Annual Report 2016

Open Grid Europe GmbH

Translation – the German text is authoritative

Open Grid Europe GmbH, Essen

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Management Report for the 2016 Financial Year

Introduction

Open Grid Europe GmbH (OGE), headquartered in Essen, is one of Germany's leading natural gas transmission system operators. OGE operates Germany's largest transmission system with a length of approximately 12,000 km. As a network operator, OGE is subject to supervision by the Federal Network Agency (BNetzA), the German regulatory authority, and is bound by both EU and German statutory regulations.

OGE's core activities include marketing gas transport capacities (including determining quantities and billing) in the NetConnect Germany (NCG) market area, operating, maintaining and repairing the pipeline system as well as controlling and monitoring the network and storage stations. Furthermore, the core activities include the efficient further development of the gas transmission pipeline networks in line with demand on the basis of nationwide network development plans.

General economic development

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

Primary energy consumption in Germany

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

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

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

Energy policy developments in Europe

Network code tariffs

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

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

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

The first implementation measures are already required in 2017. They relate in particular to the publication of numerous key figures at the end of November 2017 and the preparation of the consultation on the calculation method for network fees. Fees must be calculated in accordance with NC TAR for the first time as at 31 May 2019 with validity from 1 January 2020. With OGE's assistance, ENTSOG is drawing up a guideline for the implementation of the NC TAR. This guideline is to be finalised and published in the first quarter of 2017.

Network Code Capacity Allocation Mechanism (NC CAM)

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

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

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

European Network Development Plan 2017 (ENTSOG TYNDP 2017)

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

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

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

Energy policy developments in Germany

Energy policy framework

The German government pushed ahead in particular with the subject of sector linking in 2016. What is behind the term "sector linking" is the idea and the realisation that the energy transition needs to be taken from the electricity sector to the heat, mobility and industry sectors. For, despite strong growth of renewable energies, CO_2 emissions in Germany have no longer been falling in recent years. Given the ambitious international climate agreement of Paris in 2015, which Germany ratified in 2016, this is leading to growing international criticism of Germany's climate protection efforts. The German government's aim to reduce greenhouse gas emissions by 40% by 2020 compared with 1990 levels is not likely to be achieved. Therefore, all sectors are to be involved in climate protection more quickly and more strongly.

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

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

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

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

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

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

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

As regards the implementation and achievement of the sector targets formulated in the KSP 2050, the concept of sector linking plays a decisive role. However, what is meant by the term sector linking is a matter of debate. Some stakeholders want sector linking in the sense of electrification of all sectors, i.e. electricity from renewable energy is, in future, also to be the energy in the heat, mobility and industry sectors. The gas industry, on the other hand, is one of a group of stakeholders that favours a technology-open approach to sector linking, i.e. better networking of the sectors while strictly monitoring their CO_2 targets but with no specification and focus on a particular technology from the very outset, which would hamper competition and innovation leaps.

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

Stipulation on the conversion system

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

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

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

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

Stipulation on horizontal cost allocation

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

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

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

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

Regulation and amendment to the Incentive Regulation Ordinance

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

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

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

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

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

The Federal Network Agency set the returns on equity for the next regulatory period on 5 October 2016. According to this decision, from 2018 the return on equity (before corporate tax and after trade tax) is 6.91% for new plant and 5.12% for old plant (capitalisation before January 2006). On balance, this means a reduction of nearly 25% compared with the return on equity set and applicable until 2017.

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

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

Network development plans

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

In line with the Energy Industry Act (EnWG), natural gas transmission system operators have to jointly submit a ten-year network development plan in each even calendar year. In each uneven calendar year, for the first time by 1 April 2017, gas transmission system operators have to submit to the regulatory authority a joint implementation report on the network development plan last published.

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

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

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

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

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

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

Technology and environmental protection

Technical operation and expansion of the gas transmission network ran to schedule in the 2016 financial year. Capacity restrictions due to maintenance, repair and integration measures were communicated in good time and information was continually updated on the Internet.

OGE performed various measures to upgrade and expand its technical infrastructure in 2016. These include measures of the equity investments integrated in the OGE network, Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG (MEGAL), Essen, Trans Europa Naturgas Pipeline GmbH & Co. KG (TENP), Essen, Mittelrheinische Erdgastransportleitungsgesellschaft mbH (METG), Essen, and Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG (NETG), Dortmund.

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

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

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

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

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

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

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

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

The ZEELINK project, consisting of a compressor station (3 x 13 MW) in the Aachen area and a gas transmission pipeline running from Lichtenbusch to Legden with a length of 215 km and four gas pressure regulating and metering stations, is proceeding to plan. For this purpose, Zeelink GmbH & Co. KG, Essen, was established as the company responsible. OGE has a 75% share in the company and Thyssengas GmbH the other 25%. The detailed engineering work for the compressor station is now being performed. The compressor units were ordered in November.

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

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

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

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

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

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

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

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

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

Employees

At the end of 2016, OGE had 1,362 employees (excluding management and apprentices). Personnel expenses during the financial year amounted to € 143.5 million (previous year: € 145.5 million).

OGE trains apprentices for technical and administrative jobs at six locations in North Rhine-Westphalia (Essen), Lower Saxony (Krummhörn), Bavaria (Waidhaus, Wildenranna), Hesse (Gernsheim) und Rhineland Palatinate (Mittelbrunn). Furthermore, OGE has, since 2016, provided four additional technical apprenticeships for refugees.

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

Occupational health and safety is a matter of highest priority for OGE. OGE aims to continually reduce the number of accidents and other harmful effects on the health of its employees and employees of partner companies over the long term as well as to constantly improve work ergonomics and occupational health. As a result of these efforts, the targets for the 2016 financial year were basically achieved. The number of work-related accidents, measured in terms of TRIFcomb[1], is continuing to fall on a long-term average and taking account of the proportion of jobs with an increased risk (construction work). In absolute figures, the TRIFcomb increased slightly to 5.8 compared with the previous year. The external auditors of the occupational health and safety management system again noted a further improvement in the safety culture. The HSE sub-contractor management activities were extended.

Corporate governance statement in accordance with section 289a HGB

The German Act to Promote Equal Participation of Women and Men in Management Positions in the Private and Public Sector came into force on 1 May 2015. According to this law, as a co-determined entity with more than 500 employees, OGE had set the following targets for the percentage of women on the Supervisory Board, in the Management as well as in the top two

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

management levels by 30 September 2015 and, at the same time, stipulated when these targets were to be achieved:

Supervisory Board: 0%
Management: 0%
Senior Vice President: 8%
Head of Department: 5%

All four targets were to be achieved by 31 December 2016.

The targets for the Supervisory Board, Management and Heads of Department were achieved by 31 December 2016, as planned. Due to the death of a young female senior vice president in December 2016, the 8% set for the percentage of women in senior vice president positions had not been achieved at the reporting date.

Business report

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

Overall, as already forecast in the previous year, OGE's revenues increased in the 2016 financial year by 3.2% to € 993.8 million (previous year: € 962.6 million). Total revenues comprise revenues from the gas transport business and from the services business. Revenues from the gas transport business and transport-related services amounted to € 807.7 million in the 2016 financial year (previous year: € 787.1 million).

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

At € 186.1 million, revenues from the services business were significantly higher than in the previous year (€ 175.4 million) and significantly higher than expected. The increase was due mainly to a higher volume of projects.

As expected, cost of materials fell compared with the previous year by some € 81.2 million, which is due in particular to the lower cost of fuel gas, load flow commitments and services rendered by third parties.

Income from equity investments fell by € 30.4 million compared with the previous year. This decline is due largely to two factors: firstly, a year-on-year decrease of € 12.1 million in the profit transferred from Line WORX GmbH, Essen, which was in turn due to the fact that the profit for 2016 was not received from GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, Straelen, in the same accounting period; secondly, a year-on-year decrease of € 9.7 million in the profit transferred from NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG (NETRA), Schneiderkrug. In addition, income from equity investments in the previous year contained a one-time effect from a reduction of € 8.9 million in the paid-in equity capital at NETRA level.

Interest expense decreased year on year by € 36.1 million, in particular due to the development of the discount rate for the measurement of provisions for pensions as a result of the change-over to a 10-year average interest rate. Interest income increased compared with the previous year by € 12.9 million, due largely to higher income from the return on plan assets.

OGE's profit before tax increased by € 128.6 million to € 348.7 million, largely as a result of the above-mentioned effects. Net income before distribution of profit amounted to € 245.0 million (previous year: € 173.8 million). In view of future investments, the net income in the amount of € 165.0 million remaining after advance profit distribution in the amount of € 80 million (previous year: € 70 million) was transferred to revenue reserves. As expected, net income for the 2016 financial year was well above the figure for 2015, largely as a result of the effect of the above-mentioned facts.

OGE's total assets amounted to € 1,789.9 million as at the reporting date of 31 December 2016 (previous year: € 1,496.1 million). This gives an equity ratio of 73.6% (previous year: 79.1%). Of the external funds, provisions account for 59.1% (previous year: 79.1%), liabilities for 39.4% (previous year: 19.3%) and deferrals for 1.5% (previous year: 1.5%). Cash and cash equivalents totalled € 149.7 million as at 31 December 2016, increasing by € 54.8 million compared with the previous year. Fixed assets accounted for € 1,481.3 million (previous year: € 1,288.4 million) as at the reporting date and therefore 82.8% (previous year: 86.1%) of OGE's total assets.

In the 2016 financial year, OGE generated cash flow from operating activities of € 329.0 million (previous year: € 102.3 million). Cash flow from investing activities amounted to € -291.6 million (previous year: € -133.9 million). Cash flow from financing activities totalled € 24.8 million (previous year: € 40.6 million) and mainly related to the cash outflow for profit distribution of € -80.0 million (previous year: € -70.0 million) to the parent company, VGT, as well as, having the opposite effect, to income received from equity investments in the amount of € 82.9 million (previous year: € 140.1 million) and the investment of excess liquidity of NETRA in the amount of € 20.4 million (previous year: € -28.8 million) at OGE. Cash flow was therefore moderately higher than expected for the 2016 financial year, which is due largely to better cash flow from operating activities.

In summary, it can be said that the Group’s net assets, financial position and results of operations were stable and secure in the financial year - as forecast in 2015.

Investments

As expected, OGE increased its capital expenditure significantly in the 2016 financial year, investing a total of € 316.5 million compared with € 138.0 million in the previous year. Of this figure, € 136.4 million went into the expansion and upgrading of compressor stations. The installation of three new compressor units in Werne accounted for € 60.5 million and continued work on the construction of a new compressor station in Herbstein for a further € 45.4 million. Both projects are part of the network development plan. OGE invested € 58.3 million in expanding and modernising pipelines, including a total of € 32.5 million in the construction of the Schwandorf-to-Forchheim-to-Finsing pipelines. This work is also part of the network development plan. Other investments accounted for € 29.4 million and included IT projects (total of € 10.0 million) and investments in measurement and control systems (€ 6.8 million).

Investments relating to obligations under the network development plan accounted for a total of € 161.5 million.

Financial investments accounted for € 92.4 million. Additions to financial assets relate mainly to € 56.1 million for a capital increase at Norddeutsche Erdgastransport Infrastruktur GmbH (formerly DEUDAN Holding GmbH), Hanover, for the acquisition of shares in jordgas Transport GmbH, Emden, and capital injections into the newly established pipeline company Zeelink

GmbH & Co. KG in the amount of € 36.0 million. At € 32.5 million, disposals of financial assets relate exclusively to a capital reduction at MEGAL resolved in December 2016.

Financing

OGE is a wholly owned subsidiary of Vier Gas Transport GmbH (VGT), Essen. Since 1 January 2013, there has been a profit-and-loss transfer agreement with VGT, under which OGE undertakes to transfer its entire profit to VGT and VGT undertakes to offset any losses sustained by OGE. The agreement was concluded for a period of five years and is extended by periods of one year if it is not terminated. Since 1 January 2013, VGT and OGE have formed a tax unit for corporate and trade tax purposes, according to which VGT is the controlling company and OGE the controlled company. OGE and VGT have concluded an income tax allocation agreement to allocate to OGE the taxes on income incurred by OGE in its commercial operations. As a result of the income tax allocations, OGE recognises an income tax liability that it would have incurred if it had not formed a single tax unit with VGT.

In line with the existing profit-and-loss transfer agreement and in view of considerable future pending investments, the shareholders resolved, after thorough examination, to transfer the net income for the year in the amount of € 165.0 million to revenue reserves in order to be able to make these future investments from the company's own funds.

The syndicated loan facility for € 200.0 million concluded by VGT on 20 December 2013 and maturing in 2018 still exists. OGE is also a borrower under this loan and therefore entitled to use the credit line. The credit line includes an ancillary facility in the amount of € 1.5 million, which is reserved for surety (e.g. bank guarantees), € 1.0 million of which had been utilised as at 31 December 2016 for the issuing of bank guarantees.

In order to cover its obligations arising from pension entitlements, OGE uses a Contractual Trust Agreement (CTA). The trust fund set up in this connection is managed on a fiduciary basis by Helaba Pension Trust e.V. (Helaba), Frankfurt am Main. Plan assets at Helaba have been netted with the corresponding pension obligations in the balance sheet. In the 2016 financial year, € 0.6 million was added to the plan assets for long-term working-time account obligations. Furthermore, the equivalent of the remuneration payments of € 3.5 million made in 2016 for fulfilment shortfalls in connection with part-time phased-retirement programmes was taken from the trust assets over the course of the year. No additional payments were added to the plan assets for pension obligations in the financial year. As at the reporting date, the fund's assets exceeded the provisions set up at OGE for pension obligations and long-term working-time account obligations by € 7.1 million.

Presentation of activities pursuant to section 6b Energy Industry Act (EnWG)

OGE achieves the majority of its sales and income within the gas sector, particularly in the function of a transport system operator “Grid Business”. Activities in this sector mainly include the marketed transport capacities in the pipeline network as well as the planning and construction, operation, dispatching and maintenance of this network.

With revenues of € 829.2 million in the past financial year (previous year: € 803.1 million), the segment “Grid Business” achieved a profit after tax of € 148.6 million (previous year: € 59.0 million).

The segment “Activities within Gas Sector” includes dispatching for other network operators and suppliers of gas infrastructure. The segment “Other Activities within Gas Sector” achieved a profit after tax of € 2.8 million (previous year: € 1.1 million) from sales of € 7.5 million (previous year: € 7.4 million).

The segment “Activities outside Gas Sector” consists primarily of equity income, technical and engineering services as well as business and IT services. In the past financial year, the segment “Activities outside Gas Sector” achieved a profit after tax of € 94.0 million (previous year: € 114.3 million) from sales of € 157.0 million (previous year: € 152.1 million) and income from equity investments of € 87.0 million (previous year: € 117.4 million).

Report on opportunities and risks

In its business operations, OGE is exposed to a large number of risks connected with its activities. In line with the requirements of the Corporate Sector Control and Transparency Act (KonTraG), the aim of the company's internal risk management system is to use a management and control system to identify and record risks which might threaten the continued existence of the company and, if necessary, to take appropriate counteraction.

The basis for risk management is the opportunity and risk policy which is binding throughout the Group. Risk reporting is an integral part of the internal control system, thus ensuring the continual identification and evaluation of significant opportunities and risks.

Description of the opportunity and risk management process

The opportunity and risk situation of the company is assessed and documented every quarter in a standardised process. The Management and the Supervisory Board are regularly informed as part of this process. The aim of the process is to recognise significant opportunities and risks at an early stage and – wherever possible and necessary – take action to exploit opportunities or mitigate risks.

A risk/opportunity is defined as an event which leads to a deviation from the mid-term planning, which covers a period of 5 years.

Risks are evaluated with regard to probability of occurrence and possible net impact (i.e. maximum impact of the event on profit before tax and/or liquidity) and their cumulative impact over the 5-year period reported to the Management. The reporting threshold per individual case is a cumulative net impact of € 10.0 million over the 5-year period. The net impact is defined as the value of the risk after allowance for precautionary measures in the worst case. Risks with a probability of occurrence of more than 50% are always included in the mid-term planning. In addition, potential opportunities are recorded.

Risks in the order of magnitude of € 100.0 million and more in the above-mentioned period are considered to be significant. Risks of this order of magnitude are reported to the Supervisory Board.

Significant risks

Significant risks are classified according to probability of occurrence and net impact as shown in the following table:

Probability of occurrence in **%**	Low	≤ 5
	Moderate	> 5 ≤ 20
	High	> 20
Cumulative net impact in **€ million** over 5 years	Low	≥ 100 ≤ 200
	Medium	> 200 ≤ 300
	High	> 300

Regulatory framework: The risk situation of OGE is largely governed by the regulatory environment. As a regulated company, OGE's earnings situation and earnings prospects are directly dependent upon decisions made by the regulatory authorities. Important parameters affecting regulated revenues are the approval of the cost base, return on equity, the general sectoral productivity factor and the company-specific efficiency figure. The decisions of the authorities affect the company's revenues, earnings and liquidity situation.

Probability of occurrence: moderate

Net impact: high

Investment requirements: Changes in the network development plan may make additional expansion measures necessary. However, while additional funding would be required in the medium term, there are also opportunities for increasing transport revenues.

Probability of occurrence: low

Net impact: medium

Information technology: OGE uses complex information technology (IT) to operate and control the pipeline network. As a consequence, there are fundamentally risks of the failure of parts of the IT systems leading to temporary impairments to business activities. Failure may be the result of deliberate, unauthorised modification (external access) and / or an impairment of functionality due to errors occurring during operation or hardware and software component faults. This could affect both marketing systems and network control systems. A failure of the network control systems could, in the worst case scenario, lead to a total failure of the gas supply system for several days. OGE safeguards against this risks with redundant systems as well as comprehensive quality assurance and access protection systems.

Probability of occurrence: low

Net impact of individual risks: medium to high

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

Probability of occurrence: low

Net impact: high

Technical plant and on-site conditions: External influences such as natural disasters may partly or completely destroy important plant (e.g. compressor stations), which may lead to temporary interruptions or a local outage preventing gas transportation. A temporary loss of revenues, a write-off of the remaining book value and the necessary installation of new plant lead to profit losses and additional financing requirements.

Due to changes in emission legislation, it may be necessary to make additional (replacement) investments or bring such planned investments forward, which would then require unscheduled funding.

Furthermore, local site conditions may change over the course of time (e.g. changed soil conditions due to erosion). As a result, measures to restore the original conditions may be necessary.

Probability of occurrence: moderate

Net impact of individual risks: medium to high

Risks which are not significant

OGE generates the majority of its revenues from the marketing of transport capacities with a small number of key accounts.

Due to the regulator's account system, terminations of long-term capacity bookings only lead to temporary declines in revenues. Resulting revenue shortfalls in comparison to the approved revenue cap are recognised in the so-called regulator's account, bear interest and are balanced out through an adjustment of the calendar-year revenue cap for the following regulatory period. There is therefore no sustained risk from fluctuations in demand. The syndicated credit line also minimises the liquidity risk.

Disclosures in accordance with section 289, para. 2, No. 2 HGB

In principle, OGE hedges foreign exchange risks from ongoing procurement transactions using spot and forward exchange transactions. The company does not use any further derivative financial instruments. The hedged procurement transactions already expired during the financial year so the company no longer had such contracts in existence as at 31 December 2016.

Opportunities

The main opportunities for OGE are through additional increases in efficiency compared with the approved revenue cap. However, due to the regulatory framework these are only of a temporary nature. Moreover, further opportunities and risks for OGE are possible as the regulatory framework may change. The risk of higher expansion obligations in line with a changed network development plan also presents, on the other hand, an opportunity for higher returns from additional investments.

Overall assessment of opportunity and risk situation

In summary and as in the previous year, the Management sees no risks threatening the continued existence of the company as at the reporting date and for the forecast period and considers the company's risk-bearing capability to be fully ensured.

Material legal disputes

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

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

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

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

Forecast report

According to the forecast on the overall economic situation made by the German Council of Economic Experts, the German economy is expected to show continued stable growth in 2017. Although the rate of GDP growth is anticipated to slow to 1.3%, this effect is due mainly to the smaller number of working days.

With effect from 1 January 2017, OGE charged one standard fee for entry and exit. As a result, fees for entry and exit will be some 8% higher than in 2016. The system for charging authority-regulated fees remained unchanged. The higher fees are due in particular to prior capacity bookings. They reflect optimised booking behaviour of the customers who are making greater use of day-ahead and within-day booking opportunities at border crossing points and market area crossing points.

Furthermore, the expansion measures provided for in the gas network development plan continue to have an effect. This expansion work will not only strengthen supply security in Germany but also permit the start of L/H gas market area changeover in North Rhine-Westphalia, Lower Saxony and Hesse.

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

Revenues of the services business are expected to increase slightly compared with the 2016 financial year; cost of materials is also forecast to be slightly higher than in the 2016 financial year.

An appreciably higher impact on the financial result is expected from changes in interest rates used to measure provisions for pensions. However, this effect will be partly offset by income from equity investments, which is expected to increase appreciably compared with the prior-year figure.

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

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

Overall, a balanced cash flow is expected for 2017 as well. As a result of the high capital expenditure, cash and cash equivalents at the end of 2017 are forecast to be slightly below the 2016 level.

In summary, the Management believes that the company's liquidity situation will be stable and secure.

In the field of occupational safety, the Management’s aim is to confirm the previous trend towards a reduction in the number of workplace accidents and to further develop the safety culture. In order to achieve this, appropriate measures have been either put in place or continued.

Annual Financial Statements for the Period from January 1 to December 31, 2016

Open Grid Europe GmbH, Essen

Balance Sheet as of 31 December 2016

Assets

	Note	€	€	31 Dec. 2015 €k	31 Dec. 2015 €k
A. **Fixed assets**					
I. Intangible assets	(1)				
1. Internally generated intangible assets		8.267.732		6.357	
2. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets		45.530.735		52.505	
3. Prepayments		4.968.076		3.258	
			58.766.543		62.120
II. Tangible assets	(2)				
1. Land, land rights and buildings, including buildings on third-party land		61.999.388		59.847	
2. Technical equipment and machinery		633.220.829		651.112	
3. Other equipment, operating and office equipment		22.206.465		22.695	
4. Prepayments and assets under construction		241.913.282		88.987	
			959.339.964		822.641
III. Financial assets	(3)				
1. Shares in affiliated companies		341.478.273		337.945	
2. Other long-term equity investments		118.950.003		62.849	
3. Other loans		2.733.339		2.806	
			463.161.615		403.600
			1.481.268.122		1.288.361
B. **Current assets**					
I. Inventories	(4)				
1. Raw materials and supplies		5.658.373		6.324	
2. Work in progress		53.601.572		56.462	
3. Merchandise		13.739.143		13.316	
4. Other inventories		1.466.163		556	
			74.465.251		76.658
II. Receivables and other assets	(5)				
1. Trade receivables		19.707.989		21.761	
2. Receivables from shareholders		0		3.126	
3. Receivables from affiliated companies		38.826.193		3.091	
4. Receivables from companies in which equity investments are held		3.103.896		1.065	
5. Other assets		10.215.639		4.307	
			71.853.717		33.350
III. Cash in hand and bank balances	(6)		149.706.541		94.910
			296.025.509		204.918
C. **Prepaid expenses**			2.899.795		1.294
D. **Excess of plan assets over post-employment benefit liability**	(7)		9.728.336		1.486
			1.789.921.762		**1.496.059**

Shareholders' equity and Liabilities

	Note	€	€	31 Dec. 2015 €k	31 Dec. 2015 €k
A. **Shareholders' equity**	(8)				
I. Subscribed Capital		110.324.332		110.324	
II. Capital reserve		603.703.068		603.703	
III. Revenue reserves		604.208.191		439.247	
			1.318.235.591		1.153.274
B. **Provisions**	(9)				
1. Provisions for pensions and similar obligations		6.338.722		6.260	
2. Tax provisions		956.863		14	
3. Other provisions		271.480.929		265.020	
			278.776.514		271.294
C. **Liabilities**	(10)				
1. Payments received on account of orders		14.351.342		15.004	
2. Trade payables		41.868.951		10.571	
3. Liabilities to shareholders		50.731.662		0	
4. Liabilities to affiliated companies		49.527.342		23.823	
5. Liabilities to companies in which equity investments are held		17.270.191		8.492	
6. Other liabilities		12.137.209		8.289	
			185.886.697		66.179
D. **Deferred income**			7.022.960		5.312
			1.789.921.762		**1.496.059**

Open Grid Europe GmbH, Essen

Income Statement
for the periods from 1 January to 31 December 2016

		Note	€	€	2015 €k
1.	Revenues	(11)		993.795.047	962.585
2.	Change in finished goods and work in progress			-2.860.302	7.285
3.	Other own work capitalised	(12)		17.744.607	18.262
4.	Other operating income - of which income from currency translation € 13,111 (previous year: € 30k)	(13)		12.953.170	12.919
5.	Cost of materials	(14)			
	a) Cost of raw materials and supplies		-78.060.601		-99.769
	b) Cost of purchased services		-360.295.058		-419.783
				-438.355.659	-519.552
6.	Personnel expenses				
	a) Wages and salaries		-118.296.554		-118.008
	b) Social security, pensions and other benefits - of which for pensions € 7,436,999 (previous year: € 10.002k)		-25.237.606		-27.505
				-143.534.160	-145.513
7.	Amortisation of intangible assets and depreciation of tangible assets	(15)		-90.495.535	-89.194
8.	Other operating expenses - of which expenses from currency translation € 28,078 (previous year: € 97k)	(16)		-75.418.192	-82.392
9.	Income from equity investments - of which from affiliated companies € 61,769,899 (previous year: € 72.148k)	(17)		87.036.629	117.408
10.	Other interest and similar income - of which from affiliated companies € 7,237 (previous year: € 13k) - of which interest income from discounting of provisions € 0 (previous year: € 42k)	(18)		13.309.850	420
11.	Write-downs of long-term financial assets and securities classified as current assets			0	-500
12.	Interest and similar expenses - of which interest expense from unwinding of discounting of provisions € 26,425,509 (previous year: € 69.601k)	(19)		-25.435.711	-61.568
13.	Income taxes	(20)		-103.251.024	-45.750
14.	**Profit after tax**			**245.488.720**	**174.410**
15.	Other taxes	(21)		-527.557	-640
16.	Transfers under profit-and-loss transfer agreements	(22)		-80.000.000	-70.000
17.	**Net income for the year**			**164.961.163**	**103.770**
18.	Transfers to revenue reserves	(23)		-164.961.163	-103.770
19.	**Unappropriated profit**			**0**	**0**

Open Grid Europe GmbH, Essen

Notes to the financial statements for the 2016 financial year

I. General information on the annual financial statements

Open Grid Europe GmbH (OGE), domiciled in Essen, is entered in the commercial register at Essen local court under commercial register number HRB 17487.

The annual financial statements have been prepared in accordance with the accounting principles laid down in section 242 ff of the German Commercial Code (HGB) as amended by the Accounting Directive Implementation Act (BilRUG), taking the supplementary requirements for corporations (section 264 ff HGB) of the Limited Liability Companies Act (GmbHG) and the Energy Industry Act (EnWG) into account.

In the reporting year, the company fulfilled the size requirements to be classified as a large corporation pursuant to section 267, para. 3 HGB in conjunction with section 267, para. 4 HGB.

The income statement has been prepared in accordance with the type of expenditure format (section 275, para. 2 HGB).

For the prior-year period, the format for the income statement was adjusted in accordance with the provisions of BilRUG.

The prior-year figures for revenues and other operating income are not comparable because of the new version of section 277, para. 1 HGB as amended by the BilRUG. If section 277, para. 1 HGB had been applied in the BilRUG version, revenues would have been € 963.4 million and other operating income € 12.1 million in the prior year.

Vier Gas Transport GmbH (VGT), Essen, is the sole shareholder of OGE. A profit-and-loss transfer agreement has been concluded with VGT with effect from 1 January 2013.

Fiscal unity for corporate income tax purposes has also existed between the two companies since 1 January 2013.

II. Explanations on the accounting, measurement and disclosure methods

Fixed assets

The development of the fixed asset items in the balance sheet as defined by section 266 HGB in the financial year is shown in detail in the statement of changes in fixed assets (section 284, para. 3 HGB).

Intangible and tangible assets are measured at acquisition or production cost less scheduled amortisation/depreciation.

The production cost consists of the mandatory elements in accordance with commercial law pursuant to section 255, para. 2, sentence 2 HGB plus general administrative expenses. In addition to the straight-line depreciation method, the declining-balance method of depreciation has been used. Appropriate expenses within the meaning of section 255, para. 2, sentence 3 HGB for social amenities of the company, for voluntary benefits to personnel and for company pensions are included in production cost to the extent that they were incurred during the period of production.

For tangible assets which already existed at the beginning of the 2009 financial year and had been depreciated using the declining-balance method, the retention option is exercised in accordance with section 67, para. 4, sentence 1 of the Introductory Law to the German Commercial Code (EGHGB) and declining-balance depreciation is continued. Additions since 1 January 2009 are only depreciated on a straight-line basis over the respective asset's customary useful life following the revocation of the principle of reverse authoritativeness in the German Accounting Law Modernisation Act (BilMoG).

The company exercises the option in accordance with section 248, para. 2, sentence 1 HGB and recognises internally generated intangible assets classified as fixed assets. Due to the amount of freely available reserves (capital reserve and revenue reserves), the restriction on distribution and/or transfer pursuant to section 268, para. 8 HGB does not apply.

The company uses the component approach within the meaning of the IDW Accounting Rule HFA 1.016. According to this method, a tangible asset subject to wear and tear is theoretically broken down into its main components with different useful lives in order to determine the amount of the scheduled depreciation for each period for the asset as a whole as the sum of the scheduled depreciation for each period for the individual components of said asset. The component approach is only applicable to such cases where physically separable components are replaced which are material in relation to the total tangible asset. The expense for replacing a component does not affect income as a maintenance expense at the time of incurrence but is capitalised as subsequent acquisition or production cost and depreciated thereafter over the useful life of the respective component.

Due to their minor importance, assets of minor value costing more than € 150 and up to € 1,000 are posted to an asset pool and depreciated on a straight-line basis over a period of five years in line with the tax regulations (section 6, para. 2a Income Tax Law (EStG)).

Shares in affiliated companies and equity investments are stated at acquisition cost. If permanent value impairment is probable, in accordance with section 253, para. 3, sentence 5 HGB the lower fair value is recognised.

Other loans shown under financial assets relate to non-interest-bearing loans granted to employees, which are stated at their present value as of the balance-sheet date. The present values are calculated using an interest rate which is adequate for the remaining term.

Inventories

Raw materials and supplies stated under inventories are generally recognised at average acquisition cost in accordance with section 240, para. 4 HGB or the lower market value, with the strict lower-of-cost-or-market principle in accordance with section 253, para. 4 HGB being applied. In addition to this, the LIFO method in accordance with section 256, sentence 1 HGB is applied when determining acquisition cost. Appropriate write-downs are made for inventory risks arising from storage periods and reduced usability.

Work in progress is stated at production cost. Production cost is stated with the mandatory elements under commercial law, plus general administrative expenses as defined by section 255, para. 2, sentence 2 HGB. Appropriate expenses within the meaning of section 255, para. 2, sentence 3 HGB for social amenities of the company, for voluntary benefits to personnel and for company pensions are included in production cost to the extent that they were incurred during the period of production.

The gas stocks in the transmission network recognised under merchandise are measured at acquisition cost. Measurement is generally made using the LIFO method, the strict lower-of-cost-or-market-principle being applied.

Emission rights are stated at acquisition cost, the strict lower-of-cost-or-market principle being applied.

Receivables and other assets

Receivables and other assets are capitalised at nominal value and measured taking into account all discernible (individual) risks. In addition to individual valuation adjustments, the measurement of trade receivables allows for the general credit risk by making a general valuation adjustment of 1.50% on net receivables reduced by receivables for which individual valuation adjustments have been made. Unless stated otherwise in section III, the company's receivables and other assets have a remaining term of less than one year.

Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value.

Provisions

In accordance with section 253, para. 1, sentence 2 HGB, provisions are stated at the settlement amounts considered necessary when applying sound business judgement, future price and cost increases being taken into account. Provisions with a remaining term of more than one year are discounted in accordance with section 253, para. 2, sentence 1 HGB in conjunction with section 253, para. 2, sentences 4 and 5 HGB, subject to the remaining-term-specific average interest rate (euro zone) for the previous seven - in the case of pensions and gas allowances (liabilities from retirement pension benefits) ten - financial years published monthly by Deutsche Bundesbank. The individual provisions are discounted taking into account the remaining term of the respective provision as of the balance-sheet date.

Income from the discounting of provisions as well as expenses from the subsequent unwinding of discounting are stated in the income statement under "Other interest and similar income" and "Interest and similar expenses", respectively, and disclosed as "thereof" items pursuant to section 277, para. 5 HGB.

As in the previous year, the 2005 G mortality tables of Dr. Klaus Heubeck have been used as a biometric basis for calculating pension provisions.

In deviation from the discounting of provisions generally based on their remaining terms in accordance with section 253, para. 2, sentence 1 HGB, the company exercises the option in accordance with section 253, para. 2, sentence 2 HGB. Accordingly, pension and gas allowance provisions are discounted assuming a term of fifteen years and using an average interest rate of the last ten financial years determined by the Bundesbank.

The difference between the value based on an average market rate of the past ten financial years and that based on the past seven financial years is to be determined in accordance with section 253, para. 6 HGB and is in principle subject to the restriction on distribution in section 268, para. 8 HGB.

Due to the amount of freely available reserves, the restriction on distribution and/or transfer in section 268, para. 8 HGB does not apply.

Pension and gas allowance provisions are measured on the basis of actuarial principles using the projected unit credit method (BilMoG value) and taking into account the above-mentioned average interest rate of the past ten financial years in the amount of 4.01% p.a. In doing so, the following dynamic components are taken into account, in addition to the estimated duration of the beneficiary employees:

- Wage and salary trend: 2.50% p.a.
- Pension trend: 2.00% p.a.

The market rate of 4.01% p.a. corresponds to the discount rate published for December 2016.

Effects resulting from the change in the discount rate are recognised in the interest result.

To secure against insolvency and to finance the employees' claims under retirement pensions, part-time phased-retirement obligations and long-term working-time accounts, a double-sided CTA trust relationship exists between OGE as the trustor and Helaba Pension Trust e. V. (Helaba), Frankfurt am Main, as the trustee.

The trustee holds and administers the trust assets for the trustor in a fiduciary capacity ring-fenced and separate from the trust assets of other trustors and the trustee's own assets.

The trust assets fulfil the requirements for recognition as plan assets in accordance with section 246, para. 2, sentence 2 HGB as they are protected from all other creditors and serve exclusively to meet the liabilities from retirement pension benefits or similar long-term obligations. In accordance with section 253, para. 1, sentence 4 HGB, the plan assets are stated at fair value and, in accordance with section 246, para. 2, sentence 2 HGB, are offset against the provisions for pensions, the provisions for performance arrears in connection with part-time phased-retirement programmes and the provisions for long-term working-time accounts. Should an asset surplus result from the offsetting of provisions against the relevant plan assets, this surplus is shown on the assets side under "Surplus arising from offsetting".

Provisions for obligations to reduce fees in future are stated at their settlement amount. When the provisions are measured in accordance with section 5 of the German Incentive Regulation Ordinance (ARegV), advantages from hitherto unrealised future claims are taken into account provided that they will definitely be realised when the obligation is fulfilled.

Liabilities

Liabilities are stated at their settlement amounts in accordance with section 253, para. 1, sentence 2 HGB.

Deferred taxes

OGE and VGT have formed a fiscal unit since 1 January 2013 with VGT as the controlling company. Therefore, OGE as the controlled company has not established any deferred taxes in accordance with section 285, No. 29 HGB and has also not made any disclosures in accordance with section 285, No. 30 HGB.

III. Notes to the Balance Sheet

(1) Intangible assets

Additions to intangible assets mainly include software in the amount of € 4.8 million as well as construction cost subsidies in the amount of € 1.2 million.

In the financial year, additions to internally generated intangible assets amounted to € 2.5 million. Total research and development expenses pursuant to section 285, No. 22 HGB also amounted to € 2.5 million in the financial year as no research expenses were incurred. Of this figure, € 1.7 million relates to assets which are still under development.

(2) Tangible assets

As at the reporting date, the net book value of tangible assets amounted to € 959.3 million (previous year: € 822.6 million). Additions to tangible assets break down as follows:

• Land, land rights and buildings	1.04 %
• Technical equipment and machinery	14.54 %
• Other tangible assets and assets under construction	84.42 %
	100 %

Additions result mainly from the installation of three new compressor units in Werne (€ 60.5 million), the construction of a new compressor station in Herbstein (€ 45.4 million) and the construction of the new Schwandorf-to-Forchheim-to-Finsing pipeline (€ 32.5 million).

(3) Financial assets

The list of shareholdings (section 285, No. 11 HGB) is attached to the notes.

Additions to financial assets relate mainly to a capital increase at Norddeutsche Erdgastransport Infrastruktur GmbH, Hanover, in the amount of € 56.1 million and contributions to Zeelink GmbH & Co. KG (Zeelink), Essen, in the amount of € 36.0 million. At € 32.5 million, disposals of financial assets relate exclusively to a capital reduction at MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG (MEGAL), Essen, resolved in December 2016.

Other loans mainly comprise non-interest-bearing loans to employees.

(4) Inventories

The items disclosed under inventories relate to work in progress (€ 53.6 million), merchandise (gas stocks in the transmission network) (€ 13.7 million), raw materials and supplies (€ 5.7 million) and emission rights (€ 1.5 million).

The difference resulting from application of the LIFO method for the measurement of gas stocks is € 3.0 million.

(5) Receivables and other assets

Trade receivables mainly result from the transport business.

Receivables from affiliated companies result mainly from the resolved capital reduction of € 32.5 million at MEGAL, from imputable taxes of € 2.9 million from Vier Gas Services GmbH & Co. KG (VGS), Essen, and trade receivables netted against advance payments received and trade payables to MEGAL, in the amount of € 2.4 million.

Receivables from companies in which equity investments are held mainly comprise trade receivables from GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, Straelen, in the amount of € 3.0 million.

Other assets comprise mainly market area changeover and biogas levy accruals of € 5.8 million and gas tax refund claims of € 2.5 million. Other assets amounting to € 1.0 million (previous year: € 1.0 million) are due after more than one year.

(6) Cash in hand and bank balances

Cash and cash equivalents relate to credit balances with banks and cash in hand at the operating sites.

(7) Excess of plan assets over post-employment liability

This item includes the excess of plan assets from the offsetting of the plan assets at Helaba (€ 313.1 million and € 2.0 million) against the corresponding pension provisions (€ 303.4 million) and provisions for obligations arising from part-time phased-retirement programmes (€ 1.9 million).

The plan asset acquisition costs for pension provisions amount to € 265.4 million. The plan asset acquisition costs for part-time phased-retirement obligations amount to € 2.1 million. In the 2016 financial year, € 3.5 million was paid out of plan assets.

The difference between the recognition of provisions for pensions based on the average market rate of the past ten financial years and recognition of provisions based on the average market rate of the past seven financial years is € 46.4 million.

(8) Shareholders' equity

As in the prior year, the **subscribed capital** (share capital) amounts to € 110.3 million.

The sole shareholder of OGE is VGT.

The **capital reserve** is unchanged at € 603.7 million.

The **revenue reserves** in the amount of € 75.4 million result from the direct transfer of reversed amounts from the first-time valuation of provisions in accordance with the provisions of BilMoG and refer to the financial years 2009 and 2010. Furthermore, a total of € 363.8 million was transferred to revenue reserves in the 2014 and 2015 financial years.

In the 2016 financial year, in line with the profit-and-loss transfer agreement existing with VGT, on the basis of sound commercial judgement economically sensible transfers of € 165.0 million were made to revenue reserves with a view to future investment projects in connection with the network development plan.

(9) Provisions

Provisions for pensions and similar obligations exclusively contain provisions for gas allowances.

The difference between the recognition of provisions for gas allowances based on the average market rate of the past ten financial years and recognition of provisions based on the average market rate of the past seven financial years is € 0.9 million.

Tax provisions comprise mainly provisions for corporate and trade tax.

Other provisions (€ 271.5 million) mainly comprise provisions for the removal of disused pipelines amounting to € 87.3 million, provisions for the removal of above-ground facilities amounting to € 84.9 million, provisions for future fee reduction disgorgement amounting to € 25.1 million and staff-related provisions amounting to € 42.9 million. In addition, there are obligations amounting to € 12.8 million to hand over gas in the pipelines. Staff-related provisions include the excess of provisions from the offsetting of the plan assets at Helaba (€ 18.2 million) against the corresponding provisions for long-term working-time accounts (€ 20.8 million). The plan asset acquisition costs amount to € 16.3 million. In the 2016 financial year, payments of € 0.6 million were made into plan assets.

(10) Liabilities

	Total **31 Dec. 2016**	Remaining term of up to 1 year	Remaining term of more than 1 year	**Total** **31 Dec. 2015**
Payments received on account of orders	**€ 14,351,342**	€ 14,351,342	€ 0	**€ 15,003,795**
Trade payables	**€ 41,868,951**	€ 40,215,152	€ 1,653,799	**€ 10,570,799**
Liabilities to shareholders	**€ 50,731,662**	€ 50,731,662	€ 0	**€ 0**
Liabilities to affiliated companies	**€ 49,527,342**	€ 49,527,342	€ 0	**€ 23,823,217**
Liabilities to companies in which equity investments are held	**€ 17,270,191**	€ 17,270,191	€ 0	**€ 8,492,111**
Other liabilities	**€ 12,137,209**	€ 11,999,639	€ 137,570	**€ 8,289,380**
(of which taxes)s	(€ 5,947,317)	(€ 5,947,317)	(€ 0)	(€ 4,781,972)
	€ 185,886,697	€ 184,095,328	€ 1,791,369	**€ 66,179,302**

There are no liabilities with a remaining term of more than five years.

Trade payables result mainly from the transport business and the services business.

Liabilities to shareholders result solely from liabilities under the Group tax levy netted against receivables from imputable taxes.

Liabilities to affiliated companies comprise mainly advance payments received, liabilities resulting from the capital increase at Zeelink, called in December 2016, and liabilities arising from clearing transactions and are netted against receivables under profit-and-loss transfer agreements. The amount of trade payables included in this line item is insignificant.

Liabilities to companies in which equity investments are held contain mainly liabilities arising from clearing transactions and advance payments received and are netted against receivables under profit-and-loss transfer agreements and trade receivables.

Trade payables are largely to Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG, Essen, in the amount of € 5.7 million.

Other liabilities result mainly from taxes of € 5.9 million and construction cost subsidies of € 4.3 million.

Contingent liabilities, off-balance-sheet transactions and other financial obligations

The syndicated credit line in the amount of € 200.0 million concluded by VGT as per 20 December 2013 (maturing in 2018) still exists. OGE is also a borrower under the loan agreement and therefore entitled to use this credit line. No collateral security was provided for this syndicated credit line. For the provision of sureties and guarantees in operational business, there is still an ancillary facility amounting to € 1.5 million under the syndicated loan facility. This ancillary facility is used as a guarantee line. As at the reporting date 31 December 2016, the syndicated credit line had been drawn down in the amount of € 973k through the issue of a bank guarantee.

The financial impact of transactions not contained in the balance sheet within the meaning of section 285, No. 3a HGB amounts to € 184.4 million p.a. at the balance-sheet date from long-term contracts for the leasing of the pipeline network, of which € 123.3 million p.a. relates to affiliated companies.

Outstanding capital contribution liabilities for uncalled capital contributions with respect to Zeelink exist in the amount of € 48.4 million.

Furthermore, other financial obligations of € 531.5 million exist and relate to purchase commitments.

IV. Notes to the income statement

(11) Revenues

In the 2016 financial year, revenues were recognised according to the new definition under section 277, para. 1 HGB, as amended by the Accounting Directive Implementation Act (BilRUG).

Revenues result from the gas transport business and transport-related services (€ 807.7 million) and from technical and commercial services (€ 186.1 million); they are mainly generated in Germany. € 154.2 million of the revenues was generated with affiliated or associated companies. The increase in revenues compared with the previous year is mainly due to the revenue cap approved by the Federal Network Agency, which was higher than in the previous year.

(12) Other own work capitalised

The company capitalised own work for intangible assets in the amount of € 2.5 million in the financial year.

(13) Other operating income

This item results mainly from income from the market area changeover and biogas levy in the amount of € 5.8 million and income from the release of provisions in the amount of € 2.3 million. Furthermore, this item contains an insignificant amount of income not relating to the accounting period. It contains extraordinary income from an unconditional subsidy in the amount of € 2.3 million.

(14) Cost of materials

Cost of materials covers expenses for beneficial use fees, also in regard to affiliated companies and companies in which equity investments are held, expenses for fuel energy as well as natural gas tax. Furthermore, this item also includes repair and maintenance expenses as well as other purchased services.

(15) Depreciation and amortisation

In the reporting year, amortisation of intangible assets and depreciation of tangible assets amounted to € 90.5 million (previous year: € 85.2 million). Of this figure, amortisation of intangible assets amounted to € 14.2 million and depreciation of tangible assets to € 76.3 million.

(16) Other operating expenses

Other operating expenses mainly comprise IT costs, market area changeover and biogas levy expenses and other administrative expenses.

(17) Income from equity investments

	2016	2015
Income from equity investments	€ 30.8 m	€ 53.0 m
Income from profit-and-loss transfer agreements	€ 56.7 m	€ 66.2 m
Cost of loss absorption	€ -0.5 m	€ -1.8 m
	€ 87.0 m	€ 117.4 m

(18) Other interest and similar income

Other interest and similar income comprise mainly interest income of € 18.0 million from plan assets for pension and part-time phased-retirement obligations netted against interest expense for the unwinding of discounting of the corresponding provisions in the amount of € 4.9 million as well as interest income from the unwinding of discounting of loans, interest on arrears and interest income on bank balances, each in the amount of € 0.1 million.

(19) Interest and similar expenses

The unwinding of discounting of provisions to be disclosed separately in the income statement pursuant to section 277, para. 5, sentence 1 HGB, amounts to € 26.4 million. This item also includes income in the amount of € 1.0 million from the measurement of plan assets for long-term working-time accounts at fair value in accordance with section 285, No. 25 in conjunction with section 246, para. 2, sentence 2 HGB. Given the amount of freely available reserves, the restriction on distribution and/or transfer under section 268, para. 8 HGB does not apply.

(20) Income taxes

The taxes on income relate mainly to Group tax levies of the financial year (€ 102.3 million).

(21) Other taxes

This item includes real estate tax, value-added tax and motor vehicle tax.

(22) Transfers under profit-and-loss transfer agreement

The transfers under the profit-and-loss transfer agreement result from the profit-and-loss transfer agreement concluded with VGT and relate solely to advance transfers within the financial year amounting to € 80.0 million.

(23) Transfers to revenue reserves

The portion of net income exceeding advance transfers was transferred in full to revenue reserves in the financial year for future investment projects in connection with the network development plan.

V. Other disclosures

Restriction on distribution or transfer in accordance with section 268, para. 8 HGB

Capitalisation of internally generated intangible assets (€ 8.3 million), accounting for plan assets at fair value (€ +49.5 million compared with the acquisition costs) and application of an average market interest rate for provisions for pensions based on the last ten financial years (difference of € 46.4 million) result in a total amount of € 104.2 million, which is subject to a restriction on transfer pursuant to section 268, para. 8 HGB. Due to the amount of freely available reserves (capital reserve and revenue reserves), this restriction on transfer does not apply.

Number of employees on annual average

In the financial year, the number of employees excluding management and apprentices amounted to an average of 322 industrial workers and 1,032 salaried employees (previous year: 328 industrial workers and 1,029 salaried employees).

Transactions with related parties

Related natural persons within the meaning of section 285, No. 21 HGB are the management and the members of the Supervisory Board. Related legal entities are, in particular, VGT and VGS, as well as the equity investments.

Material transactions agreed on terms and conditions unusual in the market have neither taken place with natural persons nor with legal entities in the reporting year.

Auditor’s fee

The company does not disclose the auditor's fee in accordance with section 285, No. 17 HGB as this figure is disclosed in the consolidated financial statements of VGT.

Large-volume transactions pursuant to section 6b, para. 2 of the Energy Industry Act (EnWG)

Large-volume transactions were carried out mainly with the equity investments of OGE and primarily relate to income from services (€ 122.6 million) as well as expenses for the lease of the pipeline network (€ 184.4 million).

Supervisory Board of Open Grid Europe GmbH, Essen

The following were members of the Supervisory Board in the 2016 financial year:

Hilko Schomerus
Chairman
Darmstadt
Managing Director, Macquarie Capital (Europe) Limited

Frank Lehmann
Deputy Chairman
Moers
Chairman of the Works Council of Open Grid Europe GmbH

Thomas Engelkamp until 5 April 2016
Offenhausen
Master in Occupational Safety at Open Grid Europe GmbH

Önder Ata from 5 April 2016
Mülheim
Deputy Chairman of the Works Council of Open Grid Europe GmbH

Dominik Damaschke
Munich
Senior Investment Manager, MEAG Munich ERGO AssetManagement GmbH

Guy Lambert
Abu Dhabi/United Arab Emirates
Head of Utilities, Abu Dhabi Investment Authority (ADIA)

Lincoln Hillier Webb
Victoria/Canada
Vice President, British Columbia Investment Management Corporation

The members of the Supervisory Board received remuneration of € 0.1 million for their work in the 2016 financial year.

Management of Open Grid Europe GmbH

The Members of the Management in the reporting year were:

Stephan Kamphues
Essen
Chairman of the Management Board

Dr Jörg Bergmann
Bochum
Commercial Managing Officer

Wolfgang Anthes
Moers
Managing Director responsible for Business Services

Dr Thomas Hüwener
Haltern
Managing Director responsible for the Technical Area

In the reporting year, the Management received total remuneration of € 2.7 million within the meaning of section 285, No. 9a HGB for its work. For the total remuneration of former managing directors within the meaning of section 285, No. 9b HGB, the company has made use of the protection-of-interests clause under section 286, para. 4 HGB.

Events after the reporting date

No events of particular importance occurred after the reporting date.

Group

With reference to section 291 HGB, OGE itself does not prepare consolidated financial statements and a Group management report but is included with exempting effect in the consolidated financial statements prepared by VGT in accordance with IFRS, as they are to be applied in the European Union. VGT, as the parent company, prepares consolidated financial statements for the smallest group of companies. Vier Gas Holdings S.à r.l., Luxembourg, as the parent company, prepares consolidated financial statements for the largest group of companies. Both financial statements are published in German in the electronic Federal Gazette.

Essen, 14 March 2017

Open Grid Europe GmbH

The Management

Kamphues	Dr Bergmann	Anthes	Dr Hüwener

Statement of changes in fixed assets of Open Grid Europe GmbH for the 2016 financial year

	Acquisition and production costs					Cumulative amortisation/depreciation				Net book values	
	1 Jan. 2016	Additions	Disposals	Transfers	31 Dec. 2016	1 Jan. 2016	Additions	Disposals	31 Dec. 2016	31 Dec. 2016	31 Dec. 2015
	€	€	€	€	€	€	€	€	€	€	€
Intangible assets											
Internally generated intangible assets	7.477.390,03	2.534.617,73	0,00	0,00	10.012.007,76	1.120.642,53	623.633,35	0,00	1.744.275,88	8.267.731,88	6.356.747,50
Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	129.970.100,88	4.828.556,53	-148.033,03	1.885.801,40	136.536.425,78	77.465.309,83	13.613.525,87	-73.144,34	91.005.691,36	45.530.734,42	52.504.791,05
Prepayments	3.258.346,85	3.595.530,92	0,00	-1.885.801,40	4.968.076,37	0,00	0,00	0,00	0,00	4.968.076,37	3.258.346,85
	140.705.837,76	**10.958.705,18**	**-148.033,03**	**0,00**	**151.516.509,91**	**78.585.952,36**	**14.237.159,22**	**-73.144,34**	**92.749.967,24**	**58.766.542,67**	**62.119.885,40**
Tangible assets											
Land, land rights and buildings, including buildings on third-party land	188.281.126,24	2.212.523,04	-2.030.072,74	3.090.640,28	191.554.216,82	128.434.020,96	3.150.880,68	-2.030.072,74	129.554.828,90	61.999.387,92	59.847.105,28
Technical equipment and machinery	3.992.171.270,61	30.989.818,44	-37.304.840,22	19.642.070,12	4.005.498.318,95	3.341.059.372,63	68.515.609,28	-37.297.492,32	3.372.277.489,59	633.220.829,36	651.111.897,98
Operating and office equipment	82.337.786,71	4.095.071,26	-4.684.842,96	122.187,80	81.870.202,81	59.643.113,15	4.591.885,55	-4.571.260,57	59.663.738,13	22.206.464,68	22.694.673,56
Prepayments and assets under constuction	92.980.457,06	175.781.111,24	0,00	-22.854.898,20	245.906.670,10	3.993.387,64	0,00	0,00	3.993.387,64	241.913.282,46	88.987.069,42
	4.355.770.640,62	**213.078.523,98**	**-44.019.755,92**	**0,00**	**4.524.829.408,68**	**3.533.129.894,38**	**76.258.375,51**	**-43.898.825,63**	**3.565.489.444,26**	**959.339.964,42**	**822.640.746,24**
Financial assets											
Shares in affiliated companies	338.444.522,39	36.033.750,00	-32.500.000,00	0,00	341.978.272,39	499.999,00	0,00	0,00	499.999,00	341.478.273,39	337.944.523,39
Equity investments	62.849.395,86	56.100.606,72	0,00	0,00	118.950.002,58	0,00	0,00	0,00	0,00	118.950.002,58	62.849.395,86
Other loans	3.273.572,14	305.810,00	-468.755,59	0,00	3.110.626,55	467.886,90	0,00	-90.599,12	377.287,78	2.733.338,77	2.805.685,24
	404.567.490,39	**92.440.166,72**	**-32.968.755,59**	**0,00**	**464.038.901,52**	**967.885,90**	**0,00**	**-90.599,12**	**877.286,78**	**463.161.614,74**	**403.599.604,49**
	4.901.043.968,77	**316.477.395,88**	**-77.136.544,54**	**0,00**	**5.140.384.820,11**	**3.612.683.732,64**	**90.495.534,73**	**-44.062.569,09**	**3.659.116.698,28**	**1.481.268.121,83**	**1.288.360.236,13**

List of shareholdings in accordance with section 285 No. 11 HGB
as of 31 December 2016

Consecutive number	Company	Share of Open Grid Europe GmbH or subsidiary in the company's equity in %	Shareholding companies (consecutive number)	Equity (in €k) 1) 31.12.2016	Annual result (in €k) 1) 2016
Major affiliated companies					
1	Open Grid Europe GmbH, Essen 2)			1.318.236	244.961
2	Open Grid Regional GmbH, Essen 2)	100,00	1	500	-473
3	Mittelrheinische Erdgastransportleitungsgesellschaft mbH, Essen 2)	100,00	1	64.150	53.896
4	MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG, Essen	51,00	1	85.106	23.554
5	Line Worx GmbH, Essen 2)	100,00	1	80.725	444
6	Zeelink GmbH & Co. KG, Essen	75,00	1	47.851	-169
Other major equity investments					
7	Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG, Dortmund 3)	50,00	1	28.612	5.092
8	NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG, Schneiderkrug	40,55	1	100.410	39.349
9	Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG, Essen	51,00	1	96.401	11.653
10	GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, Straelen 3)	28,33	5	0	44.282
11	jordgasTransport GmbH, Emden 2) 3)	100,00	20	98.000	4.794
Affiliated companies of minor importance					
12	MEGAL Verwaltungs-GmbH, Essen	51,00	1	47	2
13	PLEdoc GmbH, Essen 2)	100,00	1	589	1.831
14	Open Grid Service GmbH, Essen 2)	100,00	1	128	537
15	NEL Beteiligungs GmbH, Essen 2)	100,00	1	25	1
16	Zeelink-Verwaltungs-GmbH, Essen	75,00	1	27	2
Other equity investments of minor importance					
17	Trans Europa Naturgas Pipeline Verwaltungs-GmbH, Essen	50,00	1	45	2
18	Nordrheinische Erdgastransportleitungs-Verwaltungs-GmbH, Dortmund 3)	50,00	1	37	1
19	DEUDAN-Deutsch/Dänische Erdgastransport-gesellschaft mbH & Co. Kommanditgesellschaft, Handewitt	24,99	1	5.728	1.237
20	Norddeutsche Erdgastransport Infrastruktur GmbH (formerly DEUDAN-Holding-GmbH), Hannover 3)	50,00	1	20	-1
21	NetConnect Germany GmbH & Co. KG, Ratingen 3)	35,00	1	5.000	0
22	NetConnect Germany Management GmbH, Ratingen 3)	35,00	1	72	3
23	NETRA GmbH Norddeutsche Erdgas Transversale, Schneiderkrug 3)	33,33	1	109	2
24	caplog-x GmbH, Leipzig 3)	31,33	1	668	468
25	Liwacom Informationstechnik GmbH, Essen 3)	33,33	1	629	304
26	GasLINE Telekommunikationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH, Straelen 3)	28,33	5	64	1
27	GasLINE CP Customer Projects GmbH, Straelen 3)	100,00	10	256	30
28	DEUDAN-Deutsch/Dänische Erdgastransport-Gesellschaft mbH, Handewitt 3)	24,99	1	70	2
29	PRISMA European Capacity Platform GmbH, Leipzig 3)	1,33	1	376	114

1) Equity and annual result based on accounting principles in accordance with HGB
2) Profit-and-loss transfer agreement (result before profit transfer or loss absorption)
3) Equity and annual result relate to the previous year

Activity Reports 2016

Open Grid Europe GmbH, Essen

Consolidated sector balance sheet as of 31 December 2016

Assets €	Grid Business	Other Activities within Gas Sector	Activities outside Gas Sector	Consolidation Column	Sum
A. Fixed assets					
I. Intangible assets					
1. Internally generated intangible assets	7,513,902	200,301	553,529	0	8,267,732
2. Acquired concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	43,346,815	227,275	1,956,645	0	45,530,735
3. Advance payments made	4,630,199	28,882	308,995	0	4,968,076
	55,490,916	456,458	2,819,169	0	58,766,543
II. Tangible assets					
1. Land, similar rights and buildings	50,323,650	235,351	11,440,387	0	61,999,388
2. Technical equipment and machinery	632,571,911	8,377	640,541	0	633,220,829
3. Other equipment, factory and office equipment	14,458,280	65,255	7,682,930	0	22,206,465
4. Advance payments made and construction in progress	241,768,776	9,122	135,384	0	241,913,282
	939,122,617	318,105	19,899,242	0	959,339,964
III. Financial assets					
1. Shares in affiliated companies	0	0	341,478,273	0	341,478,273
2. Equity investments	0	0	118,950,003	0	118,950,003
3. Other loans	1,644,554	40,429	1,048,356	0	2,733,339
	1,644,554	40,429	461,476,632	0	463,161,615
	996,258,087	814,992	484,195,043	0	1,481,268,122
B. Current assets					
I. Inventories					
1. Raw materials and supplies	5,121,393	1,132	535,848	0	5,658,373
2. Work in progress	7,778,362	0	45,823,210	0	53,601,572
3. Merchandise	13,739,143	0	0	0	13,739,143
4. Other inventories	1,466,163	0	0	0	1,466,163
	28,105,061	1,132	46,359,058	0	74,465,251
II. Receivables and other assets					
1. Trade receivables	14,359,461	679,841	4,668,687	0	19,707,989
2. Receivables from shareholders	0	0	0	0	0
3. Receivables from affiliated companies	0	35,094	40,945,911	-2,154,812	38,826,193
4. Receivables from companies in which equity investments are held	115,266	12	2,988,618	0	3,103,896
5. Other assets	10,176,005	1,059	38,575	0	10,215,639
from that receivables with a residual term of one year	*1,030,471*	*0*	*0*	*0*	*1,030,471*
	24,650,732	716,006	48,641,791	-2,154,812	71,853,717
III. Cash on hand and bank balances	90,602,741	1,722,919	57,380,881	0	149,706,541
	143,358,534	2,440,057	152,381,730	-2,154,812	296,025,509
C. Prepaid expenses	1,792,675	39,951	1,067,169	0	2,899,795
D. Asset surplus arising from offsetting	5,896,344	144,952	3,687,040	0	9,728,336
E. Capital clearing item	275,453,873	0	0	-275,453,873	0
	1,422,759,513	**3,439,952**	**641,330,982**	**-277,608,685**	**1,789,921,762**

Open Grid Europe GmbH, Essen

Consolidated sector balance sheet as of 31 December 2016

Shareholders' equity and Liabilities €			Grid Business	Other Activities within Gas Sector	Activities outside Gas Sector	Consolidation Column	Sum
A.	**Shareholders' equity**						
	I.	Capital shares Share capital	74,200,954	60,700	36,062,678	0	110,324,332
	II.	Capital reserve	406,033,220	332,157	197,337,691	0	603,703,068
	III.	Revenue reserves	579,506,471	41,508	24,660,212	0	604,208,191
			1,059,740,645	434,365	258,060,581	0	1,318,235,591
B.	**Provisions**						
	1.	Provisions for pensions and similar obligations	3,841,899	94,447	2,402,376	0	6,338,722
	2.	Tax provisions	614,699	11,465	330,699	0	956,863
	3.	Other provisions	252,089,186	683,426	18,708,317	0	271,480,929
			256,545,784	789,338	21,441,392	0	278,776,514
C.	**Liabilities**						
	1.	Advance payments received on orders	10,946,746	0	3,404,596	0	14,351,342
		from that with a residual term of one year	*10,946,746*	*0*	*3,404,596*	*0*	*14,351,342*
	2.	Trade payables	35,143,256	176,181	6,549,514	0	41,868,951
		from that with a residual term of up to one year	*33,539,705*	*176,181*	*6,499,266*	*0*	*40,215,152*
		from that with a residual term between one and five years	*1,603,551*	*0*	*50,248*	*0*	*1,653,799*
		from that with a residual term of more than five years	*0*	*0*	*0*	*0*	*0*
	3.	Liabilities to shareholders	32,417,532	613,853	17,700,277	0	50,731,662
		from that with a residual term of up to one year	*32,417,532*	*613,853*	*17,700,277*	*0*	*50,731,662*
	4.	Liabilities to affiliated companies	2,315,845	5,831	49,360,478	-2,154,812	49,527,342
		from that with a residual term of up to one year	*2,315,845*	*5,831*	*49,360,478*	*-2,154,812*	*49,527,342*
	5.	Liabilities to companies in which equity investments are held	9,263,445	38	8,006,708	0	17,270,191
		from that with a residual term of up to one year	*9,263,445*	*38*	*8,006,708*	*0*	*17,270,191*
	6.	Other liabiliites	9,448,254	78,978	2,609,977	0	12,137,209
		from that with a residual term of up to one year	*9,310,684*	*78,978*	*2,609,977*	*0*	*11,999,639*
		from that taxes	*3,741,729*	*77,012*	*2,128,576*	*0*	*5,947,317*
			99,535,078	874,881	87,631,550	-2,154,812	185,886,697
D.	**Deferred income**		6,938,006	36,125	48,829	0	7,022,960
E.	**Capital clearing item**		0	1,305,243	274,148,630	-275,453,873	0
			1,422,759,513	**3,439,952**	**641,330,982**	**-277,608,685**	**1,789,921,762**

Contingent liabilities, off-balance-sheet transactions and other financial obligations

The syndicated credit line in the amount of € 200.0 million concluded by VGT as per 20 December 2013 (maturing in 2018) still exists. OGE is also a borrower under the loan agreement and therefore entitled to use this credit line. No collateral security was provided for this syndicated credit line. For the provision of sureties and guarantees in operational business, there is still an ancillary facility amounting to € 1.5 million under the syndicated loan facility. This ancillary facility is used as a guarantee line. The ancillary facility wil be allocated to the Activities outside Gas Sector.
As at the reporting date 31 December 2016, the syndicated credit line had been drawn down in the amount of € 973k through the issue of a bank guarantee.

The financial impact of transactions not contained in the balance sheet within the meaning of section 285, No. 3a HGB amounts to € 184.4 million p.a. as at the balance-sheet date from long-term contracts for the leasing of the pipeline network (Grid Business), of which € 123.3 million p.a. relates to affiliated companies.

Outstanding capital contribution liabilities for uncalled capital contributions with respect to Zeelink exist in the amount of € 48.4 million (Activities outside Gas Sector).

Furthermore, other financial obligations of € 531.5 million exist and relate to purchase commitments. These purchase commitments are split using the key for materials and therefore classified as follows: Grid Business € 480.8 million, Other Activities within Gas Sector € 0.1 million and Activities outside Gas Sector € 50.6 million.

Open Grid Europe GmbH, Essen

Unbundling Income Statement
for the period from 1 January to 31 December 2016

€	Grid Business	Other Activities within Gas Sector	Activities outside Gas Sector	Sum
1. Revenues	829,239,390	7,516,380	157,039,277	**993,795,047**
2. Change in finished goods and work in progress	-2,644,863	0	-215,439	**-2,860,302**
3. Other own work capitalised	17,744,607	0	0	**17,744,607**
4. Other operating income	11,263,044	332,195	1,357,931	**12,953,170**
- of which income from currency translation	9,194	125	3,792	**13,111**
5. Cost of materials	-396,743,777	-99,260	-41,512,622	**-438,355,659**
a) Cost of raw materials and supplies	-73,666,239	-17,810	-4,376,552	**-78,060,601**
b) Cost of purchased services	-323,077,538	-81,450	-37,136,070	**-360,295,058**
6. Personnel expenses	-87,000,012	-2,135,205	-54,398,943	**-143,534,160**
a) Wages and salaries	-71,793,678	-1,746,412	-44,756,464	**-118,296,554**
b) Social security, pensions and other benefits	-15,206,334	-388,793	-9,642,479	**-25,237,606**
- of which for pensions	-4,490,139	-125,870	-2,820,990	**-7,436,999**
7. Amortisation of intangible assets and depreciation of tangible assets	-86,478,452	-364,498	-3,652,585	**-90,495,535**
8. Other operating expenses	-54,301,590	-1,334,631	-19,781,971	**-75,418,192**
- of which expenses from currency translation	-20,046	-256	-7,776	**-28,078**
9. Income from equity investments	0	0	87,036,629	**87,036,629**
a) Income from investments	0	0	30,830,746	**30,830,746**
- of which from affiliated companies	0	0	5,564,017	**5,564,017**
b) Income from profit transfer agreement	0	0	56,680,291	**56,680,291**
- of which from affiliated companies	0	0	56,680,290	**56,680,290**
c) Expenses from transfer of losses	0	0	-474,408	**-474,408**
- of which from affiliated companies	0	0	-474,408	**-474,408**
10. Other interest and similar income	8,068,561	197,728	5,043,561	**13,309,850**
- of which from affiliated companies	1,600	27	5,611	**7,238**
- of which interest income from discounting	0	0	0	**0**
11. Write-downs of long-term financial assets and securities classified as current assets	0	0	0	**0**
12. Interest and similar expenses	-24,533,326	-34,054	-868,331	**-25,435,711**
- of which interest expense from unwinding of discounting of provisions	-25,130,039	-49,004	-1,246,466	**-26,425,509**
13. Income taxes	-65,967,438	-1,253,365	-36,030,221	**-103,251,024**
14. Profit after tax	**148,646,144**	**2,825,290**	**94,017,286**	**245,488,720**
15. Other taxes	-405,553	-3,857	-118,147	**-527,557**
16. Transfers under profit-and-loss transfer agreements	-48,416,000	-920,000	-30,664,000	**-80,000,000**
17. Net income for the year	**99,824,591**	**1,901,433**	**63,235,139**	**164,961,163**
18. Transfers to revenue reserves	-99,824,591	-1,901,433	-63,235,139	**-164,961,163**
19. Unappropriated profit	**0**	**0**	**0**	**0**

Explanation of accounting unbundling

Preliminary note

Due to the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG) as amended on 22 December 2016, Open Grid Europe GmbH is, in compliance with the provisions of section 6b para. 3 EnWG, obliged to provide separate balance sheets and income statements presenting the segments grid business, other activities within the gas sector and activities outside the gas sector.

For information regarding the accounting and measurement methods (incl. depreciation and amortisation methods), we refer to the explanation included in the notes to the financial statements.

In addition, in the 2016 financial year, in line with the profit-and-loss transfer agreement existing with VGT, on the basis of sound commercial judgement economically sensible transfers of € 165.0 million were made to revenue reserves with a view to future investment projects in connection with the network development plan.

Rules in accordance with section 6b para. 3 EnWG

In the balance sheet and the income statement, assets, liabilities, revenues and expenses are generally assigned directly to each segment. Where direct assignment to certain activities is not possible or would require unreasonable effort, items are assigned on the basis of keys that represent the underlying cost causalities. In comparison to the previous year particular keys have been slightly developed to reflect the organisational and economical conditions and source-related allocation of costs. The result is a slightly modified allocation to the segments grid business, other activities within gas sector and activities outside gas sector.

In detail the following allocation bases are primarily used for calculating the keys:

- Full-Time Equivalent (FTE)
- Keys based on costs (personnel costs, material and maintenance costs)
- Technical parameters (e.g. pipeline length, compressor capacity)
- Total costs
- Profit/loss on ordinary activities
- Net income for the year
- Fixed assets book value

The above-mentioned keys are primarily derived from the corresponding revenues and expenses in the income statement and the items of the balance sheet of Open Grid Europe GmbH.

Business relations between different segments are shown according to the gross method and are assessed on the basis of the costs incurred. In the first step, the gross method assigns total revenues and total expenses by functional reference to activities. In the second step, the actual economic success of the respective activity is derived by using internal cost allocation to the individual segments based on the respective consumption of resources (personnel, equipment etc.).

Statement of changes in fixed assets of Open Grid Europe GmbH for the 2016 financial year

	Acquisition and production costs					Accumulated amortisation/depreciation				Net book values	
	1 Jan. 2016	Additions	Disposals	Transfers	31 Dec. 2016	1 Jan. 2016	Additions	Disposals	31 Dec. 2016	31 Dec. 2016	31 Dec. 2015
	€	€	€	€	€	€	€	€	€	€	€
Intangible assets											
Internally generated intangible assets	7,477,390.03	2,534,617.73	0.00	0.00	10,012,007.76	1,120,642.53	623,633.35	0.00	1,744,275.88	8,267,731.88	6,356,747.50
from that Grid Business	6,622,153.45	2,120,065.23	0.00	0.00	8,742,218.68	787,139.32	441,177.40	0.00	1,228,316.72	7,513,901.96	5,856,875.03
from that Other Activities within Gas Sector	27,318.50	194,880.47	0.00	0.00	222,198.97	10,646.10	11,252.07	0.00	21,898.17	200,300.80	20,334.47
from that Activities outside Gas Sector	827,918.08	219,672.03	0.00	0.00	1,047,590.11	322,857.11	171,203.88	0.00	494,060.99	553,529.12	479,538.00
Acquired concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	129,970,100.88	4,828,556.53	-148,033.03	1,885,801.40	136,536,425.78	77,465,309.83	13,613,525.87	-73,144.34	91,005,691.36	45,530,734.42	52,504,791.05
from that Grid Business	110,137,069.92	4,262,809.65	-103,785.05	1,711,307.84	116,007,402.36	60,689,895.93	12,029,086.64	-58,395.02	72,660,587.55	43,346,814.81	49,587,826.72
from that Other Activities within Gas Sector	6,107,117.71	46,602.50	-1,673.76	41,913.62	6,193,960.07	5,649,668.18	317,575.25	-557.92	5,966,685.51	227,274.56	508,046.78
from that Activities outside Gas Sector	13,725,913.25	519,144.38	-42,574.22	132,579.94	14,335,063.35	11,125,745.72	1,266,863.98	-14,191.40	12,378,418.30	1,956,645.05	2,408,917.55
Advance payments made	3,258,346.85	3,595,530.92	0.00	-1,885,801.40	4,968,076.37	0.00	0.00	0.00	0.00	4,968,076.37	3,258,346.85
from that Grid Business	3,042,933.36	3,267,325.59	0.00	-1,680,059.51	4,630,199.44	0.00	0.00	0.00	0.00	4,630,199.44	3,046,710.19
from that Other Activities within Gas Sector	47,936.14	24,487.33	0.00	-43,541.23	28,882.24	0.00	0.00	0.00	0.00	28,882.24	46,271.17
from that Activities outside Gas Sector	167,477.35	303,718.00	0.00	-162,200.66	308,994.69	0.00	0.00	0.00	0.00	308,994.69	165,365.49
	140,705,837.76	**10,958,705.18**	**-148,033.03**	**0.00**	**151,516,509.91**	**78,585,952.36**	**14,237,159.22**	**-73,144.34**	**92,749,967.24**	**58,766,542.67**	**62,119,885.40**
Tangible assets											
Land, similar rights and buildings including buildings on leasehold land	188,281,126.24	2,212,523.04	-2,030,072.74	3,090,640.28	191,554,216.82	128,434,020.96	3,150,880.68	-2,030,072.74	129,554,828.90	61,999,387.92	59,847,105.28
from that Grid Business	161,259,606.83	2,029,394.24	-2,030,072.74	1,924,988.66	163,183,916.99	112,369,543.57	2,520,795.68	-2,030,072.74	112,860,266.51	50,323,650.48	38,751,488.98
from that Other Activities within Gas Sector	393,827.96	28.78	0.00	44,084.20	437,940.94	187,644.83	14,945.41	0.00	202,590.24	235,350.70	208,950.69
from that Activities outside Gas Sector	26,627,691.45	183,100.02	0.00	1,121,567.42	27,932,358.89	15,876,832.56	615,139.59	0.00	16,491,972.15	11,440,386.74	20,886,665.61
Technical equipment and machinery	3,992,171,270.61	30,989,818.44	-37,304,840.22	19,642,070.12	4,005,498,318.95	3,341,059,372.63	68,515,609.28	-37,297,492.32	3,372,277,489.59	633,220,829.36	651,111,897.98
from that Grid Business	3,985,834,543.16	30,751,169.94	-37,304,840.22	19,642,070.12	3,998,922,943.00	3,335,234,027.39	68,414,496.17	-37,297,492.32	3,366,351,031.24	632,571,911.76	650,579,650.76
from that Other Activities within Gas Sector	711,008.41	0.00	0.00	0.00	711,008.41	699,832.58	2,799.05	0.00	702,631.63	8,376.78	24,471.01
from that Activities outside Gas Sector	5,625,719.04	238,648.50	0.00	0.00	5,864,367.54	5,125,512.66	98,314.06	0.00	5,223,826.72	640,540.82	507,776.21
Factory and office equipment	82,337,786.71	4,095,071.26	-4,684,842.96	122,187.80	81,870,202.81	59,643,113.15	4,591,885.55	-4,571,260.57	59,663,738.13	22,206,464.68	22,694,673.56
from that Grid Business	52,342,188.20	2,360,843.52	-2,739,953.57	73,995.09	52,037,073.24	37,181,418.97	3,072,896.39	-2,675,521.35	37,578,794.01	14,458,279.23	15,252,337.31
from that Other Activities within Gas Sector	191,324.37	11,723.19	-18,775.45	1,065.05	185,337.16	120,378.10	17,926.04	-18,222.39	120,081.75	65,255.41	70,886.20
from that Activities outside Gas Sector	29,804,274.14	1,722,504.55	-1,926,113.94	47,127.66	29,647,792.41	22,341,316.08	1,501,063.12	-1,877,516.83	21,964,862.37	7,682,930.04	7,371,450.05
Advance payments made and construction in progress	92,980,457.06	175,781,111.24	0.00	-22,854,898.20	245,906,670.10	3,993,387.64	0.00	0.00	3,993,387.64	241,913,282.46	88,987,069.42
from that Grid Business	91,691,068.21	175,710,821.35	0.00	-21,639,725.72	245,762,163.84	3,993,387.64	0.00	0.00	3,993,387.64	241,768,776.20	87,728,139.93
from that Other Activities within Gas Sector	45,177.41	9,122.43	0.00	-45,177.41	9,122.43	0.00	0.00	0.00	0.00	9,122.43	45,661.41
from that Activities outside Gas Sector	1,244,211.44	61,167.46	0.00	-1,169,995.07	135,383.83	0.00	0.00	0.00	0.00	135,383.83	1,213,268.08
	4,355,770,640.62	**213,078,523.98**	**-44,019,755.92**	**0.00**	**4,524,829,408.68**	**3,533,129,894.38**	**76,258,375.51**	**-43,898,825.63**	**3,565,489,444.26**	**959,339,964.42**	**822,640,746.24**

Statement of changes in fixed assets of Open Grid Europe GmbH for the 2016 financial year

	Acquisition and production costs					Accumulated amortisation/depreciation				Net book values	
	1 Jan. 2016	Additions	Disposals	Transfers	31 Dec. 2016	1 Jan. 2016	Additions	Disposals	31 Dec. 2016	31 Dec. 2016	31 Dec. 2015
	€	€	€	€	€	€	€	€	€	€	€
Financial assets											
Shares in affiliated companies	338,444,522.39	36,033,750.00	-32,500,000.00	0.00	341,978,272.39	499,999.00	0.00	0.00	499,999.00	341,478,273.39	337,944,523.39
from that Grid Business	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Other Activities within Gas Sector	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Activities outside Gas Sector	338,444,522.39	36,033,750.00	-32,500,000.00	0.00	341,978,272.39	499,999.00	0.00	0.00	499,999.00	341,478,273.39	337,944,523.39
Equity investments	62,849,395.86	56,100,606.72	0.00	0.00	118,950,002.58	0.00	0.00	0.00	0.00	118,950,002.58	62,849,395.86
from that Grid Business	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Other Activities within Gas Sector	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Activities outside Gas Sector	62,849,395.86	56,100,606.72	0.00	0.00	118,950,002.58	0.00	0.00	0.00	0.00	118,950,002.58	62,849,395.86
Other loans	3,273,572.14	305,810.00	-468,755.59	0.00	3,110,626.55	467,886.90	0.00	-90,599.12	377,287.78	2,733,338.77	2,805,685.24
from that Grid Business	1,984,112.08	173,229.44	-284,112.76	0.00	1,873,228.76	283,586.25	0.00	-54,912.12	228,674.13	1,644,554.63	1,714,867.83
from that Other Activities within Gas Sector	48,776.22	4,258.57	-6,984.46	0.00	46,050.33	6,971.51	0.00	-1,349.93	5,621.58	40,428.75	42,063.85
from that Activities outside Gas Sector	1,240,683.84	128,321.99	-177,658.37	0.00	1,191,347.46	177,329.14	0.00	-34,337.07	142,992.07	1,048,355.39	1,048,753.56
	404,567,490.39	**92,440,166.72**	**-32,968,755.59**	**0.00**	**464,038,901.52**	**967,885.90**	**0.00**	**-90,599.12**	**877,286.78**	**463,161,614.74**	**403,599,604.49**
	4,901,043,968.77	**316,477,395.88**	**-77,136,544.54**	**0.00**	**5,140,384,820.11**	**3,612,683,732.64**	**90,495,534.73**	**-44,062,569.09**	**3,659,116,698.28**	**1,481,268,121.83**	**1,288,360,236.13**

Activity Reports 2015

Open Grid Europe GmbH, Essen

Consolidated sector balance sheet as of 31 December 2015

Assets €	Grid Business	Other Activities within Gas Sector	Activities outside Gas Sector	Consolidation Column	Sum
A. Fixed assets					
I. Intangible assets					
1. Internally generated intangible assets	5.856.876	20.334	479.538	0	6.356.748
2. Acquired concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	49.587.826	508.047	2.408.918	0	52.504.791
3. Advance payments made	3.046.711	46.271	165.365	0	3.258.347
	58.491.413	574.652	3.053.821	0	62.119.886
II. Tangible assets					
1. Land, similar rights and buildings	38.751.488	208.951	20.886.666	0	59.847.105
2. Technical equipment and machinery	650.579.650	24.471	507.777	0	651.111.898
3. Other equipment, factory and office equipment	15.252.338	70.886	7.371.450	0	22.694.674
4. Advance payments made and construction in progress	87.728.140	45.661	1.213.268	0	88.987.069
	792.311.616	349.969	29.979.161	0	822.640.746
III. Financial assets					
1. Shares in affiliated companies	0	0	337.944.523	0	337.944.523
2. Equity investments	0	0	62.849.396	0	62.849.396
3. Other loans	1.714.868	42.064	1.048.753	0	2.805.685
	1.714.868	42.064	401.842.672	0	403.599.604
	852.517.897	966.685	434.875.654	0	1.288.360.236
B. Current assets					
I. Inventories					
1. Raw materials and supplies	5.799.661	3.162	521.090	0	6.323.913
2. Work in progress	10.423.224	0	46.038.650	0	56.461.874
3. Merchandise	13.316.036	0	0	0	13.316.036
4. Other inventories	556.387	0	0	0	556.387
	30.095.308	3.162	46.559.740	0	76.658.210
II. Receivables and other assets					
1. Trade receivables	20.116.165	1.291	1.643.131	0	21.760.587
2. Receivables from shareholders	1.501.804	28.761	1.595.590	0	3.126.155
3. Receivables from affiliated companies	1.478.658	28.338	1.584.369	0	3.091.365
4. Receivables from companies in which equity investments are held	18.050	0	1.047.338	0	1.065.388
5. Other assets	2.084.568	4.569	2.217.851	0	4.306.988
from that receivables with a residual term of one year	*1.035.518*	*0*	*0*	*0*	*1.035.518*
	25.199.245	62.959	8.088.279	0	33.350.483
III. Cash on hand and bank balances	31.971.503	617.386	62.321.308	0	94.910.197
	87.266.056	683.507	116.969.327	0	204.918.890
C. Prepaid expenses	825.865	18.212	449.861	0	1.293.938
D. Asset surplus arising from offsetting	914.705	22.437	548.733	0	1.485.875
E. Capital clearing item	222.860.442	534.141	0	-223.394.583	0
	1.164.384.965	**2.224.982**	**552.843.575**	**-223.394.583**	**1.496.058.939**

Open Grid Europe GmbH, Essen

Consolidated sector balance sheet as of 31 December 2015

		Shareholders' equity and Liabilities €	Grid Business	Other Activities within Gas Sector	Activities outside Gas Sector	Consolidation Column	Sum
A.	**Shareholders' equity**						
	I.	Capital shares Share capital	73.002.460	82.779	37.239.093	0	110.324.332
	II.	Capital reserve	399.474.973	452.972	203.775.123	0	603.703.068
	III.	Revenue reserves	413.725.759	56.605	25.464.664	0	439.247.028
			886.203.192	592.356	266.478.880	0	1.153.274.428
B.	**Provisions**						
	1.	Provisions for pensions and similar obligations	3.853.729	94.528	2.311.863	0	6.260.120
	2.	Tax provisions	12.211	59	1.901	0	14.171
	3.	Other provisions	245.889.640	1.447.455	17.682.441	0	265.019.536
			249.755.580	1.542.042	19.996.205	0	271.293.827
C.	**Liabilities**						
	1.	Advance payments received on orders	11.463.282	0	3.540.513	0	15.003.795
		from that with a residual term of one year	*11.463.282*	*0*	*3.540.513*	*0*	*15.003.795*
	2.	Trade payables	5.313.466	29.218	5.228.115	0	10.570.799
		from that with a residual term of up to one year	*4.725.273*	*29.019*	*5.214.892*	*0*	*9.969.184*
		from that with a residual term between one and five years	*504.643*	*199*	*13.223*	*0*	*518.065*
		from that with a residual term of more than five years	*83.550*	*0*	*0*	*0*	*83.550*
	3.	Liabilities to shareholders	0	0	0	0	0
		from that with a residual term of up to one year	*0*	*0*	*0*	*0*	*0*
	4.	Liabilities to affiliated companies	757	15	23.822.445	0	23.823.217
		from that with a residual term of up to one year	*757*	*15*	*23.822.445*	*0*	*23.823.217*
	5.	Liabilities to companies in which equity investments are held	54.392	3.949	8.433.770	0	8.492.111
		from that with a residual term of up to one year	*54.392*	*3.949*	*8.433.770*	*0*	*8.492.111*
	6.	Other liabiliites	6.328.060	57.402	1.903.918	0	8.289.380
		from that with a residual term of up to one year	*27.577*	*0*	*0*	*0*	*27.577*
		from that taxes	*2.856.464*	*55.964*	*1.869.545*	*0*	*4.781.973*
			23.159.957	90.584	42.928.761	0	66.179.302
D.	**Deferred income**		5.266.236	0	45.146	0	5.311.382
E.	**Capital clearing item**		0	0	223.394.583	-223.394.583	0
			1.164.384.965	**2.224.982**	**552.843.575**	**-223.394.583**	**1.496.058.939**

Contingent liabilities and other financial obligations

The syndicated credit line in the amount of € 200.0 million concluded by VGT as per 20 December 2013 (maturing in 2018) still exists. OGE is also a borrower under the loan agreement and therefore entitled to use this credit line. No collateral security was provided for this syndicated credit line. For the provision of sureties and guarantees in operational business, there is still an ancillary facility amounting to € 1.5 million under the syndicated loan facility. This ancillary facility is used as a guarantee line. The ancillary facility wil be allocated to the Activities outside Gas Sector.
As at the reporting date 31 December 2015, the syndicated credit line had been drawn down in the amount of € 30k through the issue of a bank guarantee.

Other financial obligations not shown in the balance sheet amounting to € 199.0 million p.a. as at the balance-sheet date relate to long-term contracts for the leasing of the pipeline network (grid business), of which € 123.8 million p.a. relates to affiliated companies.

Furthermore, other financial obligations of € 387.1 million exist and relate to purchase commitments. These purchase commitments are split using the key for materials and therefore classified as follows: Grid Business € 355.0 million, Other Activities within Gas Sector € 0.2 million and Activities outside Gas Sector € 31.9 million.

Statement of changes in fixed assets of Open Grid Europe GmbH for the 2015 financial year

	Acquisition and production costs					Accumulated amortisation/depreciation				Net book values	
	1 Jan. 2015	Additions	Disposals	Transfers	31 Dec. 2015	1 Jan. 2015	Additions	Disposals	31 Dec. 2015	31 Dec. 2015	31 Dec. 2014
	€	€	€	€	€	€	€	€	€	€	€
Intangible assets											
Internally generated intangible assets	2,876,812.53	870,616.87	0.00	3,729,960.63	7,477,390.03	608,705.35	511,937.18	0.00	1,120,642.53	6,356,747.50	2,268,107.18
from that Grid Business	2,028,494.46	899,567.29	0.00	3,729,960.63	6,658,022.38	435,163.46	365,983.89	0.00	801,147.35	5,856,875.03	1,605,521.55
from that Other Activities within Gas Sector	34,362.83	-1,028.91	0.00	0.00	33,333.92	7,060.98	5,938.47	0.00	12,999.45	20,334.47	23,332.70
from that Activities outside Gas Sector	813,955.24	-27,921.51	0.00	0.00	786,033.73	166,480.91	140,014.82	0.00	306,495.73	479,538.00	639,252.93
Acquired concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets	118,175,790.25	11,480,803.94	-5,156,635.71	5,470,142.40	129,970,100.88	69,037,906.79	13,584,038.75	-5,156,635.71	77,465,309.83	52,504,791.05	49,137,883.46
from that Grid Business	99,790,020.62	10,607,499.01	-4,114,794.66	4,217,400.88	110,500,125.85	53,109,138.31	11,917,955.48	-4,114,794.66	60,912,299.13	49,587,826.72	46,295,300.63
from that Other Activities within Gas Sector	6,802,703.74	107,243.03	-38,721.84	95,095.69	6,966,320.62	5,886,971.16	610,024.52	-38,721.84	6,458,273.84	508,046.78	926,594.31
from that Activities outside Gas Sector	11,583,065.89	766,061.90	-1,003,119.21	1,157,645.83	12,503,654.41	10,041,797.32	1,056,058.75	-1,003,119.21	10,094,736.86	2,408,917.55	1,915,988.52
Advance payments made	12,711,744.43	1,935,652.26	-2,188,946.81	-9,200,103.03	3,258,346.85	0.00	0.00	0.00	0.00	3,258,346.85	12,711,744.43
from that Grid Business	11,181,358.31	2,014,409.93	-2,188,946.81	-7,960,111.24	3,046,710.19	0.00	0.00	0.00	0.00	3,046,710.19	11,328,776.01
from that Other Activities within Gas Sector	134,461.37	6,847.86	0.00	-95,038.06	46,271.17	0.00	0.00	0.00	0.00	46,271.17	126,529.90
from that Activities outside Gas Sector	1,395,924.75	-85,605.53	0.00	-1,144,953.73	165,365.49	0.00	0.00	0.00	0.00	165,365.49	1,256,438.52
	133,764,347.21	**14,287,073.07**	**-7,345,582.52**	**0.00**	**140,705,837.76**	**69,646,612.14**	**14,095,975.93**	**-5,156,635.71**	**78,585,952.36**	**62,119,885.40**	**64,117,735.07**
Tangible assets											
Land, similar rights and buildings including buildings on leasehold land	182,264,336.31	3,427,062.74	-58,295.35	2,648,022.54	188,281,126.24	126,057,923.06	2,429,815.25	-53,717.35	128,434,020.96	59,847,105.28	56,206,413.25
from that Grid Business	143,331,538.01	3,414,744.60	-58,295.35	2,608,961.94	149,296,949.20	108,993,604.87	1,605,572.70	-53,717.35	110,545,460.22	38,751,488.98	34,490,859.96
from that Other Activities within Gas Sector	399,114.24	0.00	0.00	0.00	399,114.24	181,723.30	8,440.25	0.00	190,163.55	208,950.69	187,157.77
from that Activities outside Gas Sector	38,533,684.06	12,318.14	0.00	39,060.60	38,585,062.80	16,882,594.89	815,802.30	0.00	17,698,397.19	20,886,665.61	21,528,395.52
Technical equipment and machinery	3,878,285,804.39	56,890,239.88	-14,184,124.93	71,179,351.27	3,992,171,270.61	3,290,385,680.22	63,171,555.80	-12,497,863.39	3,341,059,372.63	651,111,897.98	587,900,124.17
from that Grid Business	3,871,977,419.72	56,886,348.99	-14,184,124.93	71,179,351.27	3,985,858,995.05	3,284,672,193.69	63,105,013.99	-12,497,863.39	3,335,279,344.29	650,579,650.76	586,915,333.58
from that Other Activities within Gas Sector	627,813.29	0.00	0.00	0.00	627,813.29	613,524.52	-10,182.24	0.00	603,342.28	24,471.01	12,299.38
from that Activities outside Gas Sector	5,680,571.38	3,890.89	0.00	0.00	5,684,462.27	5,099,962.01	76,724.05	0.00	5,176,686.06	507,776.21	972,491.21
Factory and office equipment	77,949,749.43	6,355,935.90	-2,665,771.63	697,873.01	82,337,786.71	56,727,221.42	5,502,980.25	-2,587,088.52	59,643,113.15	22,694,673.56	21,222,528.01
from that Grid Business	49,252,850.73	4,319,350.89	-1,613,727.96	520,333.69	52,478,807.35	35,331,019.02	3,470,137.27	-1,574,686.25	37,226,470.04	15,252,337.31	12,546,682.83
from that Other Activities within Gas Sector	163,154.02	33,575.29	-880.11	0.00	195,849.20	103,770.34	22,072.77	-880.11	124,963.00	70,886.20	41,747.69
from that Activities outside Gas Sector	28,533,744.68	2,003,009.72	-1,051,163.56	177,539.32	29,663,130.16	21,292,432.06	2,010,770.21	-1,011,522.16	22,291,680.11	7,371,450.05	8,634,097.49
Advance payments made and construction in progress	111,157,996.01	56,677,308.55	-329,600.68	-74,525,246.82	92,980,457.06	0.00	3,993,387.64	0.00	3,993,387.64	88,987,069.42	111,157,996.01
from that Grid Business	110,912,565.74	55,449,026.36	-329,600.68	-74,310,463.85	91,721,527.57	0.00	3,993,387.64	0.00	3,993,387.64	87,728,139.93	110,451,211.94
from that Other Activities within Gas Sector	0.00	45,661.41	0.00	0.00	45,661.41	0.00	0.00	0.00	0.00	45,661.41	-9,686.88
from that Activities outside Gas Sector	245,430.27	1,182,620.78	0.00	-214,782.97	1,213,268.08	0.00	0.00	0.00	0.00	1,213,268.08	716,470.95
	4,249,657,886.14	**123,350,547.07**	**-17,237,792.59**	**0.00**	**4,355,770,640.62**	**3,473,170,824.70**	**75,097,738.94**	**-15,138,669.26**	**3,533,129,894.38**	**822,640,746.24**	**776,487,061.44**

Statement of changes in fixed assets of Open Grid Europe GmbH for the 2015 financial year

	Acquisition and production costs					Accumulated amortisation/depreciation				Net book values	
	1 Jan. 2015	Additions	Disposals	Transfers	31 Dec. 2015	1 Jan. 2015	Additions	Disposals	31 Dec. 2015	31 Dec. 2015	31 Dec. 2014
	€	€	€	€	€	€	€	€	€	€	€
Financial assets											
Shares in affiliated companies	338,444,522.39	0.00	0.00	0.00	338,444,522.39	0.00	499,999.00	0.00	499,999.00	337,944,523.39	338,444,522.39
from that Grid Business	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Other Activities within Gas Sector	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Activities outside Gas Sector	338,444,522.39	0.00	0.00	0.00	338,444,522.39	0.00	499,999.00	0.00	499,999.00	337,944,523.39	338,444,522.39
Equity investments	62,849,396.86	0.00	-1.00	0.00	62,849,395.86	0.00	0.00	0.00	0.00	62,849,395.86	62,849,396.86
from that Grid Business	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Other Activities within Gas Sector	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
from that Activities outside Gas Sector	62,849,396.86	0.00	-1.00	0.00	62,849,395.86	0.00	0.00	0.00	0.00	62,849,395.86	62,849,396.86
Other loans	3,344,547.90	372,282.00	-443,257.76	0.00	3,273,572.14	574,660.15	0.00	-106,773.25	467,886.90	2,805,685.24	2,769,887.75
from that Grid Business	2,058,903.69	216,864.80	-272,869.48	0.00	2,002,899.01	353,760.79	0.00	-65,729.61	288,031.18	1,714,867.83	1,729,240.93
from that Other Activities within Gas Sector	50,502.67	5,319.46	-6,693.19	0.00	49,128.94	8,677.37	0.00	-1,612.28	7,065.09	42,063.85	36,008.53
from that Activities outside Gas Sector	1,235,141.54	150,097.74	-163,695.09	0.00	1,221,544.19	212,221.99	0.00	-39,431.36	172,790.63	1,048,753.56	1,004,638.29
	404,638,467.15	**372,282.00**	**-443,258.76**	**0.00**	**404,567,490.39**	**574,660.15**	**499,999.00**	**-106,773.25**	**967,885.90**	**403,599,604.49**	**404,063,807.00**
	4,788,060,700.50	**138,009,902.14**	**-25,026,633.87**	**0.00**	**4,901,043,968.77**	**3,543,392,096.99**	**89,693,713.87**	**-20,402,078.22**	**3,612,683,732.64**	**1,288,360,236.13**	**1,244,668,603.51**

Open Grid Europe GmbH, Essen

Unbundling Income Statement
for the periods from 1 January to 31 December 2015

€	Grid Business	Other Activities within Gas Sector	Activities outside Gas Sector	Sum
1. Sales	803,060,049	7,393,211	152,131,849	**962,585,109**
2. Change in finished goods and work in progress	1,481,166	0	5,803,929	**7,285,095**
3. Other own work capitalised	18,261,659	0	0	**18,261,659**
4. Other operating income	11,911,107	14,090	993,929	**12,919,126**
- of which income from currency translation	21,851	351	8,282	**30,484**
5. Cost of materials	-476,474,103	-254,255	-42,824,100	**-519,552,458**
a) Cost of raw materials and supplies	-94,225,176	-14,389	-5,529,460	**-99,769,025**
b) Cost of purchased services	-382,248,927	-239,866	-37,294,640	**-419,783,433**
6. Personnel expenses	-89,582,674	-2,195,008	-53,735,080	**-145,512,762**
a) Wages and salaries	-72,690,689	-1,822,262	-43,494,948	**-118,007,899**
b) Social security, pensions and other benefits	-16,891,985	-372,746	-10,240,132	**-27,504,863**
- of which for pensions	-6,216,049	-119,476	-3,666,276	**-10,001,801**
7. Amortisation of intangible assets and depreciation of tangible assets	-84,458,051	-636,294	-4,099,370	**-89,193,715**
8. Other operating expenses	-57,327,228	-2,163,734	-22,900,802	**-82,391,764**
- of which expenses from currency translation	-69,546	-1,108	-26,119	**-96,773**
9. Income from equity investments	0	0	117,408,210	**117,408,210**
a) Income from Investments	0	0	53,007,620	**53,007,620**
- of which from affiliated companies	0	0	7,747,799	**7,747,799**
b) Income from Profit Transfer Agreement	0	0	66,249,059	**66,249,059**
- of which from affiliated companies	0	0	66,249,059	**66,249,059**
c) Expenses from transfer of losses	0	0	-1,848,468	**-1,848,468**
- of which from affiliated companies	0	0	-1,848,468	**-1,848,468**
10. Other interest and similar income	223,928	3,603	192,336	**419,867**
- of which from affiliated companies	0	0	12,949	**12,949**
- of which interest income from the discounting of provisions	41,898	0	0	**41,898**
11. Write-downs of long-term financial assets and securities classified as current assets	0	0	-499,999	**-499,999**
12. Interest and similar expenses	-46,114,612	-607,021	-14,845,954	**-61,567,587**
- of which from affiliated companies	0	0	0	**0**
- of which interest expense from unwinding of discounting of provisions	-51,058,873	-728,354	-17,813,310	**-69,600,537**
13. Profit on ordinary activities	**80,981,241**	**1,554,592**	**137,624,948**	**220,160,781**
14. Income taxes	-21,976,157	-421,693	-23,352,660	**-45,750,510**
15. Other taxes	-483,425	-4,760	-151,943	**-640,128**
16. Expenses from profit-and-loss transfer	-23,569,000	-455,000	-45,976,000	**-70,000,000**
17. Net income for the year	**34,952,659**	**673,139**	**68,144,345**	**103,770,143**
18. Transfers to revenue reserves	-34,952,659	-673,139	-68,144,345	**-103,770,143**
19. Unappropriated profit	**0**	**0**	**0**	**0**

Explanation of accounting unbundling

Preliminary note

Due to the German Energy Industry Act (Energiewirtschaftsgesetz – EnWG) as amended on 10 December 2015, Open Grid Europe GmbH is, in compliance with the provisions of section 6b para. 3 EnWG, obliged to provide separate balance sheets and income statements presenting the segments grid business, other activities within the gas sector and activities outside the gas sector.

For information regarding the accounting and measurement methods (incl. depreciation and amortisation methods), we refer to the explanation included in the notes to the financial statements.

In addition, in the 2015 financial year, in line with the profit-and-loss transfer agreement existing with VGT, on the basis of sound commercial judgement economically sensible transfers of € 103.8 million were made to revenue reserves with a view to future investment projects. Therefore this amount is completely assigned to the segment “Grid Business”.

Rules in accordance with section 6b para. 3 EnWG

In the balance sheet and the income statement, assets, liabilities, revenues and expenses are generally assigned directly to each segment. Where direct assignment to certain activities is not possible or would require unreasonable effort, items are assigned on the basis of keys that represent the underlying cost causalities. In comparison to the previous year particular keys have been slightly developed to reflect the organisational and economical conditions and source-related allocation of costs. The result is a slightly modified allocation to the segments grid business, other activities within gas sector and activities outside gas sector.

In detail the following allocation bases are primarily used for calculating the keys:

- Full-Time Equivalent (FTE)
- Keys based on costs (personnel costs, material and maintenance costs)
- Technical parameters (e.g. pipeline length, compressor capacity)
- Total costs
- Profit/loss on ordinary activities
- Net income for the year
- Fixed assets book value

The above-mentioned keys are primarily derived from the corresponding revenues and expenses in the income statement and the items of the balance sheet of Open Grid Europe GmbH.

Business relations between different segments are shown according to the gross method and are assessed on the basis of the costs incurred. In the first step, the gross method assigns total revenues and total expenses by functional reference to activities. In the second step, the actual economic success of the respective activity is derived by using internal cost allocation to the individual segments based on the respective consumption of resources (personnel, equipment etc.).

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Open Grid Europe GmbH, Essen, for the business year from January 1 to December 31, 2016. In accordance with § (Article) 6b (5) EnWG ["Energiewirtschaftsgesetz": "German Energy Industry Act"], the audit also covered compliance with the accounting obligations pursuant to Article 6b (3) EnWG, according to which separate accounts have to be maintained and activity reports have to be prepared for the activities in accordance with Article 6b (3) EnWG. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law as well as compliance with the obligations under Article 6b (3) EnWG are the responsibility of the Company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report as well as on compliance with the accounting obligations pursuant to Section 6b (3) EnWG based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance, and also require that an assessment can be made with reasonable assurance to determine whether the accounting obligations pursuant to Section 6b (3) EnWG have been met in all material respects. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report, as well as compliance with the accounting obligations pursuant to Section 6b (3) EnWG, are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Managing Directors, evaluating the overall presentation of the annual financial statements and the management report, as well as an assessment as to whether the figures which are shown and the way in which the accounts have been allocated in accordance with Article 6b (3) EnWG are proper and understandable, and also whether the principle of consistency has been observed. We believe that our audit provides a reasonable basis for our opinion.

Our audit of the annual financial statements, together with the bookkeeping system, and of the management report has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, complies with legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

The audit of compliance with the accounting obligations in accordance with Article 6b (3) EnWG, according to which separate accounts have to be maintained and activity reports have to be prepared for the activities in accordance with Article 6b (3) EnWG, has not led to any reservations.

Essen, March 21, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Bernhard Klinke)
Wirtschaftsprüfer
(German Public Auditor)

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