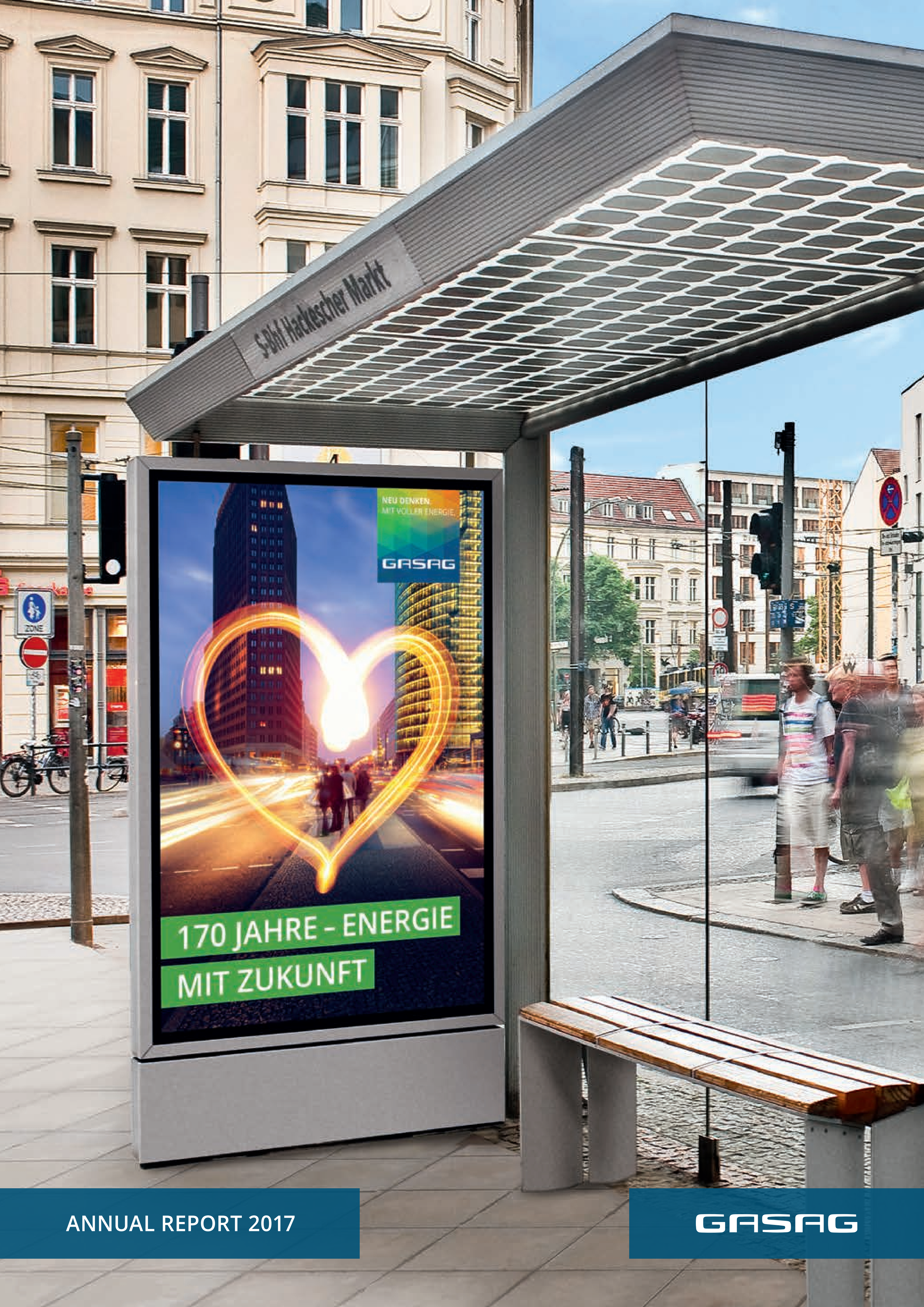

ANNUAL REPORT 2017

KPIS
OF THE GASAG GROUP

FOR THE ANNUAL REPORT

	UNIT	2017	2016	2015
Revenue	**€ m**	**1,105**	**1,167**	**1,055**
thereof gas	€ m	731	857	804
thereof electricity	€ m	147	96	65
Gas sales	**GWh**	**18,352**	**19,202**	**18,686**
Electricity sales	**kWh m**	**1,036**	**549**	**333**
Cost of materials	**€ m**	**723**	**734**	**728**
Technical figures for gas				
Length of pipe system	km	13,995	13,923	13,860
High pressure	km	2,963	2,949	2,940
Supply network [1]	km	11,031	10,974	10,920
House connection pipes	units	340,262	335,759	331,391
Installed gas meters	units	784,997	788,902	793,589
Personnel				
Employees as of Dec. 31	no.	1,632	1,566	1,533
EBIT	**€ m**	**155**	**205**	**113**
EBITDA	**€ m**	**236**	**280** [2]	**200**
Profit or loss for the period	**€ m**	**35**	**57**	**44**
Balance sheet total	**€ m**	**2,010**	**2,074**	**2,092**
Non-current assets	€ m	1,761	1,781	1,802
Equity	€ m	792	757	695
Equity ratio	%	39	36	33
Earnings per share	**€**	**3.27**	**5.76**	**4.90**
Assets				
Investments	€ m	113	144	100
Amortization and depreciation	€ m	81	75	87
Cash flows from operating activities	**€ m**	**160**	**157**	**101**

[1] The supply network comprises medium and low-pressure lines
[2] Adopted acc. IFRS 5

GROUP MANAGEMENT REPORT OF GASAG

GROUP MANAGEMENT REPORT

of GASAG AG, Berlin, for Fiscal Year 2017

GASAG AG, 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. 315e (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 meter-reading services and consumption-billing, 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 and the generation of renewable energies.

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. Weather conditions are also another key factor affecting the financial performance (previously results of operations) of some companies of the GASAG Group.

GASAG AG, Berlin (GASAG) steers the GASAG Group.

This includes its strategic focus and ongoing development, financial management, the optimization of its procurement portfolios and opportunity and risk management. Additionally, in connection with the shared services function, GASAG's service units carry out commercial and other services for companies in the GASAG Group. This includes in particular services in the functions of accounting, taxes, financial control, cash management, energy trading, procurement of other goods and services, HR, legal and real estate management as well as marketing.

As a service unit and billing service provider, BAS Kundenservice GmbH & Co. KG, Berlin (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. GASAG Solution Plus GmbH, Berlin (GSP), provides metering services as well as meter management and operates smart metering systems and energy management systems for improving energy efficiency.

The GASAG Group companies shown in the following table carry out the key activities in the business areas **distribution (D), networks (N), energy services (ES)** and **production (P).**

DISTRIBUTION (D) **NETWORKS (N)** **ENERGY SERVICES (ES)** **PRODUCTION (P)**

GASAG AG, Berlin	**NBB** Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin	**EMB** Energie Mark Brandenburg GmbH, Potsdam	**SpreeGas** Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus
GSP GASAG Solutions Plus GmbH, Berlin	**Stadtwerke Forst** GmbH, Forst (Lausitz)	**NFL** Netzgesellschaft Forst (Lausitz) mbH & Co. KG, Forst (Lausitz)	**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	**SP** Diverse Solar Project GmbH & Co. KGs, Cottbus	**Geo-En** Energy Technologies GmbH, Berlin
CG Netz-Werk GmbH, Berlin	**G2Plus** GmbH, Berlin	**Bioenergie Rhinow** GmbH, Rhinow	

1.2 STRATEGIES, TARGETS AND MEASURES

In 2017, we continued to pursue our strategic focus as an energy service provider. The aim is to further optimize the core business of the GASAG Group, consisting of distribution and network activities. The production of renewable energies is set to be expanded to the extent permitted under current and future framework conditions. We aim to expand the energy services in the standardized product business and more complex project business. The core business thus remains the basis for achieving our objectives and ensuring the financing of investments and innovations.

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. The GASAG Group backs ideas from the startup scene for innovative business solutions. For this reason, GASAG offers its support as an industry partner to, for example, the StartGreen Award and the Accelerator Program A² in Berlin-Adlershof and has begun cooperation with Berlin-based mobility startup companies.

In the course of the digitalization 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. As the smart energy flagship of the capital city, the EUREF campus in Berlin-Schöneberg – on the former GASAG gas works site – has made a name for itself, 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. GASAG Group companies supply the location not only with energy but also launched the first power-to-heat / power-to-cool system in Germany in October 2017. Thus the GASAG Group's innovative energy management policy relies on sector coupling and system integration of renewable energies in a future-oriented manner. Furthermore, the future relocation to the EUREF campus is in line with the concentration of our competencies in an innovative environment.

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

In 2017, the focus was again on digitalizing 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. Profitable growth remains a central component of the sales strategy.

In addition, according to the 12th green electricity survey conducted by the professional magazine Energie & Management (E&M), GASAG is one of the green electricity distributors in Germany exhibiting the strongest growth. Green electricity distribution has now become an important cornerstone of the Company.

Based on our experience with the marketing of green electricity, we launched a new electricity offering in 2017 that will support Berlin's energy supply in an even more sustainable manner. Our "regional electricity" fosters not only a sustainable lifestyle but also underscores our regional focus. The electricity produced from renewable sources is generated directly in Berlin and Brandenburg.

Thanks to its expertise where major cities are concerned, GASAG was able to win over the cities of Berlin and Hamburg once again in the tenders for natural gas contracts by offering competitive prices and customer-oriented service. We currently supply all three city states (Berlin, Hamburg and Bremen).

The maintenance and expansion of our **networks** for the gas and electricity business and the related high level of investment continue to be strategically important. For the purpose of implementing an information security management system in accordance with DIN ISO / IEC 27001 (ISMS), which focuses on NBB as the operator of the critical infrastructure, a project was commenced last year that was successfully completed at the end of 2017 following the presentation of the initial certification. With this additional certification, NBB and NFL have demonstrated the secure operation of the networks (electricity and gas) and corresponding processing of information.

Key aspects of our strategy in the network business remain network expansion, modernization, maintenance and compression measures that strengthen the market position of natural gas as an energy source. The availability of specialist service providers for pipeline construction and maintenance is a key criterion in this regard. The ongoing investment boom in pipeline construction in Berlin and the general shortage of skilled workers have heightened competition for these resources across all sectors. Against this backdrop, GASAG decided in 2017 to bump up its 19 % stake in the pipeline construction company BEGA.tec GmbH to 100 % again in 2018.

Since the beginning of February 2017, infrest's pipeline information portal, eStrasse, has been available throughout Germany. Around 2,000 network operators from various sectors including electricity, gas, district heating, telecommunications as well as water and sewage are listed in the portal together with their areas of responsibility and can be contacted through the portal regarding information on pipelines. The Construction Site Atlas is promoted across Germany for network operators and municipalities to coordinate construction sites.

In the fast-growing **energy services** business, our aim is to be successful as a provider of solutions in standard and complex project business both in Berlin-Brandenburg and in other conurbations. In order to bring the internal organization into line with the requirements of the growing market, we merged the energy services units of the GASAG Group (GASAG Contracting GmbH, Berlin, umetriq Metering Services GmbH, Berlin) and the area of innovative end-to-end customer solutions at GASAG into a new futureproof organization, GSP, in 2017. The merger is a prerequisite to be able to respond quickly and flexibly to market developments. Our product portfolio includes both traditional heating contracting business and innovative energy marketing concepts, such as our virtual power station EcoPool, as well as 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 makes its trading expertise available to external customers. Value-added solutions such as smart home applications, which we offer by way of our majority shareholding in Provedo, round off the energy services portfolio. With the acquisition of Geo-En, the GASAG Group's range of innovative and renewable solutions was expanded once again in 2017 through the targeted addition of expertise in energy supply plants for geothermal heating and cooling and environmental energy. Through our investment in G2Plus and together with the other investors of Gegenbauer Facility Management GmbH, Berlin, we are also focusing on meeting the complex energy consultation needs of our customers through our cooperations and extending our access to resources, expertise, new customers and regions.

Our diverse products and solutions can be combined to meet customer-specific requirements from a single source. Our strategic objective is to also be the energy and environmental protection partner for municipalities with this expertise. To this end, we will work on optimizing energy efficiency using renewable energies in the Mierendorff island quarter together with the district of Charlottenburg-Wilmersdorf. The 10-year cooperation is to serve as a beacon project for other quarters.

GASAG has been supporting green mobility and low-emission driving since the mid-1990s. With the lease offering for electric Smarts, set up in cooperation with Mercedes-Benz Leasing GmbH and Daimler AG in 2017, we are strengthening our commitment to electromobility and providing further impetus for eco mobility in Berlin. The offering is rounded off by a mobile electricity tariff developed by GASAG itself for refueling and, in cooperation with the Ubitricity start-up, the provision of special infrastructure for charging stations for private and business customers with their own parking spaces.

In Brandenburg, the GASAG Group is driving the energy transition with a regional focus: EMB initiated the first energy efficiency network of municipalities in its supply area in Brandenburg in 2017. Ten cities and municipalities have formed a municipal energy efficiency network (EMB-MEEN) in order to find solutions together for using less energy and helping to achieve the climate targets of the cities and municipalities in the next three years.

Our **production** activities remain strategically focused on expansion. The GASAG Group is committed to solar energy: it is investing in photovoltaic systems with outputs of up to 40 MW over the next two to three years in order to drive the energy transition with a regional focus. Moreover, we have acquired a biogas plant already in operation in Brandenburg and plan further investments in this area. We plan to invest in turnkey wind farms, collaborate on the development of wind farms and also exploit opportunities that arise from changes in the regulatory framework. Converting surplus green electricity into climate-neutral green gas could make a crucial contribution to the success of the energy transition in Germany. In a project initiated by the GASAG Group, the prospects of solving storage and transport problems in the electricity sector with power-to-gas systems are being investigated.

The multi-year transformation program called KundenPlusService launched two years ago by the BAS **service unit** made huge progress in terms of transparency, efficiency, flexibility and usability in 2017 with the implementation of the online customer portal and the company’s relocation. The new office premises support agile working and are promoting the successful restructuring of the company.

1.3 ENVIRONMENT AND TECHNOLOGY

In 2017, the GASAG Group continued to contribute towards achieving the climate protection targets with its natural gas and renewable energy sources of wind, photovoltaics and biogas, 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 two million 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, we are on our way to achieving the climate protection targets.

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.

NBB's existing quality and environmental management system was successfully recertified. In 2017, NBB established an environmental program which pursues the following objectives, among others: reducing SO_2 emissions through odorants, reducing specific vehicle fleet coefficients, reducing paper consumption and waste, reducing the energy consumption of technical systems and office buildings.

1.3.1 WIND POWER

The wind turbines operated south of Berlin have a total output of 7.5 MW, allowing 21.5 million kWh of electricity to be produced annually. Up to 15,000 households can be supplied and around 11,300mt CO_2 saved thanks to this volume.

1.3.2 PHOTOVOLTAICS

GASAG operates a large ground-mounted photovoltaic 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 2017. With a total output of almost 2 MW, the system can supply some 1,400 households with environmentally-friendly electricity. The ground-mounted photovoltaic systems set up and operated by SpreeGas in the south of Brandenburg in 2017 have an output of 16.3 MW, saving more than 8,700mt of CO_2.

1.3.3 RENEWABLE GAS

The biogas plants of Bio-Erdgas Schwedt in Schwedt and of Bio-Erdgas Neudorf in Gross Pankow generate biomethane for municipalities, private customers and operators of block-type thermal power stations (BTTP) and feed it into the natural gas network.

The BTTPs operated in Schwedt generate electricity from biogas for external marketing purposes.

The raw biomethane produced by Bioenergie Rhinow is used in two BTTP modules. The heat generated is mainly passed through a local heating pipeline to a boiler house that supplies several residential properties and a municipal building (sports hall) with regenerative heating.

1.3.4 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 and air pollution targets. The GASAG Group operates 18 public natural gas stations in Berlin and Brandenburg, mostly in partnership with oil companies. Overall, around 30.4 million kWh of natural gas was sold at these natural gas stations in 2017 (prior year: 33.4 million kWh). Natural gas produces almost no fine particulates and considerably less NOx and CO_2 than conventional fuels.

1.3.5 ENERGY EFFICIENCY

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, fuel cells and biomethane solutions – in particular in relation to the requirements of the German Energy Conservation Regulation ["Energieeinsparverordnung": EnEV] – also attracted interest on the market.

In Forst, Stadtwerke Forst fuels the district heating with biomethane by using CHP systems. Over 50 % of the district heating is rated with a primary energy factor of zero and can be called green district heating. The CO_2 savings came to 7,300mt in 2017.

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 2017. As in prior years, economic development was shaped by consistently lively consumer demand from private households and buoyant construction activity. According to a forecast by the ifo Institute for Economic Research ["ifo Institut für Wirtschaftsforschung": ifo], real gross domestic product (GDP) rose by 2.3 % in 2017. Further GDP growth of 2.6 % is expected for 2018.

Berlin continues to see a high level of economic momentum. In 2017, economic growth came to 2.5 % according to Investitionsbank Berlin (IBB). The economic survey conducted by the Chamber of Industry and Commerce ["Industrie- und Handelskammer:" IHK] in fall 2017 for Berlin showed that the business climate index remains at a high level of 142 points (prior year: 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 2017. At year-end, consumption was 0.8 % higher than in the prior year and was mainly attributable to the positive economic development.

Consumption of natural gas rose by a considerable 5.2 % year on year in Germany. The main reason for the rise was the increased use of natural gas at power stations for electricity and heat generation as well as by industry.

Due to a lack of energy supply to power stations, the GASAG Group was only able to benefit from this positive market trend to a limited extent. The GASAG Group shared in the positive development in energy consumption for products in the electricity sector thanks to its strong competitive situation compared with the gas sector.

2.2 ENERGY POLICY, LEGAL AND ECONOMIC FRAMEWORK

Continuing to top the energy-policy agenda in 2017 were the ambitious climate protection targets of the European Union, which were announced at the UN Climate Change Conference in Bonn in November, as well as those of the Federal Republic of Germany. Besides expanding renewable energies, increasing energy efficiency is also gaining importance as a key field of activity in terms of the energy transition.

The specific impact of the laws listed below on the individual Group entities is examined separately and their relevance for the GASAG Group analyzed.

2.2.1 NATIONAL LEGISLATION

German Combined Heat and Power Act

The prerequisite for the granting of approval for subsidies by the EU Commission was the introduction of tenders for combined heat and power subsidies (["KWK-Ausschreibungsverordnung": Combined Heat and Power Tender Regulation, KWKAusV]) for new or modernized systems with an output of between 1 MW and 50 MW from late 2017 / early 2018. With the effectiveness of the corresponding amendments to the German Combined Heat and Power Act ["Kraft-Wärme-Kopplungsgesetz": KWKG 2016] as of January 1, 2007, an important step was taken in creating legal and investment certainty for operators of CHP systems such as the GASAG Group.

In the area of renewable energy, it was resolved that a limited number of joint bids would be made for on-shore wind turbines and solar installations between 2018 and 2020 in order to try out tenders for multiple energy sources. It will be decided whether multi-source tenders will be continued after 2020 following the test phase. The corresponding regulations came into force on August 18, 2017.

German Renewable Energy Act

From January 1, 2018 until further notice, all CHP systems in self-supply commissioned since August 1, 2014 will have to pay the full levy under the German Renewable Energy Act ["Erneuerbare-Energien-Gesetz": EEG] and not just the 40 % previously announced. This reduces the economic viability of block-type thermal power stations that the GASAG Group sets up under leases for mainly commercial and industrial customers. New subsidy arrangements in line with the EU provisions are due to be issued in 2018 to ensure the economic viability of CHP systems.

German Law for the Promotion of Tenant Electricity

The law came into force in July 2017 and the EU Commission approved the subsidy arrangements in November 2017. Thus there is currently nothing to stop the promotion of electricity supplied directly to tenants from solar installations on residential buildings. Major changes for the GASAG Group arise from the extended definition of a building under the law, according to which tenant electricity can also be used in residential buildings in the direct vicinity such that tenant electricity models will be able to be integrated into district concepts in the future. The subsidy is limited to an installed output from solar installations of up to 500 MW per year.

German Law on the Modernization of Network Charges

The law on the modernization of network charges ["Netzentgeltmodernisierungsgesetz": NeMoG], which came into force as amended in July 2017, also sets forth provisions from which distributed CHP systems, such as those operated by the GASAG Group, will continue to benefit. In this regard, controllable production facilities – in contrast to volatile systems such as photovoltaic systems and wind turbines – will be grandfathered and will continue to enjoy the avoided network access charges privilege, which will gradually be reduced for volatile systems in 2018 and 2019 and abolished from 2020. Facilities with volatile production commissioned after January 1, 2018 will no longer receive avoided network access charges; the cut-off date for new controllable facilities is not until January 1, 2023.

Energy Efficiency Green Paper Consultation Results and Electricity 2030 Discussion Paper

The consultation results of the Energy Efficiency Green Paper and the Electricity 2030 Discussion Paper, which were presented by the Federal Ministry for Economic Affairs and Energy in June 2017, confirm the approach presented in both papers for promoting energy efficiency and the increased use of renewable electricity across sectors. While the energy transition previously focused on the electricity market, the heating market is now playing an increasingly important role with regard to the integrated development of the energy system of the future (sector coupling). In a next step, the recommended action identified in the consultation process will be incorporated into a white paper. The current discussion at federal level regarding the extent to which new alternative technologies can be used for a successful energy transition in addition to the proposed sector coupling with renewable electricity is ongoing. Given the storage and transport problems faced by the electricity sector in particular, the GASAG Group sees major opportunities in the future expansion of power-to-gas as production and consumption can occur independently of one another using existing gas storage and pipeline infrastructure.

Amendment to the German Energy Tax Act and German Electricity Tax Act

The European Commission has yet to approve the amendment to the energy and electricity tax act, which was ratified in August 2017 and came into force as of January 1, 2018, under subsidy rules. Fortunately, the abolition of the electricity tax exemption discussed in the legislative process for cases where operating aid such as CHP surcharges or exemptions from levies under the German Renewable Energy Act have already been granted, did not make it into the legal text. Thus the electricity tax exemption also continues to apply for the distributed power plants up to 2 MW operated by the GASAG Group.

German Building Energy Law

At the start of 2017, the German Federal Government announced a plan to combine the German Energy Conservation Act ["Energieeinsparungsgesetz": EnEG], the German Energy Conservation Regulation ["Energieeinsparverordnung": EnEV] and the German Act on the Promotion of Renewable Energies in the Heat Sector ["Erneuerbare-Energien-Wärmegesetz": EEWärmeG] in a new Building Energy Act ["Gebäudeenergiegesetz": GEG]. There is a draft by the Federal Ministry for Economic Affairs and Energy and the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety. No decision has been made to date. Effective climate protection could be achieved with long-term planning certainty in building energy law. According to the Energy Efficiency Green Paper and the German Climate Action Plan 2050, the largest CO_2 savings in percentage terms are to be made in the building sector until 2030. This suggests rising demand for smart energy supply concepts, which include tenant electricity models and district energy concepts with highly efficient CHP systems, as developed and marketed by the GASAG Group.

German Law on the Digitalization of the Energy Transition

The Law on the Digitalization of the Energy Transition ["Gesetz zur Digitalisierung der Energiewende": GDEW] and the new Law on the Operation of Metering Points ["Messstellenbetriebsgesetz": MsbG] contain extensive provisions on the marketing and use of smart metering systems, modern measuring systems and smart meter gateways in the electricity network. Through this framework, the legislator is providing new stimuli for competition in electricity metering point operation and is opening up new opportunities for the GASAG Group as major target Groups for sales, such as the housing sector or trade / retail / industry, will get to grips with introducing smart metering given the normative framework that has been set.

2.2.2 LEGISLATION IN BERLIN

Amendment to the Energy Transition Act for Berlin

The Energy Transition Act for Berlin ["Berliner Energiewendegesetz": EWG Bln], adopted by the last government in 2016, was amended in 2017. The House of Representatives in Berlin approved the changes in October 2017. This saw an agreement on the end to coal-fired power generation for Berlin, with the phasing out of the burning of lignite by the end of 2017 and black coal by the end of 2030. The new version gives the Senate the option to legally prescribe obligatory network connection and use, including to the local and district heating networks in connection with new builds, with exceptions and appropriate transitional arrangements for existing heat supply facilities.

Amendment to the Berlin Energy and Climate Protection program

In June 2017, the Berlin Energy and Climate Protection Program 2030 (BEC) was resolved by the Senate and updated at year-end. A key change is the inclusion of nine adjustment measures for the changed climatic conditions in Berlin. Approval by the House of Representatives is now needed for the adjustment measures and more than 100 climate protection measures to be implemented.

As a long-standing climate protection partner of the state, both the BEC and the Energy Transition Act for Berlin will provide key opportunities for GASAG, for example in the implementation of the development of 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 DISTRIBUTION

Gas Sales

At 10.1°C, the annual average temperature for Berlin in fiscal year 2017 was 0.1°C lower than in the prior year (10.2°C). As a result, heating degree values were up 0.7 % 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 22,684.9 million kWh, the Group's gas sales to end customers and redistributors (including trading) were down 4.1 % year on year which was largely attributable to losses of standard load profile (SLP) customers in 2016.

Electricity Sales

In fiscal year 2017, electricity sales increased considerably from 549.2 million kWh in the prior year to 1,036.0 million kWh. The increase is mainly due to customer wins.

2.3.2 NETWORKS

Gas Transportation

The transport volumes in the gas network increased by 6.6 % year on year to 42,950.8 million kWh. This rise is mainly due to the conversion of Berlin’s last major power plant from lignite to natural gas.

Electricity Transportation

The transport volumes in Forst’s electricity network increased by 0.6 % year on year to 53.5 million kWh.

2.3.3 ENERGY SERVICES

Heating Sales

The GASAG Group’s heating sales in 2017 rose by 6.8 million kWh to 417.5 million kWh.

Electricity Production From Contracting Facilities

The volumes of electricity produced in the Group from contracting facilities were down on the prior year at 57.4 million kWh (prior year: 66.0 million kWh).

2.3.4 PRODUCTION

Feed-in of biomethane

The feed-in volume of biomethane was on a par with the prior-year level at 122.2 million kWh (prior year: 123.0 million kWh).

At Bio-Erdgas Schwedt, the feed-in volume rose to 64.3 million kWh compared with the prior-year volume of 63.7 million kWh. Bio-Erdgas Neudorf fed in 57.9 million kWh of biomethane (prior year: 59.3 million kWh).

In addition, Bio-Erdgas Schwedt produced 16.2 million kWh of electricity (prior year: 17.0 million kWh).

Wind Power

Total output of the three wind turbines is 7.5 MW. Annual electricity production is 20.5 million kWh.

Photovoltaics

With fewer hours of sunlight this year compared with 2016, the photovoltaic systems operated by GASAG in Berlin-Mariendorf (output: 1.9 MWp) and by Stadtwerke Forst (output: 0.07 MWp) produced electricity of 1.9 million kWh (prior year: 1.9 million kWh). This was fed into the electricity network or used by Stadtwerke Forst itself. The volume of electricity fed in by SpreeGas from the photovoltaic systems (16.3 MWp) in operation since 2017 comes to 5.9 million kWh.

2.3.5 DECOMMISSIONING OF THE BERLIN NATURAL GAS STORAGE FACILITY

In December 2016 the decision was made to decommission the Berlin natural gas storage facility. The commercialization of storage capacities ended on April 1, 2017. The closure plan will be submitted to the Brandenburg State Office for Mining, Geology and Raw Materials (Landesamt für Bergbau, Geologie und Rohstoffe Brandenburg: LBGR) in 2018.

Due to new insights from a revised report from 2017, the Berlin natural gas storage facility will not be decommissioned until 2025, which will give rise to an increase in provisions due to the two-year extension. Given the strong discrepancies between the estimate used for the measurement and the current realistic extraction, we no longer consider realistic the assumption made in 2016 that 60 % of the base gas recognized under non-current assets or 100 % of the working gas disclosed in inventories can be extracted. As a result, an impairment loss was charged on the base gas and a partial write-down was charged on the working gas as of December 31, 2017. The remaining natural gas will be extracted by means of technical measures within the next few years. The measures to be taken in this regard as well as the compensation agreements and the redundancy plan for Berliner Erdgasspeicher GmbH, Berlin, will push up provisions.

2.4 OWNERSHIP STRUCTURE

Significant changes in our ownership structure in 2017:

In February 2017, GASAG acquired 51 % of the shares in G2Plus GmbH, Berlin, from Gegenbauer Facility Management GmbH, Berlin, with a view to growth in energy services business.

In February 2017, GASAG acquired all of the shares in Geo-En Energy Technologies GmbH, Berlin, and has held 96 % since June 2017. This saw us integrate into our product portfolio the development, production and commercialization of geothermal air conditioning systems and energy supply systems on the basis of regenerative energy.

Over the course of 2017, SpreeGas acquired shares in the project companies SP V GmbH & Co. KG (80 %; PV Kahsel-Drieschnitz), Cottbus, SP VI GmbH & Co. KG (90 %; PV Gablenz), Cottbus, SP VII GmbH & Co. KG (90 %; PV Kostebrau), Cottbus, SP VIII GmbH & Co. KG (80 %; PV Sergen), Cottbus and SP IX GmbH & Co. KG (50 %; PV Laubsdorf), Cottbus. Involvement in regional ground-mounted photovoltaic projects is allowing us to tap growth potential in renewable energies.

In March 2017, GASAG, as the sole shareholder for each company, merged GASAG Contracting GmbH, Berlin, with umetriq Metering Service GmbH, Berlin. In the process, umetriq Metering Service GmbH, Berlin, was renamed GASAG Solution Plus GmbH.

In May 2017, GASAG Solution Plus GmbH, Berlin, together with CG Gruppe AG founded the joint venture CG Netz-Werk GmbH, Berlin. GASAG Solution Plus GmbH holds 25.1 % of the shares. We will enhance energy supply services and offerings through this joint venture.

Effective July 1, 2017, GASAG assigned its shares in Provedo GmbH, Leipzig, Geo-En Energy Technologies GmbH, Berlin, and G2Plus GmbH, Berlin, to GASAG Solution Plus GmbH, Berlin, by assignment agreement dated June 30, 2017.

In October 2017, EMB acquired all of the shares in Arnold-Blume Bioenergie GmbH, Rhinow, under a purchase and assignment agreement. By resolution of the shareholder meeting of November 29, 2017, the company was renamed Bioenergie Rhinow GmbH. This acquisition serves to further expand our stake in renewables.

Outlook for 2018:

On September 29, 2017, GASAG accepted an offer dated August 17, 2015 to conclude a share purchase and assignment agreement for 81 % of the shares in BEGA.tec GmbH, Berlin. The share acquisition is subject to the condition precedent of the return of the guarantees in accordance with the offer and the calculation of the purchase price by an independent third party as well as the timely payment of the purchase price.

In order to strengthen its production business, SpreeGas intends to acquire 50 % of the shares in SP X GmbH & Co. KG, Cottbus, and manage the company as its general partner.

Under the share purchase agreement dated December 9, 2016, Provedo Software GmbH, Leipzig, granted GASAG two purchase options for 90 %. The options may be exercised until March 31, 2018. We expect to step up and enhance our IT service offering through the acquisition of Provedo Software GmbH.

2.5 LEGAL ISSUES

2.5.1 CONCESSION AWARD PROCESS 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. Appellate proceedings are currently pending at the Berlin Court of Appeal. In fall 2017, GASAG and the State of Berlin concluded another interim agreement limited until December 31, 2018. GASAG and NBB extended the validity of their concession offers also until December 31, 2018.

2.5.2 CHANGE IN GASAG'S NAME

The change in name from GASAG Berliner Gaswerke Aktiengesellschaft to GASAG AG resolved by the shareholder meeting on December 16, 2016 was entered in the commercial register on May 29, 2017.

2.6 CORPORATE GOVERNANCE STATEMENT

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).

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

These targets were intended to be reached by June 30, 2017 (the first target date). With the exception of the target set for the supervisory board, the target quotas for women in management were reached and even exceeded by the first target date. Due to the departure of Mr. Stefan Dohler effective January 8, 2017, the shareholder meeting of GASAG followed the proposal made by the shareholder representatives and appointed Mr. Tuomo Hatakka to the supervisory board in December 2016, with the appointment taking effect as of January 9, 2017. The proportion of women on the supervisory board was 9.5 %, compared to 50.0 % on the management board, 23.1 % on the first level of management below the management board and 22.2 % on the second level below the management board.

For the second target date, June 30, 2022, the target for the first level of management below the management board was raised from >25 % to >30 % in 2017. After this modification, the targets for all the levels defined above are now set to >30 % for the 2022 target date.

3 ASSETS, LIABILITIES, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

3.1 FINANCIAL PERFORMANCE

The decommissioning of the Berlin natural gas storage facility resolved in the prior year and begun in the fiscal year constitutes a discontinued operation as defined by IFRS 5.32. The consolidated result must therefore be divided into continuing operations and discontinued operations in the consolidated statement of comprehensive income. The distinction between continuing and discontinued operations allows for a better evaluation of the Company.

Following the resolution adopted in late 2016 to decommission the Berlin natural gas storage facility, the financial performance for the prior year and the fiscal year were adjusted accordingly for the items relating to the ensuing discontinuation of the Berlin natural gas storage facility's operations.

Thus, the financial performance discussed in section 3.1.1 comprises only continuing operations.

3.1.1 RESULTS FROM CONTINUING OPERATIONS

Revenue fell by € 62.2m year on year to € 1,105.2m (prior year: € 1,167.4m). Of this, € 913.4m or 82.6 % (prior year: € 986.9m or 84.5 %) relates to natural gas, electricity and heat supply. The decrease in revenue from natural gas supplies to end customers is largely attributable to lower sales prices and volumes. The increase in revenue from electricity supplies reflects the increase in business scope.

Other operating income including the **change in inventories** of € 79.2m (prior year: € 50.2m) rose by € 29.0m (up 57.8 %), chiefly as a result of the reversal of provisions for litigation.

Cost of materials fell by € 7.6m to € 723.4m compared with the prior year (down 1.0 %). The decrease in expenses from gas procurement largely due to the lower prices contrasts with higher expenses from electricity procurement and from electricity network access charges owing to the increased scope of business. As the income from commodity derivatives recorded for the fiscal year was not comparable with the prior-year level, the cost of materials as a percentage of revenue (margin) rose to 65.5 % (prior year: 62.6 %).

Personnel expenses increased by € 3.9m to € 106.0m compared with the prior year (up 3.8 %). This is mainly a result of the expansion of the energy services business, which comprised the acquisition of several companies, and the reduction in leased staff coupled with an increase in permanent staff at BAS. The average number of employees (excluding employees in the release phase of phased retirement) was 1,558 compared with 1,506 in the prior year.

Amortization and depreciation rose by € 6.1m to € 81.1m (up 8.1 %). This increase is chiefly due to the impairment of goodwill for SpreeGas.

Other operating expenses rose by € 15.2m year on year to € 119.2m (prior year: € 104.0m). This represents an increase of 14.6 % which is mainly attributable to an intensification of sales activities, higher concession levies for electricity and the commissioning of IT services.

Taking the above factors into account, **profit from operations (EBIT)** was significantly lower than in the prior year at € 154.6m (prior year: € 205.5m).

The € 4.3m decrease in **finance costs** to € 26.3m (prior year: € 30.6m) is chiefly attributable to a reduction in interest on loans due to loan repayments.

The € 7.6m increase in the **other financial result** to € 4.0m (prior year: −€ 3.6m) is due to positive valuation effects of € 0.5m from interest derivatives (prior year: negative valuation effects of € 6.4m).

The **investment result** rose to € 1.3m in fiscal year 2017 (prior year: € 1.1m).

Income taxes decreased by € 9.1m year on year to € 44.5m (prior year: € 53.6m). The fall in income tax expense is chiefly attributable to the lower profit before taxes compared with the prior year.

The profit from **continuing operations** amounted to € 89.1m in fiscal year 2017, compared with € 118.8m in the prior year.

This contributed to **profit for the period** of € 35.0m for fiscal year 2017 (prior year: € 56.5m).

The **non-operating result** was € 31.2m (prior year: € 6.4m). Thereof, € 30.1m (prior year: € 16.8m) was included in the profit from operations (EBIT), mainly as a result of the reversal of provisions.

3.1.2 PROFIT OR LOSS FROM DISCONTINUED OPERATIONS

After applying IFRS 5, profit or loss from discontinued operations broke down as follows as of December 31, 2017:

A loss from **discontinued operations** was recorded amounting to −€ 54.2m (prior year: −€ 62.3m). Key expense items related to the decommissioning of the Berlin natural gas storage facility consisted of cost of materials of € 20.0m (prior year: € 2.6m), impairment losses (base gas) of € 41.7m (prior year: € 82.9m) and offsetting expense and income items from income taxes of −€ 23.4m (prior year: −€ 26.9m). Please see section 6, (11) Profit or Loss From Discontinued Operations, in the notes to the consolidated financial statements.

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.

Ten 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 more than 50 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 12-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 entities of the GASAG Group were in a position to meet their financial obligations at all times during the fiscal year.

3.2.3 STATEMENT OF CASH FLOWS

IN € M	2017	2016
Profit before income taxes from continuing operations	133.6	172.4
Profit or loss before income taxes from discontinued operations	−77.6	−89.2
Income taxes paid	−20.8	−28.8
Change in working capital	30.5	−12.6
Change in other items	**94.5**	**114.9**
Cash flows from operating activities	160.2	156.7
Cash flows from investing activities	−88.3	−62.1
Cash flows from financing activities	−82.1	−108.4
Cash and cash equivalents at the end of the period	**57.5**	**67.7**

At € 160.2m, the GASAG Group's **cash flows from operating activities** are slightly above the prior-year level (prior year: € 156.7m).

The positive change in working capital is chiefly based on the decrease in inventories and receivables by € 17.4m.

Cash flows from investing activities of −€ 88.3m (prior year: −€ 62.1m) chiefly comprise cash paid for replacement and expansion investments in gas distribution facilities.

Cash flows from financing activities of −€ 82.1m (prior year: −€ 108.4m) mainly include cash outflows of € 15.1m (prior year: outflow of € 42.3m) for dividend payments and outflows of € 73.6m (prior year: € 65.9m) for loan repayments.

The **cash and cash equivalents** comprise bank balances, cash on hand and short-term deposits.

3.2.4 NET FINANCIAL POSITION

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

IN € M	2017	2016
Cash and cash equivalents	57.5	67.7
Liabilities to banks	−478.2	−541.4
thereof due in less than 1 year	−68.4	−61.8
thereof due in 1 to 5 years	−366.7	−297.5
thereof due after 5 years	−43.1	−182.1
Other financial liabilities	−33.9	−36.6
thereof due in less than 1 year	−3.7	−3.0
thereof due in 1 to 5 years	−5.6	−7.6
thereof due after 5 years	−24.6	−26.0
Derivatives	−33.3	−50.1
thereof due in less than 1 year	−11.8	−14.3
thereof due in 1 to 5 years	−21.5	−35.8
Net financial position	**−487.9**	**−560.4**

86.2 % (prior year: 87.6 %) of liabilities to banks and 1.0 % (prior year: 1.0 %) of other financial liabilities accrue variable interest. The variable rate loans are mainly hedged against interest rate fluctuations by derivatives.

3.3 ASSETS AND LIABILITIES

The **non-current assets** (excluding deferred taxes) fell by € 15.4m to € 1,671.2m (prior year: € 1,686.6m).

Intangible assets decreased by € 3.8m to € 191.4m against the prior year (prior year: € 195.2m). This includes goodwill of € 152.2m (prior year: € 156.1m).

Investments in **property, plant and equipment** at the GASAG Group increased by € 13.6m to € 98.4m (excluding the restoration costs recognized under property, plant and equipment in connection with the decision to initiate decommissioning proceedings for the natural gas storage facility in Berlin). € 61.1m relates to investments in gas distribution facilities and € 16.9m to the construction of ground-mounted photovoltaic systems.

Inventories decreased by € 26.3m to € 17.5m (down 60.0 %).

Trade receivables and other receivables fell by € 8.6m to € 146.5m. At € 82.4m, receivables from gas supplies decreased by € 15.5m on the prior year.

Equity rose by € 35.2m to € 791.7m. With lower total assets (down € 63.9m), the equity ratio of the GASAG Group increased to 39.4 % (prior year: 36.5 %). In June 2017, GASAG's shareholders received a dividend of € 12.9m. Please see section 6, (12) Other Comprehensive Income, in the notes to the consolidated financial statements.

48.6 % of **intangible assets and property, plant and equipment** is covered by equity (prior year: 45.9 %).

The reduction in **non-current liabilities** (excluding deferred taxes) by € 89.8m to € 819.9m 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 € 305.0m, **current liabilities** were € 11.2m lower than in the prior year (prior year: € 316.2m), due primarily to a decrease in provisions and income tax liabilities that was partly offset by an increase in trade payables and other liabilities.

3.3.1 OVERALL PICTURE OF THE BUSINESS DEVELOPMENT AND THE ECONOMIC SITUATION

Temperatures in the sales regions of Berlin and Brandenburg in fiscal year 2017 were above the level of a normal year.

The GASAG Group's gas sales to end customers and redistributors were in line with the forecast for 2017, while electricity sales surpassed our expectations. Transport volumes in the gas network moderately exceeded the figure forecast for 2017. Revenue was on target. EBIT and the profit from continuing operations exceeded our forecast substantially. This was chiefly attributable to unexpected income from the reversal of provisions and the disposal of non-current assets. Moreover, the loss from discontinued operations was not included in the forecast such that profit for the period fell significantly short of the forecast.

Financial obligations that fell due in 2017 were covered at all times by the available cash flows, financial assets and existing borrowing facilities.

3.4 FINANCIAL PERFORMANCE INDICATORS

3.4.1 KEY MANAGEMENT INDICATORS

The main financial performance indicator for the GASAG Group is profit from operations (EBIT). In addition to EBIT, return on capital employed (ROCE) is an important financial performance indicator for the GASAG 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 2017, ROCE from continuing operations stood at 11.2 % (prior year: 14.6 %). The year-on-year decrease is mainly attributable to the positive impact on earnings resulting from marking to market in the prior year but not in the fiscal year, as well as to a decline in contribution margins recorded for the sales function in 2017.

Regular year-end forecasts are made for the individual entities and developments in the key performance indicators are monitored from the perspective of the individual entities, the business areas and the GASAG Group as a whole. This enables management to identify when indicators are deviating from targets during the year, to assess the impact on the Group's assets, liabilities, financial position and financial performance (previously net assets, financial position and results of operations), and to take and track appropriate countermeasures in good time. Opportunities and risks are factored into this assessment.

3.5 NON-FINANCIAL PERFORMANCE INDICATORS

3.5.1 EMPLOYEES

The GASAG Group extended its training program in 2017 to include the training of service professionals for dialog marketing. As all of the existing training courses and cooperative study programs are being continued, the number of trainees has increased again. In 2017, the Berlin IHK ["Industrie- und Handelskammer": Chamber of Commerce and Industry] recognized the excellent quality of training provided by the GASAG Group for the second time.

GASAG was recognized as a Leading Employer Germany in 2018 in the study performed by 3.works in cooperation with the publisher Zeitverlag. In addition, the GASAG Group achieved excellent rankings in the "Top Karrierechancen" (Top Career Opportunities) study commissioned by Focus, Focus Money and Deutschland Test in the following categories: Top career opportunities (general), Top career opportunities for IT specialists, Top career opportunities for engineers, and Top career opportunities for university graduates.

Our trainee program, which was recognized once again by Absolventa and the Ludwig-Maximilian University of Munich in 2017, was further enhanced. We also launched a new trainee program with eight trainees in October 2017. GASAG is 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.

To recognize the diversity of our workforce and of society as a whole, we launched our new diversity program “Mix it up! Be yourself.” in the GASAG Group on German Diversity Day. Diversity encompasses the six dimensions of age, gender, sexual orientation and identity, religion and beliefs, ethnic origin and disabilities. We continue to support refugees.

3.5.2 CUSTOMER SERVICE MANAGEMENT

The issue of service quality is a key priority for GASAG. Good customer service does not only increase customer satisfaction but also enhances customer retention. For this reason we regularly review whether we meet our customers’ expectations of modern customer service. As part of the annual GASAG Service Check, we assess the quality of telephone, written and personal communication by our customer care centers, identify potential for improvement and optimize our customer interfaces. We also conduct continuous follow-up surveys that give us a clear picture of customer satisfaction with our service offerings and thus put us in a position to quickly identify and please dissatisfied customers. In addition, we systematically analyze key customer service processes using the “customer journey” as an instrument and then compare these processes with the respective customer needs. This facilitates the targeted adjustment and enhancement of the individual areas of our customer service focus.

In 2017, GASAG succeeded in retaining its TÜV SÜD certificate for service quality for the tenth year running. Certification is awarded to companies with an organizational structure which serves customer needs in the best possible way as well as service-oriented processes and a professional complaints management function.

The expansion and improvement of digital service offerings was another key activity in 2017. With the relaunch of the online customer portal, now boasting new functions and a new design, GASAG is able to offer its customers a state-of-the-art digital customer experience. Both the business partner portal, which is designed for the special needs of key accounts, and the personalized MEINE GASAG [MY GASAG] service portal for private customers saw their functions expanded, adjusted and individualized for a greatly improved user experience. A new communication channel has been created with the new chat function, which is currently being tested, complementing the information provided on GASAG’s website and offering individual help.

3.5.3 CUSTOMER CENTER

The customer center’s service offering was enhanced in the fiscal year. Among other things, the new service offering in connection with the energy performance certificate underscores the role of the customer center as the central personal portal for all energy-related issues. Seminars with GASAG’s partners from the trade, guild and equipment manufacturing sectors were continued and expanded. Contract processing has been optimized allowing for faster conclusion of gas and electricity contracts at the customer center and, thanks to the new digital signing function, is virtually paperless.

3.5.4 GROUP COMPLAINTS MANAGEMENT

In Group complaints management, 2017 was shaped by activities to step up quality assurance and increase usage of information gleaned from complaints. This included analyses of sub-processes, which were then optimized and streamlined together with the specialist departments concerned in order to enable faster and more individual responses to complaints. Optimization potential was also regularly analyzed and identified to derive specific measures aimed at minimizing process errors and improving the ability to meet customer requirements.

4 SUBSEQUENT EVENTS

There were no significant events after the balance sheet date.

5 OPPORTUNITIES AND RISKS

The ongoing identification, assessment, monitoring 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: very low, low, medium, high and very high.

Potential opportunities in relation to the GASAG Group's assets, liabilities, financial position and financial performance 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
Material	Material adverse effect
Potentially dangerous	High and potentially permanent adverse effect
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. The long-term view covers the entire planning period, stretching beyond this timeframe in the case of strategic opportunities and risks.

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 which may put additional pressure on prices and margins as well as lead 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 ensuing volume risk in the gas segment is one of the business risks which the GASAG Group bears itself. The possibilities for hedging the risk by using energy and weather derivatives are regularly reviewed. 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 – also with a low probability of occurrence – 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

GASAG regularly pays a concession fee to the State of Berlin agreed with the latter. The State of Berlin is doubting the validity of the agreement in place and has sued GASAG for backpayments of the concession fee. With regard to the potential damage, this constitutes a material risk in the short term. The Berlin Regional Court rejected the claim made by the State of Berlin by judgment dated February 21, 2018. An appeal may be lodged against the judgment at the Berlin Court of Appeal. In GASAG's opinion, the Regional Court judgment confirms its position that the State of Berlin is not entitled to any backpayments.

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 December 2023. 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 a dangerous risk in the long term. 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

The decommissioning of the Berlin natural gas storage facility gives rise to opportunities and risks, particularly from the volume and market price risk in relation to the natural gas to be extracted as well as costs of restoration and follow-up maintenance. 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. There is a low 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, accompanied by systematic enhancement of the training concept. 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. Overall, these measures have led to higher risk awareness throughout the Group.

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

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

The political and economic environment in the energy sector is expected to remain challenging in 2018.

Our core business will continue to be dominated by intensive sales competition and the regulatory framework. In our network business, our focus for 2018 will remain on obtaining concessions and expanding our networks with a view to firmly establishing gas networks as sustainable elements of the energy transition in the regions served by us.

Regarding sales, our objective is to increase the customer base and sales volumes by continuing to pursue and permanently optimize our successful sales strategy. In addition, we will focus on developing new products with a regional scope, making processes more efficient and increasing service quality on an ongoing basis.

The expansion of our renewable energies portfolio is a cornerstone in the implementation of our strategy. The GASAG Group intends to increase its output from renewable energies in 2018.

To meet our growth target for the energy services business, we will continue to rely on cooperations and anorganic growth in 2018 in order to improve our access to resources, skills, new customers and new regions and be better equipped to satisfy complex customer needs.

The GASAG Group will continue to invest in selected digitalization activities in 2018, 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 2018, the average number of employees (excluding employees in the release phase of phased retirement) and personnel expenses are expected to increase moderately compared with the prior year. This is chiefly attributable to the planned integration of BEGA.tec GmbH in the GASAG Group in 2018.

6.3 INVESTMENTS

Our investments in the maintenance and expansion of our gas network in Berlin and our gas networks in Brandenburg are dependent on the terms of the concession agreement. We again expect a year-on-year increase in investments in 2018.

Planned investments in the energy services business, for contracting projects and for cross-media energy solutions through market and product expansions, as well as for wind and photovoltaic systems in the production business, are expected to be significantly higher than in 2017. The future investments are covered by a long-term financing strategy.

6.4 DISTRIBUTION

Gas Sales

In the forecast for fiscal year 2018, we assume long-term average temperature trends. We expect gas sales volumes to end customers and redistributors to be on a par with 2017 in 2018.

Electricity Sales

In our commodities business with electricity, we expect electricity sales to rise significantly in 2018 compared with 2017. This development is to arise from our increased marketing activities in line with our distribution strategy.

6.5 NETWORK BUSINESS

Gas Transportation

Assuming long-term average temperature trends are correct, we expect transport volumes in fiscal year 2018 to be on a par with 2017.

6.6 ENERGY SERVICES

Heating Sales

Activities in the energy services business area will result in higher investments in 2018. We expect heating sales in 2018 to be on a par with 2017.

6.7 DEVELOPMENT OF REVENUE AND EARNINGS

For 2018, we expect revenue to fall slightly compared with 2017 due to changes in the price of gas. Revenue from electricity sales is expected to increase strongly due to the growing scope of business.

We anticipate a significant year-on-year decrease in profit from operations (EBIT) for 2018. This development will be driven by other operating income which, as planned, is expected to be much lower than in 2017. The financial result is forecast to be on a par with 2017. Despite the expected sharp fall in profit from operations (EBIT) in 2018, we anticipate a strong increase in profit for the period due to the expected absence of a loss from discontinued operations.

Given broadly stable operating assets, we expect ROCE to reach around 7.5 % on the basis of the forecast EBIT.

Berlin, February 27, 2018

GASAG AG
The Management Board

Vera Gäde-Butzlaff | Michael Kamsteeg | Matthias Trunk

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES OF THE GASAG GROUP

FINANCIAL STATEMENTS
of the GASAG Group

BALANCE SHEET OF THE GASAG GROUP

in Accordance with IFRSs as of December 31, 2017

ASSETS

IN € K	NOTES NO.	Dec. 31, 2017	Dec. 31, 2016
A. Non-current assets			
1. Intangible assets	(14)	191,391	195,249
2. Property, plant and equipment	(15)	1,439,162	1,452,735
3. Investments in associates	(16)	12,205	10,901
4. Financial assets	(17)	28,434	27,702
5. Deferred taxes	(18)	89,841	94,222
		1,761,033	**1,780,809**
B. Current assets			
1. Inventories	(19)	17,542	43,838
2. Financial assets	(17)	11,016	6,075
3. Income tax receivables	(20)	16,121	15,987
4. Trade receivables and other receivables	(21)	146,494	155,080
5. Cash and cash equivalents	(22)	57,531	67,740
6. Assets held for sale	(23)	0	4,051
		248,704	**292,771**
		2,009,737	**2,073,580**

EQUITY AND LIABILITIES

IN € K	NOTES NO.	Dec. 31, 2017	Dec. 31, 2016
A. Equity	(24)		
1. Subscribed capital		413,100	413,100
2. Share premium		42,461	42,461
3. Reserve for unrealized gains or losses		−19,203	−33,812
4. Retained earnings		289,176	270,493
5. Non-controlling interests		66,173	64,306
		791,707	**756,548**
B. Non-current liabilities			
1. Deferred income	(25)	240,923	240,513
2. Provisions	(26)	117,420	119,851
3. Financial liabilities	(27)	461,358	549,085
4. Other liabilities	(28)	177	198
5. Deferred taxes	(18)	93,153	91,037
		913,031	**1,000,684**
C. Current liabilities			
1. Deferred income	(25)	9,586	9,333
2. Provisions	(26)	43,568	70,530
3. Financial liabilities	(27)	83,839	79,033
4. Income tax liabilities	(29)	10,648	19,447
5. Trade payables and other liabilities	(28)	157,358	136,694
6. Liabilities associated with assets held for sale	(23)	0	1,311
		304,999	**316,348**
		2,009,737	**2,073,580**

STATEMENT OF COMPREHENSIVE INCOME

of the GASAG Group in Accordance with IFRSs for the Period from January 1 to Dec. 31, 2017

INCOME STATEMENT

IN € K	NOTES NO.	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2016
1. Revenue	(1)	1,105,212	1,167,438
2. Change in inventories		264	−745
3. Other operating income	(2)	78,859	50,932
4. Cost of materials	(3)	723,403	730,988
5. Personnel expenses	(4)	106,014	102,131
6. Amortization and depreciation	(5)	81,120	75,023
7. Other operating expenses	(6)	119,193	104,024
8. Profit from operations		**154,605**	**205,459**
9. Share in profit or loss of associates	(7)	233	238
10. Profit from other equity investments	(7)	1,132	923
11. Finance costs	(8)	26,313	30,581
12. Other financial result	(9)	3,965	−3,607
13. Profit before taxes		**133,622**	**172,432**
14. Income taxes	(10)	44,478	53,585
15. Profit from continuing operations		**89,144**	**118,847**
16. Profit or loss from discontinued operations	(11)	−54,155	−62,310
17. Profit for the period		**34,989**	**56,537**
18. Non-controlling interests		8,495	9,884
19. Profit for the period attributable to non-controlling interests		**26,494**	**46,653**
20. Earnings per share (in €)	**(13)**	**3.27**	**5.76**

STATEMENT OF COMPREHENSIVE INCOME

IN € K	NOTES NO.	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2016
1. Profit for the period		34,989	56,537
2. Available-for-sale financial assets		1,947	440
3. Income tax effects		–308	–70
		1,639	**370**
4. Cash flow hedges		19,152	70,100
5. Income tax effects		–5,788	–21,198
		13,364	**48,902**
6. Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**15,003**	**49,272**
7. Actuarial profit or loss		435	–2,778
8. Income tax effects		–131	836
		304	**–1,942**
9. Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**304**	**–1,942**
10. Other comprehensive income	(12)	**15,307**	**47,330**
11. Total comprehensive income		**50,296**	**103,867**
12. Total comprehensive income attributable to non-controlling interests		9,193	10,912
13. Total comprehensive income excluding non-controlling interests		**41,103**	**92,955**

◁ BACK TO CONTENT

STATEMENT OF CHANGES IN EQUITY

of the GASAG Group in Accordance with IFRSs as of Dec. 31, 2017
See note (24)

IN € K	SUBSCRIBED CAPITAL	SHARE PREMIUM	RESERVE FOR UNREALIZED GAINS OR LOSSES
As of: Jan. 1, 2016	**413,100**	**42,461**	**−80,114**
Total comprehensive income	0	0	46,302
thereof profit for the period	0	0	0
thereof other comprehensive income pursuant to IAS 39	0	0	48,173
thereof other comprehensive income pursuant to IAS 19	0	0	−1,871
Dividend distribution to owners	0	0	0
Acquisition of subsidiaries	0	0	0
Acquisition / sale of non-controlling interests	0	0	0
As of: Dec. 31, 2016	**413,100**	**42,461**	**−33,812**
Total comprehensive income	0	0	14,609
thereof profit for the period	0	0	0
thereof other comprehensive income pursuant to IAS 39	0	0	14,323
thereof other comprehensive income pursuant to IAS 19	0	0	286
Dividend distribution to owners	0	0	0
Acquisition of subsidiaries	0	0	0
Acquisition / sale of non-controlling interests	0	0	0
As of: Dec. 31, 2017	**413,100**	**42,461**	**−19,203**

	TOTAL RETAINED EARNINGS	SUBTOTAL FOR THE GROUP	NON-CONTROLLING INTERESTS	Total
	259,561	**635,008**	**60,345**	**695,353**
	46,653	92,955	10,912	103,867
	46,653	46,653	9,884	56,537
	0	48,173	1,099	49,272
	0	−1,871	−71	−1,942
	−35,721	−35,721	−6,627	−42,348
	0	0	−324	−324
	0	0	0	0
	270,493	**692,242**	**64,306**	**756,548**
	26,494	41,103	9,193	50,296
	26,494	26,494	8,495	34,989
	0	14,323	680	15,003
	0	286	18	304
	−7,751	−7,751	−7,389	−15,140
	0	0	−22	−22
	−60	−60	85	25
	289,176	**725,534**	**66,173**	**791,707**

STATEMENT OF CASH FLOWS

for the GASAG Group in Accordance with IFRSs as of Dec. 31, 2017

IN € K		2017	2016
Profit before income taxes from continuing operations		133,622	172,432
Profit or loss before income taxes from discontinued operations		−77,563	−89,243
–	Income taxes paid	−20,800	−28,844
+ / –	Write-downs / write-ups of non-current assets	122,842	157,971
	thereof from discontinued operations	41,723	82,948
+ / –	Increase / decrease in provisions	−22,933	−11,001
	thereof from discontinued operations	13,496	681
+ / –	Other non-cash expenses / income	−5,318	−32,380
	thereof from discontinued operations	19,985	0
+	Dividends received from associates	283	232
– / +	Gain / loss on the disposal of non-current assets	−410	140
– / +	Increase / decrease in inventories	7,080	13,290
– / +	Increase / decrease in receivables	10,355	−18,473
+ / –	Increase / decrease in liabilities	13,001	−7,375
=	**Cash flows from operating activities**	**160,159**	**156,749**
+	Cash received from the disposal of intangible assets	11	42
–	Cash paid for investments in intangible assets	−5,194	−2,920
+	Cash received from the disposal of property, plant and equipment	5,049	3,202
+	Prepayments received for property, plant and equipment sold that will be transferred to the purchaser in the following year	0	0
–	Cash paid for investments in property, plant and equipment	−98,743	−66,549
+	Cash received from the disposal of non-current financial assets	2,045	517
–	Cash paid for investments in non-current financial assets	−2,073	−2,241
+	Cash received in connection with the sale of consolidated entities and other business units	26	0
–	Cash paid in connection with the acquisition of consolidated entities and other business units	118	−3,686
+	Cash received in connection with short-term financial management of cash investments	0	0
–	Cash paid in connection with short-term financial management of cash investments	0	0
+ / –	Non-cash increase / decrease in non-current assets	0	0
+	Cash received from investment subsidies from third parties	10,481	9,509
=	**Cash flows from investing activities**	**−88,280**	**−62,126**

IN € K		2017	2016
–	Cash received from capital contributions	0	0
–	Cash paid to owners	–7,751	–35,721
–	Cash paid to non-controlling interests	–7,390	–6,627
+	Cash received from the raising of loans	9,149	491
–	Cash repayments of loans	–74,511	–65,967
–	Payment of finance lease liabilities	–1,531	–668
+	Cash received from the raising of loans from non-controlling interests	0	100
–	Cash repayments of loans from non-controlling interests	–54	–54
=	**Cash flows from financing activities**	**–82,088**	**–108,446**
=	Change in cash and cash equivalents	–10,209	–13,823
+ / –	Change in cash and cash equivalents due to fluctuations in value	0	0
+	Cash and cash equivalents at the beginning of the period	67,740	81,563
=	**Cash and cash equivalents at the end of the period**	**57,531**	**67,740**

NOTES

to the Consolidated Financial Statements of GASAG as of Dec. 31, 2017 (IFRSs)

1 PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS OF GASAG

The Group's parent is GASAG AG, 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.

By resolution of the shareholder meeting of December 16, 2016, GASAG Berliner Gaswerke Aktiengesellschaft was renamed GASAG AG. This change was entered in the commercial register under HRB 44343 on May 29, 2017.

The management board prepared the consolidated financial statements as of December 31, 2017 and the management report for the GASAG Group for the fiscal year from January 1 to December 31, 2017 and authorized them for issue to the supervisory board on February 27, 2018.

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.

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. 315e (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.

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 2017, 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, 2017:

- Amendments to IAS 7, "Statement of Cash Flows"
- Amendments to IAS 12, "Income Taxes"
- Amendments to the Collection of Amendments, "Annual Improvements to IFRSs 2014 to 2016" relating to amendments and clarifications to IFRS 12, "Disclosure of Interests in Other Entities."

The amendments did not have any significant effect on the consolidated financial statements, apart from additional disclosures required by IAS 7.

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, 2017 were not taken into account. These relate to the following:

- IFRS 9 (2010), "Financial Instruments":

  The standard was endorsed by the EU on November 22, 2016. The 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. There will not be any significant changes to the classification and measurement of financial instruments or from the new provisions on hedge accounting. In addition, the risk provision to be recognized will increase due to the conversion to the expected loss model and will result in the earlier recognition of impairment. Overall, the new rules for impairment are not expected to have a significant effect on the consolidated financial statements.

- IFRS 15, “Revenue from Contracts with Customers”:

  This standard was adopted by the EU on Septembe 22, 2016 and transposed into European law on November 9, 2017. The new standard contains a five step model for revenue recognition from customer contracts and replaces the previous provisions on revenue recognition in IAS 11 and IAS 18 as well the related interpretations. It is effective for fiscal years beginning on or after January 1, 2018. The standard will be applied retroactively to the consolidated financial statements in accordance with IFRS 15.C3 (b). The effects were examined in the course of a project on the implementation of the new standard.

  The new rules are expected to result in a change in equity of around € 20m upon initial application in connection with the recognition of incremental costs for obtaining a contract and earnings are expected to improve by around € 1m in 2018 due to the write-down of the corresponding asset and the capitalization of the planned incremental costs for fiscal year 2018.

  No other significant effects are expected.

- IFRS 16, “Leases”:

  The International Accounting Standard Board (IASB) issued IFRS 16 on January 13, 2016. This standard was endorsed by the EU on November 9, 2017. 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. The payment commitments from operating leases disclosed to date in the notes to the consolidated financial statements, mainly for administrative buildings, vehicles and IT equipment, will generally relate to rights of use and lease liabilities in the future. 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.

- IFRS 17, “Insurance Contracts”:

  The IASB issued IFRS 17, “Insurance Contracts” on May 18, 2017. The standard is effective for fiscal years beginning on or after January 1, 2021. The amendments will not have any effect on the consolidated financial statements.

- IFRIC 23 “Uncertainty over Income Tax Treatments”:

  The IFRS IC adopted the interpretation “Uncertainty over Income Tax Treatments” on June 8, 2017. It is effective for fiscal years beginning on or after January 1, 2019. The amendments will not have any effect on the consolidated financial statements.

  Other standards and interpretations effective as of January 1, 2018 will not have any effect on the consolidated financial statements.

- IFRS 2, “Share-based Payment”
- IFRS 4, “Insurance Contracts” (will be replaced by IFRS 17 as of January 1, 2021)
- IAS 40, “Investment Property”
- IFRIC 22, “Foreign Currency Transactions and Advance Consideration”
- Collection of Amendments, “Annual Improvements to IFRSs 2014 to 2016” relating to IFRS 1 and IAS 28

3 CONSOLIDATED GROUP

In addition to GASAG, 28 German subsidiaries were fully consolidated, 9 associates and 4 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:

As the sole shareholder, GASAG merged GASAG Contracting GmbH, Berlin, with umetriq Metering Service GmbH, Berlin, by merger agreement dated March 2, 2017. In this connection, umetriq Metering Service GmbH, Berlin, was renamed GASAG Solution Plus GmbH, Berlin (GSP).

Under the share purchase and assignment agreement dated February 16, 2017, GASAG acquired all the shares in Geo-En Energy Technologies GmbH, Berlin (Geo-En).

GASAG assigned its shares in Provedo GmbH, Leipzig, and Geo-En to GSP by assignment agreement dated June 30, 2017 and effective as of July 1, 2017 to GSP.

Under assignment agreements dated June 30, 2017, GASAG assigned 2 % of the shares in Geo-En to Michael Viernickel and Tobias Viernickel, respectively.

By share purchase and assignment agreement dated March 8, 2017, SpreeGas transferred 10 % of its shares in Solar Project 19 GmbH & Co. KG, Cottbus, to Procon GmbH, Cottbus.

SpreeGas acquired shares gradually over the year in the project companies SP V GmbH & Co. KG (80 %; PV Kahsel-Drieschnitz), Cottbus, SP VI GmbH & Co. KG (90 %; PV Gablenz), Cottbus, SP VII GmbH & Co. KG (90 %; PV Kostebrau), Cottbus, SP VIII GmbH & Co. KG (80 %; PV Sergen), Cottbus and SP IX GmbH & Co. KG (50 %; PV Laubsdorf), Cottbus. SpreeGas Verwaltungs-GmbH, Cottbus, is the general partner of the project companies.

By share purchase and assignment agreement dated October 10, 2017, EMB Energie Mark Brandenburg GmbH, Potsdam (EMB), acquired all the shares in Arnold-Blume Bioenergie GmbH, Rhinow, as of the contractual date July 1, 2017. By entry in the commercial register HRB 20861 P, the change in name of Arnold Blume Bioenergie GmbH, Rhinow, to Bioenergie Rhinow GmbH, Rhinow, was published.

ASSOCIATES / JOINT VENTURES

Under the share purchase and assignment agreement dated August 24, 2016, GASAG acquired 51 % of the shares in G2Plus GmbH, Berlin (G2Plus), from Gegenbauer Facility Management GmbH, Berlin. 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.

On January 30, 2017, GASAG terminated its agreement with Tevaro GmbH in accordance with the company agreement as of the end of the month of February. The shares attributable to GASAG were withdrawn by the shareholders.

By company agreement dated May 22, 2017, GSP and CG Gruppe AG, Berlin, established CG Netz-Werk GmbH, Berlin. GSP holds 25.1 % of the shares. Within the scope of the syndicate agreement dated May 22, 2017, joint management was agreed by the shareholders.

GASAG assigned its shares in G2Plus to GSP by assignment agreement dated June 30, 2017 and effective as of July 1, 2017.

OUTLOOK FOR 2018

SUBSIDIARIES

On September 29, 2017, GASAG exercised an option to redeem 81 % of the shares in BEGA.tec GmbH, Berlin (BEGA.tec), which had been contractually agreed in the course of the sale of BEGA.tec in 2013. Due to the fact that the purchase price has not yet been determined by an appointed public auditor, the share acquisition is subject to the condition precedent of the return of the guarantees in accordance with the offer and the timely payment of the purchase price.

LIST OF EQUITY INVESTMENTS	Direct shareholdings
Fully consolidated entities	
1. Bioenergie Rhinow GmbH, Rhinow [2]	100 %
2. BAS Kundenservice Beteiligungs-GmbH, Berlin [10]	100 %
3. BAS Kundenservice GmbH & Co. KG, Berlin [10]	100 %
4. Berliner Erdgasspeicher GmbH, Berlin	100 %
5. Bio-Erdgas Neudorf GmbH, Groß Pankow [2]	74.9 %
6. DSE Direkt-Service Energie GmbH, Berlin	100 %
7. EMB-Beteiligungsgesellschaft mbH, Potsdam [2]	100 %
8. EMB Energie Mark Brandenburg GmbH, Potsdam	73.3 %
9. GASAG Bio-Erdgas Schwedt GmbH, Schwedt	100 %
10. GASAG Solution Plus GmbH, Berlin [10, 11]	100 %
11. GASAG Windpark Verwaltungs-GmbH, Berlin	100 %
12. Geo-En Energy Technologies GmbH, Berlin [8]	96 %
13. infrest – Infrastruktur eStrasse GmbH, Berlin [6]	67.4 %
14. KKI-Kompetenzzentrum Kritische Infrastrukturen GmbH, Berlin [6]	74.9 %
15. NBB Netz-Beteiligungs-GmbH, Berlin	100 %
16. NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin [3]	100 %
17. Netzgesellschaft Forst (Lausitz) mbH & Co. KG, Forst (Lausitz) [4]	100 %
18. Provedo GmbH, Leipzig [8]	56.7 %
19. Solar Project 19 GmbH & Co. KG, Cottbus [5]	90 %
20. SP V GmbH & Co. KG, Cottbus [5]	80 %
21. SP VI GmbH & Co. KG, Cottbus [5]	90 %
22. SP VII GmbH & Co. KG, Cottbus [5]	90 %
23. SP VIII GmbH & Co. KG, Cottbus [5]	80 %
24. SP IX GmbH & Co. KG, Cottbus [5]	50 %
25. SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	66.3 %
26. SpreeGas Verwaltungs-GmbH, Cottbus [5]	100 %
27. Stadtwerke Forst GmbH, Forst (Lausitz)	74.9 %
28. Windpark Dahme – Wahlsdorf 2 GmbH & Co. KG, Berlin	100 %
Entities accounted for using the equity method	
29. ARGE Wärmelieferung, Cottbus [5, 9]	50 %
30. Berliner Energieagentur GmbH, Berlin	25 %
31. CG Netz-Werk GmbH, Berlin [8, 9]	25.1 %
32. G2Plus GmbH, Berlin [8, 9]	51 %
33. Gasversorgung Zehdenick GmbH, Zehdenick [2]	25.1 %
34. Gas-Versorgungsbetriebe Cottbus GmbH, Cottbus [5]	37 %
35. GreenGas Produktionsanlage Rathenow GmbH & Co. KG, Rathenow [2]	49 %
36. GreenGas Rathenow Verwaltungs GmbH, Rathenow [2]	49 %
37. Netzgesellschaft Hennigsdorf Gas mbH, Hennigsdorf [2, 9]	50 %
38. Netzgesellschaft Hohen Neuendorf Gas GmbH & Co. KG, Hohen Neuendorf [2]	49 %
39. NGK Netzgesellschaft Kyritz GmbH, Kyritz [2]	49 %
40. Rathenower Netz GmbH, Rathenow [2]	35 %
41. WGI GmbH, Dortmund [6]	49 %

LIST OF EQUITY INVESTMENTS	Direct shareholdings
Other shareholdings	
42. BEGA,tec GmbH, Berlin [1]	19 %
43. local energy GmbH, Greifswald [1, 2]	19.8 %
44. Partner für Berlin Holding Gesellschaft für Hauptstadt-Marketing mbH, Berlin [1]	< 1 %
45. Stadtwerke Brandenburg an der Havel GmbH & Co. KG, Brandenburg an der Havel [1, 7]	12.2 %
46. Stadtwerke Brandenburg Verwaltungs GmbH, Brandenburg an der Havel [1, 7]	12.2 %
47. Stadtwerke Premnitz GmbH, Premnitz [1, 2]	10 %

1) not included as GASAG AG, Berlin, has neither a controlling nor a significant influence
2) indirect equity investment through EMB Energie Mark Brandenburg GmbH, Potsdam
3) thereof 80.5 % directly and 16.5 % indirectly through EMB Energie Mark Brandenburg GmbH and 3 % indirectly through SpreeGas GmbH
4) indirect equity investment through Stadtwerke GmbH, Forst (Lausitz)
5) indirect equity investment through SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus
6) indirect equity investment through NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin
7) indirect equity investment through EMB-Beteiligungsgesellschaft mbH, Potsdam
8) indirect equity investment through GASAG Solution Plus GmbH, Berlin
9) joint control
10) renamed in 2017
11) GASAG Contracting GmbH merged with umetriq GmbH and renamed GASAG Solution Plus GmbH

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 Berlin 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), 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: 6.50 %) based on a beta factor of 0.81 (prior year: 0.79). Cost of debt is derived from the long-term borrowing rate for new loans and other arm's length borrowing rates and amounts to 1.53 % (prior year: 1.36 %) after taxes. The discount rate also depends on the ratio of equity and debt employed. The resulting WACC stands at 4.17 % (prior year: 4.01 %) after taxes for the calculation of the fair value less costs to sell or at 6.42 % (prior year: 6.16 %) before taxes for the calculation of value in use. 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 0.50 % (prior year: 0.50 %) as of December 31, 2017.

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 to 8 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]) with 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 over the economic life or 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. 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 2016 and 2017, 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.

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 derivatives in a hedge, the accounting for changes in fair value is based on the type of hedge. The GASAG Group used only cash flow hedges in fiscal years 2017 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.

If the hedge relationship ends, the gain or loss recognized in equity until that point in time will remain in equity 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 AND DISCONTINUED OPERATIONS

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.”

Under IFRS 5, operations are accounted for as discontinued if they are earmarked for sale or decommissioning or already sold or decommissioned. An operation is a component of an entity that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan for disposal or decommissioning or is a subsidiary acquired exclusively with a view to resale. Immediately before the initial classification of the asset as held for sale or decommissioning, the carrying amounts of the asset must be measured in accordance with the applicable IFRSs. On reclassification, the discontinued operation is recognized at the lower of the carrying amount and fair value less costs to sell. Discontinued operations are presented separately in the income statement, balance sheet and statement of cash flows and discussed in the notes to the financial statements. Prior-year figures are disclosed accordingly for the purpose of comparison.

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 %	2017	2016
Up to 5 years	0.00	1.75
5 to 10 years	0.50	2.25
Over 10 years	0.90	3.00

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 (26) 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.

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 (EUR). Transactions in foreign currencies are disclosed at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rate at the balance sheet date. Differences arising from currency translation are disclosed in the consolidated income statement.

6 NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

(1) REVENUE

IN € K	2017	2016
Natural gas supply	731,073	857,197
Network access charges	164,518	152,537
Electricity supply	146,894	96,254
Heating supply	35,374	33,382
Other	27,353	28,068
	1,105,212	**1,167,438**

Revenue was mainly generated from the supply of natural gas. € 346,769k (prior year: € 445,367k) relates to the Berlin city district, € 281,917k (prior year: € 314,358k) to other federal states and € 102,387k (prior year: € 97,472k) to redistributors. The decrease in revenue from natural gas supplies to end customers is largely attributable to lower sales prices.

The increase in revenue from electricity supplies reflects the increase in business scope.

Revenue includes remuneration provided under the German Renewable Energies Act ["Erneuerbare-Energien-Gesetz": EEG] and other similar remuneration of € 4,111k (prior year: € 3,676k) which is offset by material costs in the same amount.

In addition, revenue contains netted expenses and income from commodity derivatives which do not fall under the scope of the own use exemption and are not allocated to a hedge. These revenue components are presented on a net basis, amounting to € 575k (prior year: € 32,283k).

(2) OTHER OPERATING INCOME

IN € K	2017	2016
Reversal of provisions	36,863	13,055
Reversal of deferred income	9,869	9,569
Own work capitalized	6,625	5,269
Income from the disposal of non-current assets	5,046	905
Derecognition of accrued liabilities	4,754	9,385
Reversal of bad debt allowances	4,712	1,680
Reimbursement of dunning and court costs	3,271	3,684
Miscellaneous	7,719	7,385
	78,859	**50,932**

The increase in reversals of provisions is mainly due to the partial reversal of the provisions for litigation, soil cleaning and top-up contributions to the VBL. Income from the disposal of non-current assets is mainly due to the sale of land.

(3) COST OF MATERIALS

IN € K	2017	2016
Cost of raw materials, consumables and supplies and of purchased merchandise	524,728	558,286
Cost of purchased services	198,675	172,702
	723,403	**730,988**

Cost of materials mainly includes expenses for natural gas distributed directly to end users, transferred to redistributors and used by the Group itself. The decrease in expenses from gas procurement largely due to the lower prices contrasts with higher expenses from electricity procurement and from electricity network access charges owing to the increased scope of business.

Furthermore, expenses for repairs and maintenance and other construction and purchased services were incurred.

(4) PERSONNEL EXPENSES

IN € K	2017	2016
Wages and salaries	87,689	84,631
Social security, pension and other benefit costs	18,325	17,500
	106,014	**102,131**

Personnel expenses fell by € 3.9m year on year to € 106.0m (3.8 %). The increase is largely due to the expansion of the energy services business field (among other things through the acquisition of another company) and the hiring of employees for the service unit instead of the use of leased staff.

The average number of employees (excluding employees in the release phase of phased retirement) was 1,558 compared with 1,506 in the prior year.

Social security costs include contributions to the statutory pension insurance fund of € 7,060k (prior year: € 6,590k).

Pension costs amounted to € 3,872k (prior year: € 3,861k) in the fiscal year.

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

NUMBER OF EMPLOYEES [1]	2017	2016
Women	681	668
Men	938	891
	1,619	**1,559**
thereof in the release phase of phased retirement	61	53

1) excluding trainees and management board members

(5) AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortization, depreciation and impairment losses for fiscal years 2016 and 2017 breaks down as follows:

IN € K	2017	2016
Intangible assets	**12,652**	**6,966**
Amortization	6,397	6,966
Impairment losses	6,255	0
Property, plant and equipment	**68,468**	**68,057**
Depreciation	68,272	65,204
Impairment losses	196	2,853
	81,120	**75,023**

€ 4,274k (prior year: € 4,320k) of the amortization expense for **intangible assets** for the fiscal year relates to software licenses, € 1,983k (prior year: € 1,983k) to customer bases. € 138k (prior year: € 253k) was recorded for granted conversion allowances and incentive subsidies.

The impairment loss of € 6,255k (prior year: € 0k) relates to the write-down of goodwill for SpreeGas.

The impairment losses of € 196k (prior year: € 2,853k) recognized for **property, plant and equipment** in the fiscal year relate exclusively to procurement, production and distribution facilities.

(6) OTHER OPERATING EXPENSES

IN € K	2017	2016
Advertising and promotional activities	25,891	23,870
Concession levies	18,504	14,746
IT services	18,648	16,900
Legal and other consulting fees, including audit fees	13,881	13,338
Lease payments under operating leases	10,563	9,106
Derecognition of and bad debt allowances on receivables	7,955	5,841
Other services and purchased services	6,641	6,528
Insurance	3,088	3,228
Postage and freight costs	2,371	2,388
Other taxes	1,723	396
Entertainment and travel expenses	1,129	1,089
Losses on the disposal of non-current assets	595	1,045
Miscellaneous	8,204	5,549
	119,193	**104,024**

The increase in concession levies is largely due to the expansion of the electricity business.

(7) INVESTMENT RESULT

IN € K	2017	2016
Investment result		
thereof from entities accounted for using the equity method	233	238
thereof from other investments	1,132	923
	1,365	**1,161**

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, 2017 are disclosed in the list of equity investments in section 3 "Consolidated Group."

(8) FINANCE COSTS

IN € K	2017	2016
Interest on overdrafts and loans from banks	20,871	24,711
Interest from other financial liabilities	3,967	3,919
Unwinding of the discount for provisions	1,347	1,759
Interest on finance leases	128	192
	26,313	**30,581**
thereof on a historical cost basis	26,313	30,581

(9) OTHER FINANCIAL RESULT

IN € K	2017	2016
Interest and similar income	3,437	2,826
Remeasurement of derivatives	528	−6,433
	3,965	**−3,607**
thereof on a historical cost basis	3,437	2,826

The item “Remeasurement of derivatives” contains unrealized gains and losses from interest rate derivatives which were not in hedging relationships in the reporting period or prior year. These derivatives were redesignated as of the reporting date as part of a hedging relationship.

Information on derivatives is provided separately under note (30) Reporting on Financial Instruments.

(10) INCOME TAXES

IN € K	2017	2016
Corporate income tax	6,826	7,860
Trade tax	13,972	17,368
Current income taxes	**20,798**	**25,228**
Deferred taxes on temporary differences	23,065	28,332
Deferred taxes on tax loss carryforwards	615	25
Deferred taxes	**23,680**	**28,357**
Income taxes	**44,478**	**53,585**

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	2017	2016
Profit before income taxes	133,622	172,432
Group tax rate	30.18 %	30.18 %
Theoretical income tax expense / income	40,327	52,040
Tax effects from		
Differences and changes in tax rates	−383	−211
Tax-free income	−174	−244
Non-deductible business expenses	790	511
Effect of taxes from prior years recognized in the fiscal year	514	1,345
Utilization of loss carryforwards not used in the prior year	0	−947
Goodwill impairment	1,888	0
Unrecognized deferred taxes on tax loss carryforwards	763	0
Additions to / reductions in trade tax	871	940
Other	−118	151
Effective income tax expense / income	**44,478**	**53,585**
Effective tax rate	33.3 %	31.1 %

Taxes from prior years mainly include the effects from the tax audit covering 2007 to 2013.

The impairment of goodwill for SpreeGas does not give rise to any tax effect.

Deferred tax assets are not recognized for loss carryforwards if it is not sufficiently probable that they will be realized.

In 2017, deferred taxes relating to components of other comprehensive income caused equity to change by € −6,227k (prior year: € −20,432k).

(11) PROFIT OR LOSS FROM DISCONTINUED OPERATIONS

IN € K	2017	2016
Revenue	9	−24
Other operating income	666	55
Cost of materials	19,984	2,619
Personnel expenses	2,447	2,374
Amortization, depreciation and impairment	41,723	82,948
Other operating expenses	9,538	652
Finance costs	4,547	681
Profit or loss before taxes	**−77,564**	**−89,243**
Income taxes	−23,409	−26,933
Profit or loss from discontinued operations	**−54,155**	**−62,310**

In December 2016, the supervisory board of GASAG resolved to decommission the Berlin natural gas storage facility. The commercialization of storage capacities ended on April 1, 2017. The closure plan will be submitted to the Brandenburg State Office for Mining, Geology and Raw Materials (Landesamt für Bergbau, Geologie und Rohstoffe Brandenburg: LBGR) in 2018.

The discontinued operations gave rise to a cost of materials of € 20.0m from the allocation to the provisions in connection with the decommissioning of the Berlin natural gas storage facility as well as write-downs on the working gas on hand.

The write-downs of € 41.7m relate to impairment of the base gas at the Berlin natural gas storage facility.

The economic impact was taken into account in the financial statements.

(12) OTHER COMPREHENSIVE INCOME

Disclosure of Components of Other Comprehensive Income

IN € K	2017	2016
Available-for-sale financial assets:		
Profit or loss for the period	1,947	440
Cash flow hedges:		
Profit or loss for the period	5,609	40,262
Plus reclassification adjustments to profit or loss	13,543	29,838
	19,152	**70,100**
Remeasurement of assets:		
Actuarial profit or loss	435	−2,778
Other comprehensive income before taxes	**21,534**	**67,762**
Income taxes relating to components of other comprehensive income	−6,227	−20,432
Other comprehensive income	**15,307**	**47,330**
Other comprehensive income attributable to non-controlling interests	−698	−1,028
Other comprehensive income excluding non-controlling interests	**14,609**	**46,302**

(13) 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.

		2017	2016
Profit or loss for the period excluding non-controlling interests	€ k	26,494	46,653
Number of shares outstanding (weighted average)	Thousands of units	8,100	8,100
Earnings per share (GASAG Group)	€	3.27	5.76
Dividends to owners	€ k	12,879 [1]	7,751 [2]
Dividend per share of GASAG	€	1.59 [1]	0.96 [2]

1) Proposed
2) Paid in 2017

7 NOTES TO THE BALANCE SHEET

(14) INTANGIBLE ASSETS

Intangible assets developed as follows in fiscal years 2016 and 2017:

IN € K	Goodwill	Acquired intangible assets	Internally generated intangible assets	Total
Cost				
As of Jan. 1, 2016	155,848	105,136	7,701	268,685
Additions	1,713	33	0	1,746
Disposals	0	3,244	0	3,244
Reclassifications	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**
Cost				
As of Jan. 1, 2017	157,561	106,040	7,701	271,302
Changes to the consolidated Group	2,362	43	102	2,507
Additions	0	6,344	32	6,376
Disposals	0	600	0	600
Reclassifications	0	–28	0	–28
As of Dec. 31, 2017	159,923	111,799	7,835	279,557
Amortization and impairment				
As of Jan. 1, 2017	1,500	66,852	7,701	76,053
Additions	6,255	6,380	18	12,653
Disposals	0	540	0	540
As of Dec. 31, 2017	7,755	72,692	7,719	88,166
Residual carrying amounts as of Dec. 31, 2017	**152,168**	**39,107**	**116**	**191,391**

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

IN € K	Dec. 31, 2017	Dec. 31, 2016
EMB Energie Mark Brandenburg	120,180	120,180
SpreeGas	22,554	28,808
GASAG Solution Plus [1]	4,901	4,901
Geo-En Energy	1,956	0
Provedo GmbH	1,703	1,703
Other	874	469
	152,168	**156,061**

1) Renamed from umetriq Metering Services GmbH

The impairment test identified an impairment requirement of € 6,255k on the goodwill for SpreeGas.

Acquired intangible assets mainly include customer bases of € 25,191k (prior year: € 27,174k). This item also includes the conversion allowances and incentive subsidies of € 305k (prior year: € 415k) granted to special contract customers and software of € 12,885k (prior year: € 10,954k).

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 € 5,399k (prior year: € 1,357k) 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.

(15) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment developed as follows in 2016 and 2017:

IN € K	Procurement, production and distribution facilities	Land and buildings	Other property, plant and equipment	Total
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 [1]
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 [1]
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**
Cost				
As of Jan. 1, 2017	3,001,179	60,997	23,041	3,085,217
Changes to the consolidated Group	777	225	205	1,207
Additions	92,322	803	4,108	97,233
Disposals	11,384	691	505	12,580
Reclassifications	−195	200	23	28
As of Dec. 31, 2017	3,082,699	61,534	26,872	3,171,105
Depreciation and impairment				
As of Jan. 1, 2017	1,591,140	24,758	16,584	1,632,482
Additions	106,143	1,753	2,294	110,190
Disposals	9,967	329	433	10,729
As of Dec. 31, 2017	1,687,316	26,182	18,445	1,731,943
Residual carrying amounts as of Dec. 31, 2017	**1,395,383**	**35,352**	**8,427**	**1,439,162**

1) 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 is € 13,496k (prior year: € 11,803k).

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 € 1,488k (prior year: € 2,218k).

In December 2016, the supervisory board of GASAG resolved to decommission the Berlin natural gas storage facility. An impairment loss of € 80,907k was recognized for the Berlin natural gas storage facility in the prior year for this reason. This amount does not include expected future revenue from the extraction of base gas. The commercialization of storage capacities ended on April 1, 2017. Berliner Erdgasspeicher GmbH will submit the closure plan to the Brandenburg State Office for Mining, Geology and Raw Materials in 2018. As the base gas is no longer expected to be extracted and commercialized, an impairment loss of € 41,694k was charged as of the reporting date.

The additions mainly relate to the expansion of the distribution plants (replacement and new investments) as well as the set-up of ground-mounted photovoltaic plants in the State of Brandenburg.

The disposals relate primarily to pipe system and home connection facilities as well as heat production facilities. The € 1,417k decrease in the carrying amount is primarily attributable to the sale of several heat production facilities due to early contractual termination and the restoration of a number of distribution plants due to replacement investments.

With regard to **land and buildings**, € 10,842k (prior year: € 11,032k) 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 2017 (IFRIC 1).

Disposals chiefly relate to the sale of land including the buildings situated thereon in Berlin-Spandau.

In addition, carrying amounts of € 129k (prior year: € 258k) relate to a finance lease.

Other property, plant and equipment principally includes equipment. IT hardware of € 1,099k (prior year: € 1,047k) 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 € 35,235k (prior year: € 46,560k). These primarily comprise investments in gas distribution facilities as well as ground-mounted photovoltaic plants and heat production facilities which are under construction.

(16) INVESTMENTS IN ASSOCIATES

Goodwill attributable to associates was not disclosed under intangible assets but rather as a component of the carrying amount of investments in associates (€ 784k; prior year: € 784k) pursuant to IAS 28.42.

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

ASSOCIATES

IN € K	Dec. 31, 2017	Dec. 31, 2016
Non-current assets	58,793	58,214
Current assets	10,420	11,034
Non-current liabilities	17,352	17,454
Current liabilities	28,314	27,854
Balance sheet total	69,213	69,248
Revenue	35,971	37,592
Profit for the period	741	381

JOINT VENTURES

IN € K	Dec. 31, 2017	Dec. 31, 2016
Non-current assets	334	258
Current assets	560	66
Non-current liabilities	31	4
Current liabilities	230	13
Balance sheet total	894	324
Revenue	417	176
Profit for the period	54	32

(17) FINANCIAL ASSETS

NON-CURRENT FINANCIAL ASSETS

IN € K	Dec. 31, 2017	Dec. 31, 2016
Other loans	3,324	3,355
Investments in unquoted equity instruments	13,589	11,642
Receivables from finance leases	5,787	5,735
Derivatives	5,734	6,970
	28,434	**27,702**
thereof classified as held for trading	1,743	3,477

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 (30) Reporting on Financial Instruments for details on valuation. The Group also concluded option contracts to buy 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. GSP 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, 2017 IN € K	**Present value of minimum lease payments**	**Unearned finance income**	**Gross investment**
Due in less than 1 year	751	839	1,590
Due in 1 to 5 years	2,603	2,304	4,907
Due after 5 years	3,184	1,178	4,362
	6,538	**4,321**	**10,859**

For comparison, the prior-year figures:

DEC. 31, 2017 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**

Information on derivatives is provided separately under note (30) Reporting on Financial Instruments.

CURRENT FINANCIAL ASSETS

IN € K	**Dec. 31, 2017**	**Dec. 31, 2016**
Receivables from finance leases	750	609
Derivatives	10,266	5,466
	11,016	**6,075**
thereof classified as held for trading	1,500	5,192

(18) DEFERRED TAXES (ASSETS AND LIABILITIES)

Deferred tax assets and liabilities result from temporary valuation differences in the IFRS balance sheet and the tax base, as well as from tax loss carryforwards.

IN € K		Dec. 31, 2017 Deferred tax assets	Dec. 31, 2017 Deferred tax liabilities	Dec. 31, 2016 Deferred tax assets	Dec. 31, 2016 Deferred tax liabilities
Intangible assets	(1)	2,079	7,808	2,238	8,386
Property, plant and equipment	(2)	3,222	70,667	2,887	66,283
Investments in associates		34	0	44	0
Financial assets	(3)	152	9,038	151	9,109
Inventories	(4)	543	216	133	2,428
Trade receivables and other receivables		1,904	110	3,369	82
Deferred income	(5)	4,796	1,832	4,063	2,103
Provisions	(6)	10,486	3,194	16,144	2,017
Financial liabilities	(7)	11,347	252	18,504	322
Trade payables and other liabilities		359	36	196	307
		34,922	**93,153**	**47,729**	**91,037**
Tax loss carryforwards	(8)	54,919		46,493	
		89,841	**93,153**	**94,222**	**91,037**

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

(1) The reduction in deferred tax liabilities is attributable to the write-down of customer bases which were not recognized in the tax base.

(2) The valuation differences result from the useful lives applied, which generally cover a longer period under IFRSs. 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 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.

(6) 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 which were not matched by tax provisions in an equal amount in the prior year.

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.

The increase in deferred tax liabilities mainly stems from the recognition of provisions due to regulatory matters in the tax base which are not recognized in the IFRS balance sheet.

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

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

The increase in tax loss carryforwards is mainly attributable to the decommissioning of the Berlin natural gas storage facility.

In the fiscal year, deferred taxes of € −8,778k (prior year: € −15,005k) 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, 2017	Dec. 31, 2016
Corporate income tax (incl. solidarity surcharge)	131,017	124,730
Trade tax	238,256	186,739

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

(19) INVENTORIES

IN € K	Dec. 31, 2017	Dec. 31, 2016
Raw materials, consumables and supplies	3,232	2,359
Merchandise	12,863	40,421
Work in process	1,448	1,051
Prepayments made	0	7
	17,542	**43,838**

Of the merchandise disclosed under inventories, € 12,795k relates to the working gas in the storage facilities (prior year: € 40,395k). The decrease in the natural gas volume is mainly attributable to the resolved decommissioning of the Berlin natural gas storage facility.

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

(20) 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.

(21) TRADE RECEIVABLES AND OTHER RECEIVABLES

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

IN € K	Dec. 31, 2017	Dec. 31, 2016
Trade receivables:	**130,394**	**134,128**
from gas supplies	82,366	97,858
from network access charges	25,877	20,288
from heat and electricity supplies	17,839	10,845
from other trade	4,312	5,137
Other receivables	**16,100**	**20,952**
	146,494	**155,080**

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 € 534,588k (prior year: € 542,519k), which were offset against the unbilled advance payments of € 453,359k (prior year: € 449,953k).

€ 1,483k (prior year: € −746k) of other receivables relates to VAT refund claims and € 5,156k (prior year: € 11,828k) 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, 2017	140,984	105,377	10,017	4,643	2,112	6,361	12,473
Bad debt allowances	10,590	1,768	354	181	77	930	7,279
Trade receivables as of Dec. 31, 2017	**130,394**	**103,609**	**9,663**	**4,462**	**2,035**	**5,431**	**5,194**
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**

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	2017	2016
Bad debt allowances		
As of Jan. 1	14,522	15,682
Allocations (expenses for bad debt allowances)	715	641
Utilization	80	222
Reversal	4,567	1,579
As of Dec. 31	**10,590**	**14,522**

The total amount of the allocations of € 715k (prior year: € 641k) comprises allocations due to specific bad debt allowances of € 292k (prior year: € 115k) and flat-rate specific bad debt allowances of € 423k (prior year: € 526k). Reversals include reversals of specific bad debt allowances of € 209k (prior year: € 500k) and of flat-rate specific bad debt allowances of € 4,358k (prior year: € 1,079k).

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	2017	2016
Expenses for the complete derecognition of receivables	7,250	5,243
Income from the receipt of payments on receivables derecognized in prior years	1,407	1,542

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 2017, interest income of € 464k (prior year: € 468k) on derecognized or impaired receivables was recognized.

(22) CASH AND CASH EQUIVALENTS

IN € K	Dec. 31, 2017	Dec. 31, 2016
Cash on hand / checks	68	76
Bank balances	22,348	18,364
Short-term deposits	35,115	49,300
	57,531	**67,740**

(23) ASSETS AND LIABILITIES HELD FOR SALE

All assets and liabilities classified as held for sale as of December 31, 2016 were sold in the course of fiscal year 2017.

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

IN € K	Dec. 31, 2017	Dec. 31, 2016
Distribution facilities	0	4,051
Assets held for sale	**0**	**4,051**
Special item for investment subsidies in connection with assets held for sale	**0**	**1,311**

(24) EQUITY

Die Aufgliederung und die Entwicklung des Eigenkapitals und der Anteile ohne beherrschenden Einfluss sind in der Eigenkapitalveränderungsrechnung dargestellt,

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, 2016 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, 2017, these amounted to € 66,173k (€ 64,306k) and relate to shares of other shareholders in fully consolidated entities presented in the list of equity investments in (3) Consolidated Group.

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	2017	2016	2017	2016
Non-controlling interests in %	26.69013	26.69013	33.662	33.662
Attributable to non-controlling interests:				
Share in equity	39,430	38,906	20,943	21,233
Share in profit for the period	5,651	6,763	1,648	1,454
Key financial items of the subsidiaries:				
Dividend paid in the fiscal year	20,107	19,324	5,800	4,200
Assets	387,362	388,693	138,719	129,361
Liabilities	239,628	242,924	76,502	66,284
Revenue	244,310	271,525	61,961	67,581
Profit for the period	21,172	25,340	4,897	4,319
Other comprehensive income	901	3,682	43	−118
Total comprehensive income	**22,073**	**29,022**	**4,940**	**4,201**

(25) DEFERRED INCOME

Deferred income developed as follows in fiscal years 2016 and 2017:

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**	**−1,31[1]**	**1**	**247,568**
Building cost contributions / investment subsidies (pursuant to NDAV and concession agreements)	243,263	8,655	8,647	−1,31	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**	**−1,31[1]**	**1**	**249,846**
thereof short-term (< 1 year)						9,333
thereof long-term (> 1 year)						240,513

IN € K	Jan. 1, 2017	Alloca-tions	Reversals	Reclassifi-cations	Repay-ments	Dec. 31, 2017
Government grants	**2,278**	**0**	**105**	**0**	**0**	**2,173**
Investment grants	2,278	0	105	0	0	2,173
thereof short-term (< 1 year)						106
Grants from third parties	**247,568**	**10,669**	**9,764**	**0**	**137**	**248,336**
Building cost contributions / investment subsidies (pursuant to NDAV and concession agreements)	241,959	9,469	8,980	0	128	242,320
thereof short-term (< 1 year)						8,761
Other investment subsidies	5,609	1,200	784	0	9	6,016
thereof short-term (< 1 year)						719
Total	**249,846**	**10,669**	**9,869**	**0**	**137**	**250,509**
thereof short-term (< 1 year)						9,586
thereof long-term (> 1 year)						240,923

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.

(26) PROVISIONS

IN € K	Dec. 31, 2017	Dec. 31, 2016
Non-current provisions		
Provisions for defined benefit plans	37,530	40,597
Other provisions	79,890	79,254
	117,420	**119,851**
Current provisions		
Provisions for defined benefit plans	2,143	1,375
Other provisions	41,425	69,155
	43,568	**70,530**
	160,988	**190,381**

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 € 3,595k (prior year: € 3,650k) 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 %	2017	2016
Interest rate	1.43	1.41
Average future salary increase	2.00	2.00
Average future pension increase	1.00	1.00

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, 2017	Dec. 31, 2016
Defined benefit plans without plan assets	31,384	37,048
Defined benefit plans with plan assets	8,289	4,924
Total defined benefit plans (netted)	39,673	41,972
Fair value of plan assets	7,761	7,683

The plan assets are insurance policies used to cover benefits. In 2017, the actual return on plan assets was € 238k (prior year: € 215k). 13 % of the plan assets (excluding German endowment insurance policies) comprise fund assets from external welfare funds (prior year: 12 %) and 87 % employer's pension liability insurance (prior year: 89 %). € 58k is expected to be paid into the plan assets in 2018.

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, 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**

IN € K	Present value of the defined benefit obligation	Fair value of plan assets	Defined benefit liability
Jan. 1, 2017	49,655	7,683	41,972
Pension costs recognized in profit or loss			
Current service cost	260		260
Interest expense / income	628	96	532
Subtotal recognized in profit or loss for the period	**888**	**96**	**792**
Benefits paid	–2,815	–214	–2,601
Remeasurement gains / losses recognized in other comprehensive income			
Return on plan assets		0	0
Actuarial gains and losses due to changes in financial assumptions	–114	0	–114
Other changes in value	–180	141	–321
Subtotal recognized in other comprehensive income	**–294**	**141**	**–435**
Employer's contributions		55	–55
Dec. 31, 2017	**47,434**	**7,761**	**39,673**

The following table shows a quantitative sensitivity analysis of the key assumptions as of December 31, 2017:

		Changes in defined benefit obligations			
ASSUMPTIONS	CHANGE IN %	Dec. 31, 2017 if the assumptions increase in € k	Dec. 31, 2017 if the assumptions decrease in € k	Dec. 31, 2016 if the assumptions increase in € k	Dec. 31, 2016 if the assumptions decrease in € k
Interest rate	1.0	–5,141	6,330	–5,634	6,926
Future salary increases	1.0	420	–360	484	–434
Future pension increases	1.0	2,880	–2,433	5,646	–4,779

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 12 years (prior year: 11 years).

Payments of € 2,143k are expected to be made under defined benefit obligations within the next 12 months (prior year: € 2,342k).

Other Provisions

Provisions – Terms

	Dec. 31, 2017	Thereof residual term of		Dec. 31, 2016	Thereof residual term of	
IN € K	Total	≤ 1 year	> 1 year	Total	≤ 1 year	> 1 year
Other personnel provisions	7,603	2,515	5,088	13,864	337	13,527
Provisions for soil cleaning	4,376	4,376	0	7,522	7,522	0
Provision for restoration and follow-up maintenance	83,628	14,109	69,519	70,167	9,854	60,313
Provisions for litigation	3,407	3,407	0	30,360	30,360	0
Miscellaneous provisions	22,301	17,018	5,283	26,496	21,082	5,414
	121,315	**41,425**	**79,890**	**148,409**	**69,155**	**79,254**

Statement of Provisions

IN € K	Jan. 1, 2017	With-drawal	Reversal	Allocation	Unwinding of the discount for changes in interest rates [1]	Dec. 31, 2017
Other personnel provisions	13,864	−2,891	−5,437	1,991	76	7,603
Provisions for soil cleaning	7,522	−1,280	−2,072	76	130	4,376
Provision for restoration and follow-up maintenance	70,167	−5,343	−108	14,057	4,855	83,628
Provisions for litigation	30,360	−283	−27,431	761	0	3,407
Miscellaneous provisions	26,496	−11,791	−3,077	10,312	361	22,301
	148,409	**−21,588**	**−38,125**	**27,197**	**5,422**	**121,315**

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 € 7,603k (prior year: € 13,864k) 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.

The obligation to pay top-up contributions to the VBL is recognized at present value. The provisions were measured assuming an interest rate of 1.43 % (prior year: 1.25 %) and a term of 15 years (prior year: 15 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 %	2017	2016
Interest rate	0.0	0.7
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 € 5,438k (prior year: € 6,312k) 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 € 5,529k (prior year: € 6,403k) was netted with the obligations.

Provisions for Soil Cleaning

The provisions for cleaning contaminated land of € 4,376k (prior year: € 7,522k) 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 € −98k (prior year: € 123k), € −69k (prior year: € −90k) thereof was recognized without an effect on profit or loss, in accordance with IFRIC 1.

Provision for Restoration and Follow-Up Maintenance

The provision for the restoration and follow-up maintenance of facilities and historic buildings and monuments of € 83,628k (prior year: € 70,167k) are mainly recognized due to public obligations.

In 2017, the study underlying the provision recognized for the restoration of the Berlin natural gas storage facility as of December 31, 2016 was updated and the first facility-specific activities were initiated which led to the planning for the restoration including follow-up maintenance being developed further. 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 2018. The public agencies concerned will participate in the proceedings.

The net changes in the interest rates and terms of the obligations led to an adjustment of the present value of the provisions for restoration and follow-up maintenance of € 4,714k (prior year: € 18,985k), € 0k (prior year: € 18,975k) 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, there are uncertainties which could result in the need for significant adjustments to provisions.

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.

(27) FINANCIAL LIABILITIES

IN € K	Dec. 31, 2017	Dec. 31, 2016
Liabilities to banks and borrower's note loans	**478,139**	**541,424**
thereof due in less than 1 year	68,382	61,759
thereof due in 1 to 5 years	366,653	297,517
thereof due in 1 to 2 years	58,723	59,964
thereof due in 2 to 3 years	122,022	59,870
thereof due in 3 to 4 years	49,527	127,801
thereof due in 4 to 5 years	136,381	49,882
thereof due after 5 years	43,104	182,148
thereof due in 5 to 6 years	11,036	136,732
thereof due in 6 to 7 years	7,225	11,512
thereof due after 7 years	24,843	33,904
Other financial liabilities	**33,813**	**36,621**
thereof due in less than 1 year	3,704	3,019
thereof due in 1 to 5 years	5,555	7,625
thereof due in 1 to 2 years	1,523	3,816
thereof due in 2 to 3 years	1,320	1,342
thereof due in 3 to 4 years	1,278	1,259
thereof due in 4 to 5 years	1,434	1,208
thereof due after 5 years	24,554	25,977
thereof due in 5 to 6 years	11,135	1,423
thereof due in 6 to 7 years	956	11,135
thereof due after 7 years	12,463	13,419
Derivatives	**33,245**	**50,073**
thereof due in less than 1 year	11,753	14,255
thereof due after 1 year	21,492	35,818
	545,197	**628,118**
thereof current	83,839	79,033
thereof non-current	461,358	549,085

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

Other financial liabilities also include obligations from finance leases.

As in the prior year, the interest rates of fixed-interest financial liabilities range between 1.34 % and 5.05 %.

86.2 % (prior year: 87.6 %) 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, 2017 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, 2017.

			Thereof in the periods		
IN € K	Carrying amount Dec. 31, 2017	Cash flows	2018	2019 to 2022	2023 and thereafter
Financial liabilities to banks and borrower's note loans	−478,139	−501,982	−74,466	−382,510	−45,006
Other financial liabilities	−33,813	−44,043	−4,612	−9,704	−29,727
Derivative financial liabilities	−33,245	−64,758	−25,312	−39,373	−73
Derivative financial assets	16,000	−120,474	−69,560	−50,914	0

For comparison, the prior-year figures:

			Thereof in the periods		
IN € K	Carrying amount Dec. 31, 2016	Cash flows	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

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 2017	Minimum lease payment 2016	Present value as of Dec. 31, 2017	Present values as of Dec. 31, 2016
Due in less than 1 year	1,003	1,503	997	1,493
Due in 1 to 5 years	1,430	2,062	1,383	1,941
Due after 5 years	300	547	256	489
	2,733	**4,112**	**2,636**	**3,923**

Information on derivatives is provided separately under note (30) Reporting on Financial Instruments.

(28) TRADE PAYABLES AND OTHER LIABILITIES

IN € K	Dec. 31, 2017	Thereof due in ≤ 1 year	Thereof due in > 1 year	Dec. 31, 2016	Thereof due in ≤ 1 year	Thereof due in > 1 year
Trade payables	107,070	107,070	0	88,820	88,820	0
Liabilities arising from the procurement of natural gas	54,715	54,715	0	50,043	50,043	0
Miscellaneous liabilities	52,355	52,355	0	38,777	38,777	0
Other liabilities	50,465	50,288	177	48,072	47,874	198
	157,535	**157,358**	**177**	**136,892**	**136,694**	**198**

Other liabilities chiefly comprise obligations of € 8,479k (prior year: € 7,555k) arising from payments to personnel due in 2017 and tax liabilities of € 19,823k (prior year: € 15,717k), prepayments received of € 922k (prior year: € 1,662k), transitory deferred income of € 1,204k (prior year: € 4,286k) and debtors with credit balances of € 12,045k (prior year: € 10,557k).

(29) 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

(30) 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, 2017	Fair value Dec. 31, 2017	Carrying amount Dec. 31, 2016	Fair value Dec. 31, 2016
Assets						
Financial assets			39,450	43,100	33,777	33,837
Other loans	lar	AC	3,323	3,401	3,355	3,415
Investments in unquoted equity instruments	afs	FVTOCI	13,589	13,589	11,642	11,642
Receivables from finance leases	–	–	6,538	10,110	6,344	6,344
Derivatives not designated as hedging instruments	fahft	FVTPL	3,243	3,243	8,669	8,669
Derivatives designated as hedging instruments	–	FVTOCI	12,757	12,757	3,767	3,767
Trade receivables and other assets			146,494	146,494	155,080	155,080
Trade receivables	lar	AC	130,394	130,394	134,128	134,128
Other assets	–	–	16,100	16,100	20,952	20,952
Cash and cash equivalents	lar	AC	57,531	57,531	67,740	67,740
Equity and liabilities						
Financial liabilities			545,197	550,384	628,119	634,894
Financial liabilities to banks and borrower's note loans	ofl	AC	478,139	479,365	541,424	544,331
Other financial liabilities	ofl	AC	33,813	37,774	36,621	40,489
Derivatives not designated as hedging instruments	flhft	FVTPL	174	174	38,882	38,882
Derivatives designated as hedging instruments	–	FVTOCI	33,071	33,071	11,192	11,192
Trade payables and other liabilities			157,535	157,535	136,892	136,892
Trade payables	ofl	AC	134,980	134,980	114,666	114,666
Other liabilities	–	–	22,555	22,555	22,226	22,226
Thereof aggregated according to the measurement categories						
Available-for-sale securities [afs]			13,589	13,589	11,642	11,642
Loans and receivables [lar]			191,248	191,326	205,223	205,283
Financial assets held for trading [fahft]			3,243	3,243	8,669	8,669
Financial liabilities held for trading [flhft]			174	174	38,882	38,882
Financial liabilities [ofl]			646,932	652,119	692,711	699,486

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, 2017	Level 1	Level 2	Level 3
Assets						
Financial assets						
Investments in unquoted equity instruments	afs	FVTOCI	13,589	0	0	13,589
Derivatives not designated as hedging instruments	fahft	FVTPL	3,243	0	3,243	0
Derivatives designated as hedging instruments	–	FVTOCI	12,757	0	12,757	0
Equity and liabilities						
Financial liabilities						
Derivatives not designated as hedging instruments	flhft	FVTPL	174	0	174	0
Derivatives designated as hedging instruments	–	FVTOCI	33,071	0	33,071	0

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 fiscal year 2017, 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 € 0.7m 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 € 1.8m (increase of around € 1.8m) in fair value.

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

IN € K	2017	2016
Jan. 1	11,642	11,202
Additions	1,947	440
Disposals	0	0
Dec. 31	**13,589**	**11,642**

NET RESULT BY MEASUREMENT CATEGORIES

IN € K	2017	2016
Loans and receivables [lar]	610	1,207
Financial instruments held for trading [hft / fahft / flhft]	1,103	–26,389
Financial liabilities [ofl]	–21,991	–25,431

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 value	Nominal volume by maturity < 1 year	1 to 5 years	> 5 years
Interest rate swaps in hedging relationships	0	−32,967	407,455	63,921	342,034	1,500
Commodity derivatives in hedging relationships	15,174	−2,117	185,259	121,758	63,501	0
Commodity derivatives not in hedging relationships	6,013	−752	40,966	35,333	5,633	0
	21,187	**−35,836**	**633,680**	**221,012**	**411,168**	**1,500**

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	−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 derivatives 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

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 which involves discounting future cash flows. The instruments are discounted over their remaining term using market interest rates.

The interest rate swaps not in hedging relationships recognized in the prior year were re-designated as hedges in 2017. Changes in fair value up to the date of re-designation were recognized through profit or loss. These interest rate swaps were designated as hedges until December 31, 2014 and the changes in fair value accumulated until this time are taken to profit or loss when the hedged cash flows occur, reflecting the respective maturities.

Physical and financial forwards are used to hedge price risks in connection with commodities. If the requirements for hedge accounting pursuant to IAS 39 are met, these contracts are recognized outside of profit or loss as cash flow hedges.

Commodity derivatives not in hedging relationships include contracts for which no own use exemption and no hedge accounting is applied. Changes in value attributable to commodity derivatives which are not designated as part of a hedging relationship are recognized in profit or loss.

Commodity derivatives are measured individually at their forward rate or at the price on the reporting date. The forward rates or prices are based, to the extent possible, on market prices and adjusted where necessary on the basis of extrapolation. The future cash flows calculated are discounted over their remaining term using market interest rates.

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 2023 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, 2017 IN € K	Gross amount	Offsetting	Collateral	Carrying amount	Amount not offset	Net amount
Derivatives (assets)	21,186	−2,584	−2,602	16,000	13,608	2,392
Derivatives (liabilities)	−35,836	2,584	7	−33,245	−33,222	−23

For comparison, the prior-year figures:

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

(31) 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 € 34k (prior year: € 9k) 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 € 21k (prior year: € 26k) as of the balance sheet date.

Market price risk in connection with financial and physical 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 27 % for natural gas to 35 % for electricity. The potential risk from a reduction in equity was determined at € 32,109k (prior year: € 28,643k).

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 € 0k (prior year: € 2,476k) was determined for these derivative instruments on the basis of the above scenario analysis as there were no longer any financial commodity derivatives as of the reference date.

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 € 2,812k (prior year: € 12,645k).

Given the flexibilities with regard to quantities in the procurement agreements under which GASAG is an option holder, there is a 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. As there are no longer any procurement agreements with flexible quantities, 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 € 0k (prior year: € 5k).

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 23 % to 36 % for oil prices and 27 % to 35 % for gas prices is assumed, resulting in an earnings risk of € 566k (prior year: € 1,144k).

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, 2017.

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 25 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 € 0k (prior year: € 5,564k) and the potential risk from a reduction in equity to € 4,175k (prior year: € 1,858k).

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 its 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 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, 2017 or December 31, 2016.

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

IN € M	2017	2016
Cash and cash equivalents	57.5	67.7
Liabilities to banks	−478.1	−541.4
Other financial liabilities	−33.8	−36.6
Derivatives	−33.2	−50.1
Net financial position	**−487.6**	**−560.4**

(32) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities and other financial obligations are as follows as of the balance sheet date:

IN € K	Dec. 31, 2017	Dec. 31, 2016
Litigation and other risks	41,235	**38,989**
Issue from guarantees	535	**0**
Obligations to take over leases	16	**0**
Contingent liabilities	**41,786**	**38,989**
Biomethane or natural gas purchase commitments	499,988	248,486
Upstream network costs	77,695	76,787
Raw biomethane and substrate supply agreements	60,405	60,127
Purchase commitments	46,941	39,227
Rental and lease obligations	92,955	56,734
Electricity purchase commitments	34,601	29,082
Network lease	22,593	14,373
Other	19,073	12,011
Other financial obligations	**854,251**	**536,827**

Contingent liabilities mainly relate to legal disputes.

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 2023 is € 501m. The purchase commitments as of December 31, 2017 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, 2017	Dec. 31, 2016
< 1 year	15,398	14,694
1 to 5 years	29,917	29,399
> 5 years	47,640	12,641
	92,955	**56,734**

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, Gross Pankow.

The € 77,695k (prior year: € 76,787k) 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, 2017	Dec. 31, 2016
Purchase commitments for property, plant and equipment	51.4	43.4
Purchase commitments for operational expenditure	44.7	49.2
Purchase commitments for long-term service agreements	3.7	6.7
Renewable resources	0.2	0.7
	100.0	**100.0**

(33) NOTES TO THE STATEMENT OF CASH FLOWS

Intangible Assets

The Group's intangible assets include additions of € 8,883k (prior year: € 4,990k). Cash paid for intangible assets amounted to −€ 5,195k (prior year: −€ 2,920k).

Property, Plant and Equipment

The Group acquired property, plant and equipment worth € 99,284k (prior year: € 66,667k), € 541k of which (prior year: € 118k) was acquired through finance leases. Cash payments of −€ 98,743k (prior year: −€ 66,549k) 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, 2017	Dec. 31, 2016
Cash and cash equivalents	57,531	67,740
Cash and cash equivalents at the end of the period	**57,531**	**67,740**

Interest and Dividends Paid and Received

The cash flows from operating activities include interest received of € 3,425k (prior year: € 2,818k), interest paid of € 25,208k (prior year: € 29,175k) and dividends received of € 1,648k (prior year: € 1,393k).

The cash flows from financing activities include paid dividends of € 15,140k (prior year: € 42,349k).

Financing Activities

In the fiscal year, liabilities from financing activities changed as follows:

			With no effect on cash			
IN € K	2016	With an effect on cash	New leases	Change in fair value	Other	2017
Liabilities to banks	541,424	−63,598	0	0	313	478,139
Other financial liabilities	36,621	−3,349	541	0	0	33,813
thereof lease liabilities	3,758	−1,530	541	0	0	2,769
Derivatives	50,074	0	0	−16,829	0	33,245
Total financial liabilities	**628,119**	**−66,947**	**541**	**−16,829**	**313**	**545,197**

(34) RELATED PARTIES

As of December 31, 2017, 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, Essen, 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, Essen, 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 2017 include the shareholders of GASAG and the affiliates of Vattenfall AB, Stockholm, Sweden, ENGIE S.A., Paris, France, and E.ON SE, Essen.

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	2017	2016	2017	2016	Dec. 31 2017	Dec. 31, 2016	Dec. 31 2017	Dec. 31, 2016
Entities with significant influence	**76,001**	**82,489**	**92,638**	**232,192**	**8,018**	**10,083**	**10,291**	**20,279**
E.ON Group	7,827	12,792	19,700	109,537	1,188	1,638	1,341	689
Vattenfall Group	65,308	61,316	47,845	82,242	5,714	8,268	5,427	13,248
ENGIE Group	2,866	8,381	25,093	40,413	1,116	177	3,523	6,342
Associates of the GASAG Group	**14,396**	**13,673**	**6,350**	**5,660**	**1,157**	**711**	**161**	**212**

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. € 8,018k (prior year: € 10,083k) of the assets relates to trade receivables from entities with significant influence and € 1,157k (prior year: € 711k) to trade receivables from associates. € 10,291k (prior year: € 20,279k) of the liabilities relates to trade payables to entities with significant influence and € 161k (prior year: € 212k) 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 2017 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 AG, Berlin
Ingo Breite	Employee at BAS Kundenservice GmbH & Co. KG, Berlin
Stefan Dohler (until January 8, 2017)	Chief Financial Officer of Vattenfall AB, Stockholm
Georg Friedrichs	Senior executive at Vattenfall GmbH, Berlin
Tuomo Hatakka (since January 9, 2017)	Chairman of the management of Vattenfall GmbH, Berlin
Thomas Henn	Commercial manager of the energy division and head of operations renewable energies ENGIE Deutschland GmbH, 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 AG, Berlin

Dr. Uwe Kolks	Member of the management of E.ON Energie Deutschland GmbH, Munich
Annette Krafscheck	Personnel development and recruiting consultant at GASAG AG, Berlin
Thorsten Neumann	Head of personnel and international communications at NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin
Manfred Schmitz	Chairman of the management board of ENGIE Deutschland AG, Berlin
Can Sekertekin	Employee at GASAG AG, Berlin
Marcus Sohns	Head of Strategic Alliances at ENGIE Deutschland AG, Berlin
Norbert Speckmann	Head of the energy services division of ENGIE Deutschland GmbH, Essen
Susanne Stumpenhusen	District head of ver.di, Vereinte Dienstleistungsgewerkschaft, District of Berlin-Brandenburg, Berlin
Andreas Tabor	Employee at BAS Kundenservice 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

The members of the management board in fiscal year 2017 were:

Division I (chairwoman):

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

Division II (distribution):

Matthias Trunk	Distribution; energy procurement; energy services (incl. contracting and metering); renewable energies; customer service and energy billing; information technology.

Division III (finance):

Dr. Jürgen Schmidberger (until April 30, 2017)	Accounting, financial control (incl. financing); procurement, Group risk management, internal audit and data protection;
Michael Kamsteeg (since August 15, 2017)	Property management andnatural gas storage facility

At the extraordinary meeting of the supervisory board on December 8, 2017, the supervisory board appointed Dr. Gerhard Holtmeier as an additional member of the management board and as chairman of the management board effective as of April 1, 2018. Dr. Holtmeier is to succeed Vera Gäde-Butzlaff.

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	2017	2016
Fixed remuneration	863	745
Variable remuneration	443	411
	1,306	**1,156**

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

In fiscal year 2017, 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 2017, former members of the management board and their surviving dependents received € 1,128k (prior year: € 809k). As of the balance sheet date, provisions of € 15,913k (prior year: € 16,392k) were recognized for obligations to former members of the management board and their surviving dependents. Employer's pension liability insurance of € 6,768k (prior year: € 6,563k) was disclosed netted with the obligations to current and former members of the management board or their surviving dependents.

Supervisory board members' expenses of € 192k (prior year: € 175k) 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.

(35) 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. Appellate proceedings are currently pending at the Berlin Court of Appeal. In fall 2017, GASAG and the State of Berlin concluded another interim agreement limited until December 31, 2018. GASAG and NBB extended the validity of their concession offers also until December 31, 2018.

(36) OTHER DISCLOSURES

Auditor's Fees

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

IN € K	2017	2016
Audit	724	672
Other audit-related services	40	31
Tax advisory services	0	9
Other services	26	63
Total	**790**	**775**

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 assets, liabilities, financial position and financial performance 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 27, 2018
GASAG AG
The Management Board

Vera Gäde-Butzlaff   Michael Kamsteeg   Matthias Trunk

INDEPENDENT AUDITOR'S REPORT

To GASAG AG

OPINIONS

We have audited the consolidated financial statements of GASAG AG, Berlin, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2017 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report of GASAG AG for the fiscal year from January 1, 2017 to December 31, 2017. In accordance with the German legal requirements, we have not audited the content of the Group statement on corporate governance included in section 2.6 of the Group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the fiscal year from January 1, 2017 to December 31, 2017, and

- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group management report does not cover the content of the Group statement on corporate governance included in section 2.6 of the Group management report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the Group management report.

OTHER INFORMATION

The executive directors are responsible for the other information. Other information relates to the Group statement on corporate governance included as of the date of this auditor's report in section 2.6 of the Group management report.

Our opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Berlin, February 28, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

IMPRINT

GASAG AG | Henriette-Herz-Platz 4, 10178 Berlin
Rainer Knauber, head of group communication and marketing
Telephone: 030 7872-3050 | Fax: 030 7872-3044 | Email: rknauber@gasag.de
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