. This applies accordingly to the representatives of the executives on the supervisory board.

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

(34) DISCLOSURE OF CONCESSIONS

In the lawsuit concerning the award of a new gas network concession, the Regional Court of Berlin ruled on December 9, 2014 that the State of Berlin was not permitted to enter into a gas concession agreement with the State's own company Berlin Energie or a company resulting from the conversion of the State's own company Berlin Energie. No decision has yet been announced in the main proceedings of the appellate proceedings at the Berlin Court of Appeal. In August 2015, however, the Court of Appeal rejected the application for third-party invention made by the State's own company Berlin Energie due to its lack of capacity to be a party to legal proceedings. This decision of the Court of Appeal was confirmed by the Federal Court of Justice in a ruling dated October 18, 2016. The Federal Cartel Office is a party to the aforementioned proceedings at the Court of Appeal. In fall 2016, GASAG and the State of Berlin concluded a new interim agreement limited until December 31, 2017. GASAG and NBB extended the validity of their concession offers also until December 31, 2017 for the time being.

(35) OTHER DISCLOSURES

Auditor's Fees

The auditor's fees reported as expenses break down as follows:

In € k	2016	2015
Audit	672	763
Other audit-related services	31	33
Tax advisory services	9	23
Other services	63	69
Total	**775**	**888**

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 Group's net assets, financial position or results of operations and which would need to be included in this report and 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. However, due to residual risks and uncertainties, the management board is unable to give any assurance that these assumptions will prove to be correct collectively or individually.

Berlin, February 17, 2017

GASAG
Berliner Gaswerke Aktiengesellschaft
The Management Board

V. Gäde-Butzlaff | Jürgen Schmidberger | M. Trunk

Vera Gäde-Butzlaff | Dr. Jürgen Schmidberger | Matthias Trunk

AUDIT OPINION

We have audited the consolidated financial statements prepared by GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with 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 and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of 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, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, February 27, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Diederichs	Ottenhus
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

IMPRINT

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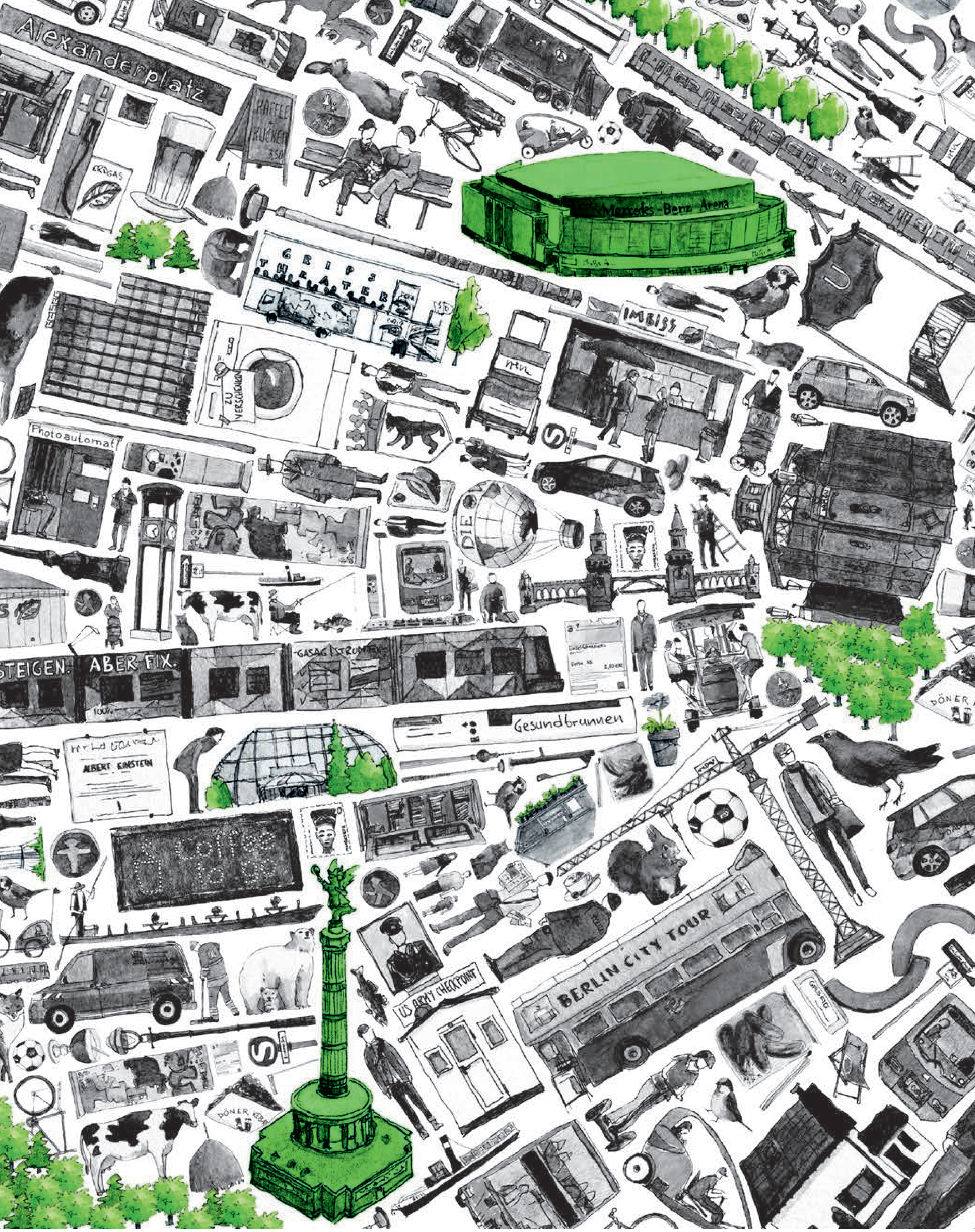
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