

# Annual Report 2008

VNG – Verbundnetz Gas Aktiengesellschaft



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## Foreword of the Executive Board

VNG can look back on a successful financial year in 2008. Net income for the year rose by some 8 per cent to 140.8 million euros, thus keeping the company on its planned growth course. Sales rose by some 30 per cent from 4.2 billion euros to 5.5 billion euros. The sharp rise is mainly attributable to the steep increase in procurement costs which impacted strongly on sales prices last year, although the rise in the quantity of gas sold also contributed to this positive result.

In terms of sales volume, 2008 was VNG's eleventh consecutive record year. With a sales volume of 171.4 billion kilowatt hours, our company once again sold more gas than ever before in its history. Despite tougher competition on the domestic energy market and the decline in overall demand for gas, VNG nevertheless expanded deliveries in Germany.

The company has taken up the challenges of the new competitive framework in the energy sector and proactively seized its opportunities. VNG thus remains the third largest German gas importer. In 2008 we successfully won many new customers throughout Germany, more than compensating for the inevitable loss of customers on our home market in the east of the country. We now not only have a presence in the states of eastern Germany, but also provide a tailor-made product and service offering for our customers across the country. A decentralized sales structure brings us closer to our customers as well as enhancing flexibility and contributing to the success of the company.

In the 2008 financial year we also achieved our goal to establish ourselves in the European gas wholesale business. Our activities developed well, particularly in the EU Member States of Poland and Italy. The Polish company G.EN. GAZ ENERGIA, a wholly-owned subsidiary of VNG, is now the largest gas supplier for private consumers in Poland. A firm north-south transportation route has facilitated stable multi-year deliveries to Italy.

Nine per cent of the total sales volume was delivered to other European countries in 2008. For this business, too, customer proximity, which has been achieved by setting up wholesale companies locally, was an important success factor. VNG is



The Advisory Committee at its meeting on September 9, 2008 at the VNG headquarters.

currently pursuing this strategy in Poland, Italy, Austria, the Czech Republic and Slovakia, with Switzerland soon to follow. We anticipate continued sales growth in these countries.

Apart from numerous activities in the sales sector, VNG continued to systematically pursue a strategy of diversification on the procurement side. This strengthens our negotiating position and enhances the security of supplies to our customers. By increasing the number of sources from which gas is supplied, optimizing transport routes and ensuring adequate underground storage capacities, VNG guarantees reliable gas supplies at all times. Several measures were initiated to this end in the 2008 financial year and we are well prepared to serve our customers in Germany and Europe.

The gas dispute between Russia and Ukraine unsettled many people. However, 90 per cent of deliveries from our Russian partners to VNG, and therefore to our customers, were secured via the second transit route through Belarus and Poland. Moreover, we made every effort during the 2008 financial year to extend our supply portfolio and achieve the best possible balance. We ensure reliable supplies to our customers in both the short and the long term through a good geographical distribution of supply sources spread around the sales regions.

In addition to long-term contracts, particularly with Russian, Norwegian and German producers, VNG also significantly stepped up its European spot and futures trading activities. 19.1 billion kilowatt hours were thus traded in 2008, three times the business of the previous year. European spot and futures trading therefore accounted for 11 per cent of our total supplies in 2008. Moreover, VNG is pressing forward with its own production of Norwegian gas. Our ambitious goal is to meet as much as 10 per cent of the sales volume from our own sources by 2019.

VNG is also becoming increasingly involved in the LNG business. In its liquefied form, natural gas does not need to be transmitted through existing pipelines, but can be

transported via other routes. This broadens the circle of potential producers for Europe and therefore contributes to further improving the procurement structure.

And finally, we are building up biomethane production capacities and thereby also diversifying our supply portfolio further.

We wish to thank our customers for the confidence they placed in us during the 2008 financial year and look forward to continuing our good cooperation.

The Executive Board would like to thank the company's employees, whose knowledge and expertise, motivation and loyal performance represent our core asset.

Thanks are also due to our shareholders, employee representatives, the Supervisory Board, the Advisory Committee and the many friends and partners of VNG. Their foresight has been instrumental in implementing the measures needed to ensure the company's sustained success.

The Executive Board

## Statement of the Supervisory Board

The Supervisory Board has received regular, comprehensive and prompt oral and written reports from the Executive Board on the situation and development of the company and major business transactions. The Supervisory Board has supervised the management of the company on the basis of these reports and the information supplied and has consulted extensively on the development of business, the situation in the fields of gas procurement, sales and storage, the financial position of the company, on issues pertaining to financial, investment and personnel planning and on all measures which by statute require the approval of the Supervisory Board.

The Supervisory Board held three meetings in the 2008 financial year. These meetings dealt in depth with implementation of the strategy 2020 concept drawn up by the company, in particular the further development of new procurement instruments such as the company's involvement in purchasing production licences for the Norwegian Continental Shelf. Deliberations also focused on consolidating and expanding business activities in Italy, Poland, Slovakia and Switzerland, and the company's remaining portfolio of participating interests. Various storage projects were also scrutinized in detail, and the Supervisory Board in addition dealt with the effects of regulation.

On the basis of these consultations and the information and reports received from the Executive Board, the Supervisory Board has verified the due conduct of the company's business by the Executive Board.

The financial statements and consolidated financial statements as drawn up by the Executive Board for the year ended December 31, 2008, the management report and the consolidated management report for the 2008 financial year, together with the bookkeeping system, as well as compliance with



Dr. Karsten Heuchert, Chairman of the Supervisory Board of VNG.

the unbundling requirements of Art. 10, par. 3, Energy Industry Act, in the accounts of the company were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Leipzig, Germany, who have issued unqualified audit opinions on all of these documents. The auditors' opinions were distributed to all members of the Supervisory Board. The Supervisory Board took due note of the findings of these audits.

The Supervisory Board has examined the financial statements and the management report, the consolidated financial statements and the consolidated management report and the proposal of the Executive Board concerning the distribution of the profit. After examination, the Supervisory Board declares that it raises no objections. The auditor

attended the meeting of the Supervisory Board to review the financial statements and the management reports and reported to the Supervisory Board on the main findings of the audits.

The Supervisory Board hereby ratifies the financial statements and consolidated financial statements as drawn up by the Executive Board for the year ended December 31, 2008.

The Supervisory Board concurs with the proposal of the Executive Board concerning the distribution of the profit.

Dr. Hans-Joachim Klein stepped down from the Supervisory Board at the close of the extraordinary general meeting on October 30, 2008. Mr. Josef Rahmen was newly elected to the Supervisory Board by the resolution of the shareholders on October 30, 2008. We would like to thank Dr. Klein for his constructive cooperation and committed service.

The Supervisory Board would like to thank the Executive Board and the staff of the company for their dedication and commitment during the 2008 financial year.

Leipzig, April 1, 2009

The Supervisory Board



Dr. Karsten Heuchert  
Chairman

## Executive Board and Organizational Chart of VNG – Verbundnetz Gas Aktiengesellschaft



**Prof. e. h. Dr.-Ing.  
Klaus-Ewald Holst**  
Chairman  
of the Executive Board



**Prof. Dr. Gerhardt Wolff**  
Deputy Chairman of the Executive Board, Board Member,  
Commercial Affairs/Human Resources



**Klaus-Dieter Barbknecht**  
Board Member  
Gas Procurement



**Dr. Gerhard Holtmeier**  
Board Member  
Gas Sales/Technical Affairs

### Chairman's Division

**Legal Affairs/  
Real Estate/Insurances**  
Friedrich Nollau

**Corporate Communications**  
Bernhard Kaltefleiter

**Strategic Coordination/  
Storage/Logistics Service/  
IT Coordination**  
Michael Ludwig

**Office of the Executive  
Board/Events**  
Prof. e. h. Dr.-Ing.  
Klaus-Ewald Holst

**Senior Staff Affairs**  
Christopher Seibel

**Internal Auditing**  
Prof. e. h. Dr.-Ing.  
Klaus-Ewald Holst

### Commercial Affairs/ Human Resources

**Human Resources**  
Christopher Seibel

**Controlling/Planning/  
Procurement**  
Heike Garczarek

**Finance/Accounting**  
Bodo Rodestock

**Affiliates Management**  
Frank Ruhland

**Information Processing/  
Billing**  
Angelika Letsch

**Taxes**  
Kerstin Krauße

### Gas Procurement

**Gas Purchase  
Eastern Europe/Germany**  
Toni Philipp

**Gas Purchase West**  
Mike Diekmann

**Gas Procurement E&P**  
Dr. Volker Busack

**Gas Purchase LNG/  
New Projects**  
Thomas Witt

### Gas Sales/ Technical Affairs

**Gas Sales Utilities**  
Olaf Schneider

**Gas Sales Industrial Clients**  
Dr. Stephan Krein

**Gas Sales International**  
Lutz Miedtank

**Customer Service/  
Marketing**  
Dr. Achim Westebbe

**Operations/Technology**  
Uwe Ringel

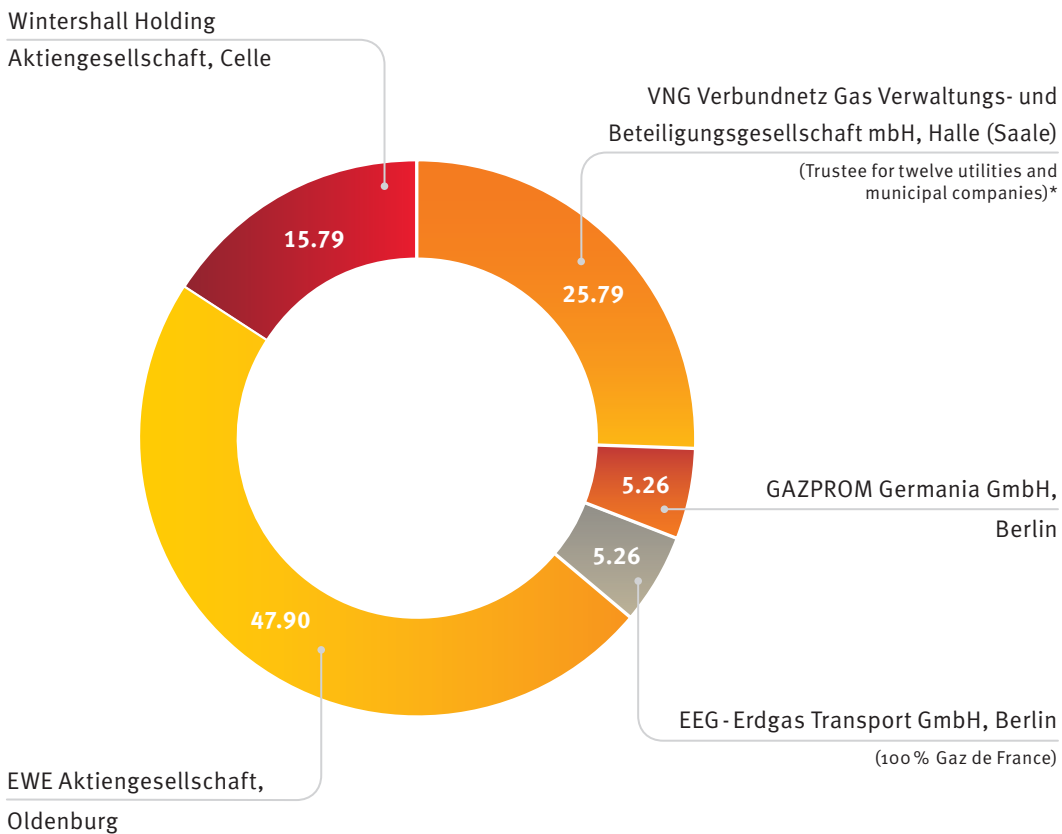
**Business Development/  
Western Europe**  
Oliver Hill

**Sales Portfolio Management**  
Karel Schweng

**Coordination Energy  
Trading Companies**  
André Burkhardt

## Shareholders of VNG

figures in per cent



\* Annaberg-Buchholz, Chemnitz, Dresden, Erfurt, Halle (Saale), Hoyerswerda, Jena, Leipzig, Neubrandenburg, Nordhausen, Rostock, Lutherstadt Wittenberg

April 1, 2009

## Company Boards

### Members of the Executive Board

<b>Prof. e. h. Dr.-Ing. Klaus-Ewald Holst</b>	<b>Chairman of the Executive Board</b>
<b>Prof. Dr. Gerhardt Wolff</b>	<b>Deputy Chairman of the Executive Board Board Member, Commercial Affairs/Human Resources</b>
<b>Klaus-Dieter Barbknecht</b>	<b>Board Member, Gas Procurement</b>
<b>Dr. Gerhard Holtmeier</b>	<b>Board Member, Gas Sales/Technical Affairs</b>

### Members of the Supervisory Board

<b>Dr. Karsten Heuchert</b>	<b>Chairman</b> Member of the Executive Board, Wintershall Holding Aktiengesellschaft, Celle/Germany
<b>Uwe Barthel</b>	<b>1st Vice-Chairman</b> Member of the Board of Management, Stadtwerke Chemnitz AG, Chemnitz/Germany
<b>Jürgen Behm</b>	<b>2nd Vice-Chairman</b> Former Chairman of the General Works Council, VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig/Germany
<b>Bernard Alran</b>	Managing Director, EEG - Erdgas Transport GmbH, Berlin/Germany
<b>Günther Boekhoff</b>	Honorary Mayor of the City of Leer, Leer/Germany
<b>Dr. Werner Brinker</b>	Chairman of the Management Board, EWE Aktiengesellschaft, Oldenburg/Germany
<b>Martin Döscher</b>	Honorary Chief Executive of Cuxhaven Rural District, Köhlen/Germany
<b>Joachim Ebert</b>	Telecommunication systems engineer, GDMcom Gesellschaft für Dokumentation und Telekommunikation mbH, Leipzig/Germany

<b>Dr. Hans Michael Gaul</b>	Former Member of the Board of Management, E.ON AG, Düsseldorf/Germany
<b>Hans-Joachim Gornig</b>	Managing Director, GAZPROM Germania GmbH, Berlin/Germany
<b>Holger Hanson</b>	Chairman of the Board of Management of Neubrandenburger Stadtwerke GmbH, Neubrandenburg/Germany
<b>Dr. Hans-Dieter Harig</b>	Former Chairman of the Board of Management, E.ON Energie Aktiengesellschaft, Munich/Germany
<b>Johannes Hegewald</b>	Foreman, Bad Lauchstädt Compressor Station of VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig/Germany
<b>Dr. Hans-Joachim Klein</b> (until October 30, 2008)	Former Chairman of the Board of Management of LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH, Leipzig/Germany
<b>Josef Rahmen</b> (from October 30, 2008)	Chairman of the Board of Management of LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH, Leipzig/Germany
<b>Andreas Reichelt</b>	Pipeline system technology officer, VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig/Germany
<b>Hans-Joachim Richter</b>	Chairman of the General Works Council, VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig/Germany
<b>Anita Schwabe</b>	Cost accounting officer, VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig/Germany
<b>Dr. Rainer Seele</b>	Member of the Executive Board, Wintershall Holding Aktiengesellschaft, Celle/Germany
<b>Petra Steuer</b>	Scheduling employee, Bernburg underground storage facility, VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig/Germany
<b>Björn Thümler MdL</b>	Historian and political scientist, Berne/Germany
<b>Michael Wagener</b>	Member of the Management Board, EWE Aktiengesellschaft, Oldenburg/Germany

## Annual Report on the 2008 Financial Year

### Reliable and successful European gas importer

For VNG – Verbundnetz Gas AG, Leipzig (VNG), the 2008 financial year was again a successful one. With sales volumes totalling 171.4 billion kilowatt hours (kWh), the record sales level of 2007 (165.2 billion kWh) was surpassed by four per cent. Net income for the year of € 140.8 million underscores the fact that the company has further consolidated and strengthened its position as a gas importer and infrastructure operator on the German and European market.

Conditions in 2008 were difficult: extreme fluctuations in market prices as well as a further tightening of competition among gas wholesalers impacted on the company's business development. This was accompanied by substantial adjustments, some of them the result of legislation, in the established core business processes of gas trading, transport and storage. VNG took up these challenges and in addition systematically expanded its sales activities, thus winning new national and international customers and stabilising sales to existing customers.

VNG will always be a reliable partner. VNG's customers can count on a broad-based supply structure which guarantees the security of supply: VNG takes its gas from numerous suppliers in different countries, mainly on the basis of long-term delivery contracts. Further volumes for the future were secured in 2008. The strategy to diversify sources of supply and transit routes systematically pursued since the early 1990s guaranteed continued stable deliveries to VNG's customers even during the gas dispute between Russia and Ukraine at the end of 2008/early 2009. Moreover, VNG is striding ahead with its own gas production by purchasing licences in Norway. Approximately

ten per cent of gas supplies are to come from VNG's own production from 2019 onwards.

Infrastructure investments make sure that gas plant is always on a state-of-the-art footing. This not only ensures a high standard of efficiency but also guarantees secure gas supplies to customers. In this context, VNG's storage facilities and pipeline network are of major significance.

VNG carefully monitored developments on financial markets and prepared itself early for the far-reaching changes in the German banking and financial environment, taking steps such as ensuring high liquidity reserves. The solid and diversified financing structure proved its worth in these turbulent times and provided for stability.

### Business in 2008 and the Economic Framework

#### VNG on the international stage

##### Crude oil price dives after record high

Prices on international energy markets have risen steadily over recent years. In July 2008, the price of crude (Brent quality) hit an all-time record of 143 US\$ per barrel. This was immediately followed by a drastic slide in prices. At year-end, the price per barrel (Brent) fell to 45 US\$, on a par with the price for the first quarter of 2005, meaning that the value of crude tumbled by almost 100 US\$ within a very short space of time. Fluctuations on this scale have not been observed since official records of energy and raw material prices began. Although the Organization of the Petroleum Exporting Countries (OPEC) initiated massive

cuts in production to counter the price plunge, the slide continued. Traders do not expect any sustained rally for the foreseeable future, either. A persistent global economic downturn will weaken demand for crude further. OPEC does not expect prices to start rising again before mid-2009.

**Steady rise in gas import prices**

The long-term gas delivery contracts concluded by German gas importers are for the most part linked to developments in the price of competing gas oil and heavy fuel oil products, so that gas import prices follow oil price trends with a time lag. For this reason, gas import prices rose steadily until December 2008. Both gas purchase and gas sales prices will begin to fall in early 2009 in line with price developments for heating oil.

**The German economy and trends in Germany**

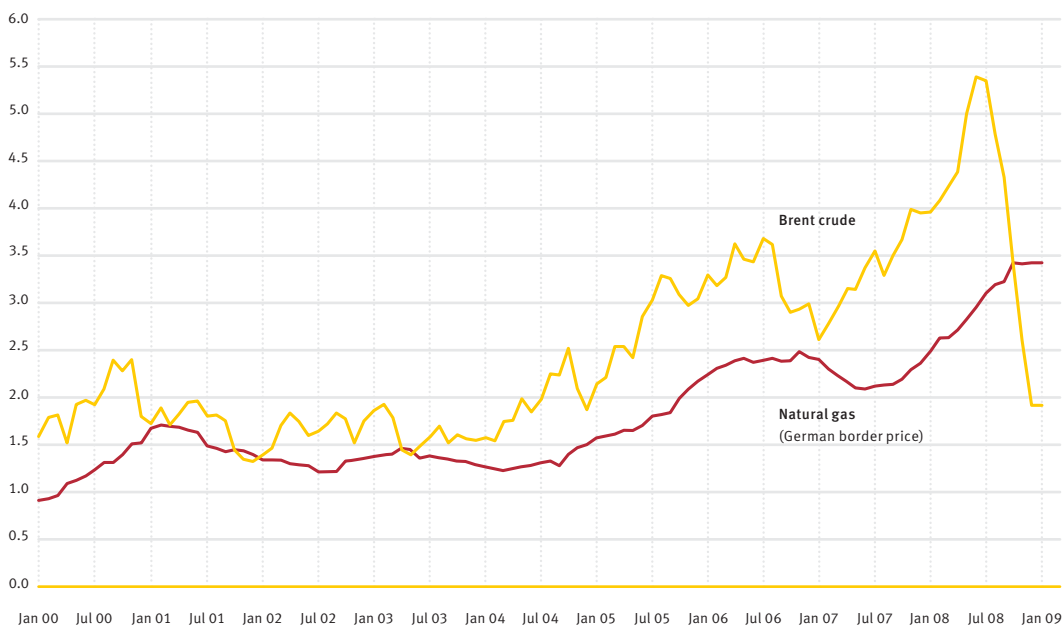
The economic situation in Germany changed significantly during the course of 2008. The tense situation on international financial markets during the second half of the year and the associated downturn in the global economy also impacted on Germany's export-oriented economy.

After a good start to the year, Germany's macro-economic output weakened significantly as the year progressed. Growth still ran at 2.5 per cent in the first six months of 2008. In the second half, however, gross domestic product (GDP) was down significantly year-on-year. On the back of declining domestic and foreign demand in the fourth quarter, there was a serious drop in capital goods production. Nevertheless, overall growth for

● **Comparison of crude oil and natural gas prices (referred to energy content)**

EUROcent/kWh

Source: Federal Office of Economics and Export Control, platts



2008 ran at 1.3 per cent. The German economy is in recession in 2009 and the Federal government expects GDP to fall by 2.25 per cent.

### Rise in German energy consumption

Energy consumption in Germany was up by roughly one per cent year-on-year in 2008. This rise is solely attributable to developments in the first half of the year. The significantly lower temperatures compared with the previous year led to a rise in demand for heating energy. The initially good economic situation favoured higher energy demand. There were high growth rates in the consumption of nuclear power, oil and especially renewable energies.

However, there was a noticeable drop in energy consumption during the second half of the year compared with the same prior-year period as the effects of the economic and financial crisis became ever more pronounced, particularly in the fourth quarter.

Gas consumption was 951 billion kWh, roughly one per cent below the prior-year level. This decline is mainly attributable to reduced industrial demand for gas as a result of the economic situation. Consumption in private households and in the commercial and services sector remained unchanged despite the colder weather.

Gas benefited from the restricted availability of some nuclear power plants and lignite-fired power stations at the beginning of the year, so that significantly more gas was used for power generation during this period. This phenomenon disappeared during the course of the year and consumption returned to its previous levels.

### Renewable energies established on the market

The consumption of renewable energies in 2008 grew by an above-average 7 per cent. At 8 per cent, growth in the use of renewable energies for heat generation was even stronger (e.g. biomass, geothermal, solar heating). Renewable energies achieved a higher market share in particular in combination with gas- or oil-fired heating systems.

### Energy policy framework

#### Integrated Energy and Climate Program of the German Government

The German Bundestag passed the Act on the Promotion of Renewable Energies in the Heat Sector and the amendments to the Renewable Energy Resources Act and the Heat-Power Cogeneration Act as part of the German government's climate program on June 6, 2008.

The Act on the Promotion of Renewable Energies in the Heat Sector seeks to raise the share of renewable energies in heat generation to 14 per cent by 2020. From January 1, 2009, newly erected buildings must use renewable energies for their heat requirements or must take other climate protection measures if they do not wish to use renewable energies. The use of gaseous biomass, and thus the use of biomethane, is contingent on its use in cogeneration plants.

The amendment to the Renewable Energy Resources Act (EEG) seeks to raise the share of renewable energies in energy consumption to 25 to 30 per cent by 2020. To this end, the incentive system has been revised, for instance increasing financial assistance for renewable natural resources.

With the amendment to the Heat-Power Cogeneration Act, the German government is seeking to double the share of electricity generated by cogeneration plants in total electricity production from the present twelve per cent to approximately 25 per cent by 2020. There will be funding for the modernisation of existing and the construction of new cogeneration plants, the market introduction of fuel cells is to be supported and the establishment and expansion of heat energy networks intensified.

#### European Commission's Green Package

On January 23, 2008, the European Commission presented a bag of measures for implementing the EU's integrated climate and energy package. Measures focus on reducing greenhouse gas emissions, fostering renewable energies, and the sustainable use of fossil fuels. It is the Commission's stated goal to reduce greenhouse gas emissions by 20 per cent by 2020.

The European Parliament in Strasbourg passed this energy and climate package by a large majority on December 17, 2008.

#### Unbundling

In 2007, the European Commission proposed ownership unbundling of network operators and network owners to ensure non-discriminatory access to the system and independent investment decisions by network operators, thereby further developing the single market for energy.

Following a lengthy debate, the EU Energy Ministers agreed on three alternatives for further

unbundling on October 10, 2008: ownership unbundling of supply companies and network operators, spinning off networks in an independent operator company, and the so-called "Third Way". Under the Third Way, companies can remain the owners of their networks but are obliged to install independent management in their network operating companies. The EU Member States can choose between these three alternatives when implementing the Directive in national law.

A watered-down version of the envisaged "third country" clause was adopted by the Council in the internal market package. Under the compromise drafted by France, Member States themselves can decide on third country investments. Under the plans, the Commission would review these projects.

A further decision by the Council of Energy Ministers proposes to set up a European Agency for the Cooperation of Energy Regulators. This agency is to work alongside the national regulatory agencies.

The European Parliament still needs to pass the 3<sup>rd</sup> energy package. Discussions are currently being held between representatives of the Council, the Commission and the Parliament in order to reach the hoped-for agreement by spring 2009.

#### Regulation

The new terms for gas transport pursuant to Cooperation Agreement III drawn up by the German Association of Energy and Water Industries (BDEW), the Association of Municipal Enterprises and the European Association of Independent Gas and Power Distribution Companies came into effect on October 1, 2008. Extensive changes were

required as a result of the basic model for offsetting and balancing in the gas sector.

Pursuant to Section 41a of the Gas Network Access Ordinance, the German government is seeking network feed-in of an annual 6 billion m³ of biogas by 2020 and 10 billion m³ by 2030. The costs incurred by network operators can be passed right across the market area to ensure that network operators with a large number of biogas connections are not disproportionately affected. This arrangement will apply at all final user exit points within a market area until such time as a final model for cost sharing valid throughout Germany is in place.

**Strategic orientation**

The entrepreneurial activities of VNG and its subsidiaries focus on strengthening the core business areas of gas import, gas wholesale, gas transport and the marketing of storage capacities. Through these activities VNG covers a substantial share of the gas industry value chain.

VNG is pressing ahead with expanding international business in view of the constant changes in the general framework and market conditions.

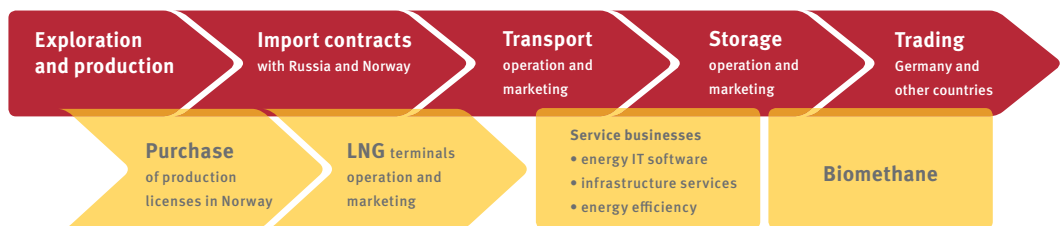
In addition to these efforts, special emphasis is given to the exploration and production of natural gas, renewable energies, and the deployment of efficient energy technologies.

Effective, customer-oriented services, in particular gas trading, transport and storage software service products, complement VNG's core business.

With reference to gas procurement, VNG's strategy is to continue with the diversification of sources of supply and to deliver gas to customers in Germany and other countries reliably and in line with their requirements at all times. The procurement portfolio includes long-term agreements with a number of producers and traders. This forms the basis for VNG's successful competitive position. Other key business activities in the field of procurement concern establishing VNG's own production portfolio and optimising spot and futures business in terms of pricing and timelines.

Going forward, VNG assumes that gas industry infrastructure in the form of pipelines and storage facilities will continue to play a crucial role for efficient gas supplies in a liberalised environment. Investments in expanding this infrastructure are meaningful provided that they support supply and safeguard future capacity marketing.

● **Core competences of the VNG Group**



Storage facilities and pipelines are an important element of the technical and commercial security of supply and serve to foster the competitiveness of gas, a grid-based source of energy.

The competition-driven decline in sales in the market area of ONTRAS – VNG Gastransport GmbH, Leipzig (ONTRAS) is offset by expanding gas trading activities across the Federal Republic of Germany and in European markets. VNG makes proactive use of market opportunities through the targeted expansion of spot and futures trading. Integration of the trading company ENERGIEUNION AG, Schwerin, in the VNG Group has extended the demand-driven range of products and services offered to customers.

For VNG, a spirit of partnership in its cooperation with all players is an important element of corporate philosophy: this includes increasing the value of the company and attaining an appropriate dividend for shareholders. At the same time, this corporate philosophy also seeks to preserve secure and attractive jobs in Germany and abroad, growing the workforce where possible. VNG's numerous commitments to fostering regional development in many areas are particularly worthy of note. The company's excellent credit standing is an important pillar for future success.

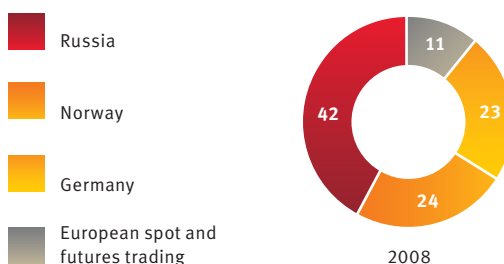
## Gas Trading

### Gas purchase

VNG again reliably delivered gas to its customers in line with demand throughout 2008. The high level of supply security and competitiveness are

### ● Diversification of sources of supply

per cent



based on long-term supply contracts with numerous producers and supply companies.

In the 2008 financial year, VNG took 169.5 billion kWh (2007: 163.9 billion kWh) of gas from many producers and suppliers. 42 per cent of this gas came from Russian sources, 24 per cent from Norway and 23 per cent from German suppliers, with 11 per cent coming from spot and futures trading.

Deliveries of Russian natural gas from the Russian-German export joint venture Wintershall Erdgashandelshaus GmbH & Co. KG, Berlin (WIEH) proceeded smoothly. Both partners plan to expand these relations in future. To this end, VNG secured further import volumes of Russian natural gas totalling an additional one billion m<sup>3</sup> per year until 2030, thus strengthening the company's position on the German and European gas market.

VNG chiefly took delivery of Norwegian natural gas on the basis of the long-term agreements with the suppliers StatoilHydro ASA, StatoilHydro Petroleum AS, TOTAL E&P NORGE AS, Eni Norge AS and ExxonMobil Exploration and Production Norway AS (until August 2008 ExxonMobil Production Norway Inc.) registered in Stavanger.

During the period under review, VNG also made use of the opportunities for securing a total of 19.1 billion kWh on the spot and futures markets with a view to optimising the procurement portfolio.

Once again, the long-standing suppliers of German high-cv gas, ExxonMobil Gas Marketing Deutschland GmbH & Co. KG, Hanover, ExxonMobil Gas Marketing Deutschland GmbH, Hanover, and Shell Erdgas Marketing GmbH & Co. KG, Hamburg, were reliable contract partners for VNG in 2008.

The contract with Gaz de France Produktion Exploration Deutschland GmbH, Lingen, concerning the delivery of Altmark natural gas was extended until October 1, 2010 in the third quarter of the year under review.

In addition, VNG has long-term capacity bookings for the transport of Norwegian natural gas in its main sales territory. Moreover, transport capacities are also available in Slovakia and the Czech Republic.

**Diversifying supplies with LNG**

As European gas resources decline, LNG (liquefied natural gas) will play an increasingly significant role in German and European gas supplies. The International Energy Agency (IEA) estimates that the global gas trade will see more gas transported by tanker than by pipelines as early as 2030. The necessary infrastructures are either currently in the process of construction or soon to be given the investment go-ahead. Both the improved supply situation and the steadily increasing competitive-

ness of LNG demonstrate that demand for regasification options is intensifying.

The strategic goal pursued by VNG in its LNG procurement activities is the continued diversification of the purchasing portfolio over the long term by securing volumes from new and more distant sources. In addition, the purchase of LNG enhances the security of supply and allows access to new gas sales markets.

VNG and its partners are working on a concept to procure LNG for the European market. The focus lies on supply opportunities from North Africa and the Middle East.

**Gas sales**

VNG sold 171.4 billion kWh of natural gas in 2008 (2007: 165.2 billion kWh). Higher deliveries throughout Germany and abroad contributed to this new sales record.

Maximum daily sales of 802 million kWh were recorded on January 4, 2008 at an average temperature for the day of -5.1 °C. The average annual temperature for 2008 was +9.5 °C, compared with +10.5 °C in 2007 and a long-term mean of +8.9 °C.

**Gas sales Germany**

2008 was characterized by intensive competition on the gas market. The market entry of further national and international suppliers meant that industrial users, local utilities and regional distributors could choose from many competitive bids

submitted in response to their calls for tender, and increasingly benefited from the wide choice of alternatives to diversify their supply structures. VNG nevertheless holds a strong position in this competitive environment.

VNG offset the decline in sales in the ONTRAS market area by extending its sales activities across Germany. Apart from the long-standing sales branch in Neu-Isenburg, sales offices had been opened in Munich, Stuttgart and Dortmund by the end of the year. A further office will open in Hamburg during the first half of 2009.

A new brand and product family was developed to enhance the attractiveness of the VNG product offering: The demand-oriented and flexible products VNG.gasmarkt<sup>Vollversorgung</sup>, VNG.gasmarkt<sup>Struktur</sup>, VNG.gasmarkt<sup>Handel</sup> and VNG.gasmarkt<sup>Service</sup> have been added to VNG's product range. These new products are available to all supply companies, major industrial users and gas traders throughout Germany.

The economic changes on the natural gas market mean that the VNG Group no longer needs to con-

tinue with its LPG business to final users. For this reason, VNG sold this business to GUGAS GmbH, Altentreptow, effective October 1, 2008.

**Gas sales other countries**

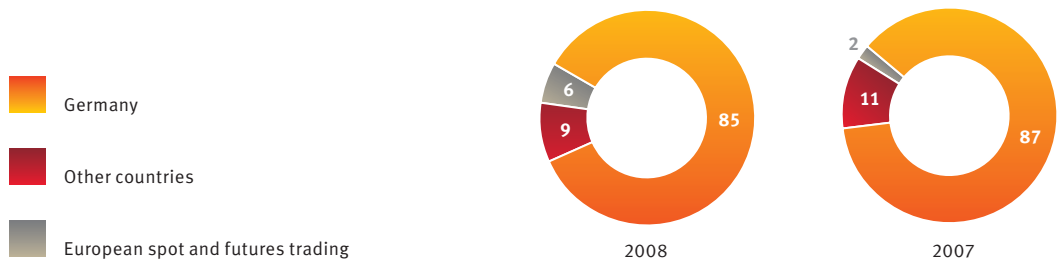
In 2008, VNG's main markets outside Germany were again Poland and Italy. The commencement of gas deliveries to France marked a further expansion in VNG's international sales market. Following a noticeable rise as a result of special contracts in 2007, international sales declined year-on-year in the period under review.

The conclusion of a multi-year contract with the Polish market leader Polskie Gornictwo Naftowe i Gazownictwo S.A., Warsaw, concerning additional deliveries with effect from October 1, 2008 significantly increases gas sales to Poland.

Apart from deliveries to the Italian HERA Group, which continued at a high level, sales to the Italian company SPIGAS S.r.l., La Spezia (SPIGAS), and Vienna-based FlameEnergy Trading GmbH in particular were expanded. The development

● VNG sales 2007–2008

per cent



of transit options via the Trans Austria Gas Pipeline facilitates multi-year contracts with Italian customers.

Gas deliveries to the Czech Republic and Slovakia will continue to increase in 2009.

#### Customer service/marketing

Customer service is the core element of gas marketing and cooperation with market partners is especially significant. Here, the emphasis lies on application-oriented consulting products to enhance energy efficiency and improve environmental compatibility.

In 2008, VNG presented two market programs called “**Brennwert.plus**” and “**Kraftpaket.plus**” designed to foster the use of efficient energy technologies. The objective is to increase the share of gas in the space heating market in cooperation with energy suppliers and the heating trade, and to position modern gas technologies in the residential, commercial and industrial sectors.

Product development was intensified during the year under review. Two attractive new offerings – “Energiedialog” and “Kälteatlas” – extend the portfolio of services. A new editing service and customised software applications have also been added.

The “ERDGAS” umbrella brand created by VNG and its customers and partners was developed further in cooperation with BDEW. From now on, all companies in the gas industry will once again present one face to the customer with a unified product presence. The message is that, compared

with other sources of energy, using gas is still natural and efficient.

#### Technical services

VNG’s technical services business continued on the same scale during the period under review with activities focusing on the operation and maintenance of gas plant.

The activities of the service community LEICONET – Netzbetrieb & Service established in 2007 were expanded further.

#### Spot and futures trading

The significance of spot and futures trading for VNG increased further in 2008. Active trading with standard trading products is used to further optimize the supply and sales portfolio as well as transport and storage bookings. These trading activities also provide sales support in new target markets. In addition, opportunities arising from price differences between the different trading markets and futures products are leveraged on the basis of VNG’s physical gas portfolio. There is no financial trading for own account.

In 2008, VNG was active as a gas trader at the virtual hubs in Germany, France and the Netherlands and at major physical import and export points. For the first time, VNG completed transactions at the Zeebrugge hub in Belgium. Apart from bilateral deals with numerous European trading partners, VNG is also increasingly using the Leipzig-based European Energy Exchange AG (EEX) and various brokers as trading platforms.

## Exploration and production with VNG Norge AS

One of VNG's top-priority procurement projects concerns setting up its own production of natural gas which will contribute to enhancing the security of supply in the long term. From 2019, some 10 per cent of annual gas supplies are to come from the company's own sources. This will require gas reserves of some 15 billion m<sup>3</sup>. Moreover, the gas produced must be continually replaced by new E&P projects.

The subsidiary VNG Norge AS (VNG Norge) registered in Stavanger is responsible for upstream activities in Norway. The company employs a skilled team of geologists, geophysicists and reservoir engineers and manages all E&P-relevant work in Norway. VNG Norge receives expert support from VNG's E&P specialists.

VNG Norge's upstream activities concentrate on sources with a favourable geographic location and high potential for exploration and production activities. The focus is on identifying reserves in the Norwegian Continental Shelf (NCS), particularly the Norwegian sector of the North Sea and the Norwegian Sea. These areas have a well developed infrastructure and most of the proved reserves and discovered resources in the NCS are located there.

In 2008, VNG Norge expanded its portfolio to eight exploration licenses. VNG Norge participates in various consortiums alongside companies such as TOTAL E&P NORGE AS, Stavanger, Det norske oljeselskap ASA, Trondheim, BG Norge AS, Stavanger, and Endeavour Energy Norge AS, Oslo, which are involved in exploration activi-

ties such as the acquisition and interpretation of seismic data. The first exploration wells are already planned for 2009. VNG Norge intends to cover approximately two-thirds of the required gas volumes from existing and future exploration projects by 2015. The remaining third will come from the acquisition of shares in proved but not yet developed reserves.

## Gas Storage

### Expanding storage capacity

Given the growing significance of natural gas storage, VNG is continuing to invest in expanding and modernising its storage facilities.

VNG's four underground storage facilities at Bernburg, Bad Lauchstädt, Buchholz and Kirchheilingen have a working gas volume of approximately 2.4 billion m<sup>3</sup>. Over the next 15 years it is planned to extend storage capacity and thereby raise the working gas volume by some 1 billion m<sup>3</sup>.

A new cavity was commissioned at the Bernburg underground storage facility in January 2008. A further cavity is scheduled for completion in early 2009.

Modernisation work in 2008 focused on replacing the cavity control system in Bernburg, replacing process control technology at Buchholz and the construction of a new heat generation system using CHP technology in Kirchheilingen.

### Marketing storage capacity

VNG markets storage capacity pursuant to the terms of the Energy Industry Act of July 7, 2005 and the voluntary Guidelines for Good Practice for Storage System Operators.

Capacity at VNG's storage facilities was utilized in full in 2008. Marketing storage capacity to third parties played a growing role. During the period under review, numerous capacity requests, some of a very long-term nature, were once again received. Some of these requests extended beyond 2035. One half of all requests received come from interested parties in other European countries. In view of the present booking situation and the number of requests received, full capacity utilization is also expected for 2009.

To ensure non-discriminatory access to storage, VNG posts detailed information on the internet at [www.speicherportal.vng.de](http://www.speicherportal.vng.de). This information includes the General Terms of Storage Access and further data required for non-discriminatory access such as the charges for firm and interruptible storage services.

New General Terms of Storage Access for marketing storage capacities which meet market requirements came into effect on April 1, 2008.

### Gas Transport

VNG's transportation system covering over 7,000 km of transmission pipelines and including compressor stations and pressure regulating and measuring stations is almost exclusively operated by the subsidiary ONTRAS on the basis of a leasing agreement.

### VNG network service

VNG is a service provider for the operation and maintenance of the transportation system leased by ONTRAS. Continuous refurbishment and modernisation measures were performed as commissioned by ONTRAS in 2008.

Investment in the pipeline system focused on replacing the process control system at the Steinitz station and compressor control automation at Sayda.

VNG's technical services are also available to other supply companies and VNG functions inter alia as a service provider for the pipeline network of Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG), Erfurt (EVG), and SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus.

TÜV SÜD Management Service GmbH, Munich, again confirmed the reliability of all VNG's work processes and the proper level of compliance with standards in April 2008. VNG's integrated management system comprising quality, safety and environmental management is instrumental in ensuring technical safety.

### Participating Interests

Participating interests are held direct by VNG and through the three wholly-owned domestic holding companies VNG-Erdgascommerz GmbH, Leipzig (VNG-EC), VNG-Beteiligungs-GmbH, Leipzig (VNG-Bet.), und VNG-Direkt GmbH, Leipzig (VNG-Direkt).

Restructuring of the participating interests portfolio continued in 2008. The objective is to improve

transparency, enhance portfolio management, leverage synergies and optimize process flows.

Developments in the portfolio of participating interests during the 2008 financial year were characterized by new acquisitions.

The performance of VNG's participating interests in 2008 was generally positive. Liberalisation and regulation significantly affected earnings from participating interests and this is also reflected by adjustments in the valuation of some participating interests. At December 31, 2008, the book value of all participating interests directly held by VNG was € 387 million, thus representing approximately 19 percent of the balance sheet total.

#### Significant changes in domestic participating interests

**ONTRAS** developed well in 2008. The two-contract model which came into effect on October 1, 2008, was successfully implemented in the ONTRAS market area. Since then, there has been an increase in trading activity in the market area and higher capacity utilisation of the transmission network. Furthermore, ONTRAS is represented in several national and European gas industry institutions and took the chair of the Gas Transmission Europe (GTE) Capacity Working Group in 2008. By spearheading various projects, ONTRAS continues to play a valuable role in the Gas Regional Initiative, which brings together network operators and regulatory authorities to work on regional solutions for developing the European gas market further.

19 per cent of the shares in **trac-x Transport Capacity Exchange GmbH**, Leipzig, were sold to EEX. VNG-EC now holds 24 per cent of the company's stock.

A six percent share in **store-x Storage Capacity Exchange GmbH**, Leipzig, was sold to each of EEX and RWE Transgas a.s., Prague. VNG-EC now holds 38 per cent of the company's stock.

VNG's commitment in the procurement, generation, marketing and utilization of renewable energies was expanded further through the activities of **BALANCE VNG Bioenergie GmbH**, Leipzig (BALANCE). BALANCE acquired a 25.2 per cent share in **agratec Biomethan GmbH**, Berlin. Together with Agratec AG, Berlin, the owner of the remaining shares, BALANCE plans to build and operate a biogas plant for the production of biomethane for feed-in. BALANCE also acquired a 15.2 per cent share in **Biomethan Schöpstal GmbH & Co. KG**, Schöpstal, and a 15.2 per cent share in the limited liability company acting as general partner, **Biomethan Schöpstal Verwaltungs GmbH**, Schöpstal. This company also plans to build and operate a biogas plant for the production of biomethane for feed-in. In a further addition to its portfolio, BALANCE also purchased 60 per cent of the shares of **BGA Bioenergie GmbH**, Hof. The company plans to build and operate a biogas plant to produce power and heat for marketing locally.

**caplog-x GmbH**, Leipzig, offers process services spanning the entire value chain from measurement data recording through data transmission to technical and commercial data processing.

#### Significant changes in foreign participating interests

VNG continued with the successful expansion of its commitment in Norway in 2008 and increased capital by € 16.9 million during the period under review. VNG now owns shares in a total of eight production licences for the Norwegian Continental Shelf through **VNG Norge**.

Activities concerning participating interests in Italy were intensified during the 2008 financial year to support VNG's core business. Since early 2008, VNG-EC has been the largest shareholder in the Italian wholesaler **SPIGAS**, holding a 40.5 per cent share. With effect from January 1, 2009, VNG-EC acquired a further 25.5 per cent of shares and therefore now holds 66 percent of the company's stock. SPIGAS has experience in the LNG business and access to the LNG terminal in Panigaglia.

The participation in the financial holding company **BLUEFIN S.r.l.** registered in Bologna acquired in September 2006 was raised to 50 per cent in January 2009 through the acquisition of a further 24.9 per cent interest. As a result, the indirect participating interest in the end customer trader **BLUENERGY Group S.p.A.** registered in Campoformido rose from 19.2 per cent to approximately 38.5 per cent.

**VNG Italia S.r.l.**, Bologna (VNG Italia), a wholly-owned subsidiary of VNG, was set up at the end of 2008. The Italian participating interests are to be transferred to VNG Italia during the course of 2009. A national holding structure will therefore be created for Italy.

Financial investments to the amount of € 19 million were made in Poland to further strengthen the portfolio of the holding company **G.EN. Gaz Energia S.A.**, Poznań (G.EN.). G.EN. Trading Sp. z o.o., Poznań, was renamed **HANDEN Sp. z o.o.**, Poznań. **N.EN. Nowa Energia Sp. z o.o.**, Poznań, was sold to **GASPOL S.A.**, Warsaw. It is planned to restructure the portfolio of participating interests in Poland during the 2009 financial year.

**VNG Slovakia spol. s r. o.**, Bratislava (VNG Slovakia) was transferred from VNG-EC and VNG-Bet. to VNG with effect from January 1, 2009, thus

completing restructuring of VNG's participating interests in Slovakia. VNG Slovakia will assume responsibility for gas trading in Slovakia with effect from the 2009 financial year. Effective the same date, **VNG Energie Czech a.s.**, Jablonec nad Nisou, was transferred from VNG-EC to VNG. **Energie Bohemia a.s.**, Prague, began gas trading in the Czech Republic during the 2008 financial year.

#### Companies in the VNG Group

The portfolio of participating interests held by VNG and its holding companies at year-end 2008 comprises the following:

## ● Direct participating interests of VNG – Verbundnetz Gas Aktiengesellschaft

### Share

100.00 %	VNG-Erdgascommerz GmbH, Leipzig
100.00 %	VNG-Beteiligungs-GmbH, Leipzig
100.00 %	VNG-Direkt GmbH, Leipzig
100.00 %	VNG Norge AS, Stavanger, Norway
100.00 %	BALANCE VNG Bioenergie GmbH, Leipzig
	60.00 % BGA Bioenergie GmbH, Hof
	25.20 % agratec Biomethan GmbH, Berlin
	15.20 % Biomethan Schöpstal GmbH & Co. KG, Schöpstal (including limited liability company as general partner)
100.00 %	GDMcom Gesellschaft für Dokumentation und Telekommunikation mbH, Leipzig
	100.00 % GEOMAGIC GmbH, Leipzig
100.00 %	ONTRAS - VNG Gastransport GmbH, Leipzig
100.00 %	VNG Italia S.r.l., Bologna, Italy
100.00 %	S I Sachsenross Erste Beteiligungsgesellschaft mbH, Leipzig
100.00 %	S II Sachsenross Zweite Beteiligungsgesellschaft mbH, Leipzig
50.00 %	InterGasTrade GmbH i.G., Potsdam
50.00 %	InterTransGas GmbH, Leipzig
20.00 %	GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft, Straelen (including limited liability company as general partner)
10.00 %	DFTG-Deutsche Flüssigerdgas Terminal Gesellschaft mit beschränkter Haftung, Wilhelmshaven (including limited liability company as general partner)
4.50 %	erdgas mobil GmbH & Co. KG, Essen (including limited liability company as general partner)

● **German participating interests of VNG-Erdgascommerz GmbH**

**Share**

100.00 %	caplog-x GmbH, Leipzig
100.00 %	CCM Communication-Center Mitteldeutschland GmbH, Leipzig
100.00 %	ECG Erdgas-Consult GmbH, Leipzig
100.00 %	VNG-Erdgastankstellen GmbH, Leipzig
92.22 %	ENERGIEUNION AG, Schwerin 100.00 % EnergieFinanz GmbH, Schwerin
50.00 %	Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG), Erfurt
49.00 %	PROMETHEUS – Gesellschaft für Erdgasanwendungsanlagen mbH, Leipzig
40.00 %	Untergrundspeicher- und Geotechnologie-Systeme Gesellschaft mit beschränkter Haftung, Mittenwalde
38.00 %	store-x Storage Capacity Exchange GmbH, Leipzig
32.56 %	EnD-I AG, Halle (Saale)
29.44 %	Havelländische Stadtwerke GmbH, Werder (Havel)
24.90 %	EMB Erdgas Mark Brandenburg GmbH, Potsdam
24.80 %	SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus
24.50 %	Städtische Werke Borna GmbH, Borna
24.00 %	trac-x Transport Capacity Exchange GmbH, Leipzig
23.38 %	Stadt- und Überlandwerke GmbH Luckau-Lübbenau, Luckau
15.10 %	Versorgungsbetriebe Hoyerswerda GmbH, Hoyerswerda
12.55 %	Stadtwerke Rostock Aktiengesellschaft, Rostock

### ● Foreign participating interests of VNG-Erdgascommerz GmbH

#### Share

100.00 %	G.EN. Gaz Energia Spółka Akcyjna, Poznań, Poland
	100.00 % HANDEN, Sp. z o.o., Poznań, Poland
	100.00 % Gaz Budowa Sp. z o.o., Karlino, Poland
	49.00 % NYSAGAZ Sp. z o.o., Zgorzelec, Poland
	30.07 % ZEC Sp. z o.o., Białogard, Poland
100.00 %	VNG Energie Czech a.s., Jablonec nad Nisou, Czech Republic
	100.00 % Energie Bohemia a.s., Prague, Czech Republic
	100.00 % H – therma, a.s., Hrádek nad Nisou, Czech Republic
99.96 %	VNG Slovakia, spol. s r.o., Bratislava, Slovakia
	49.00 % Nitrianska teplárenská spoločnosť, a.s., Nitra, Slovakia
	49.00 % Prievidzské tepelné hospodárstvo, a.s., Prievidza, Slovakia
50.00 %	FlameEnergy Trading GmbH, Vienna, Austria
40.50 %	SPIGAS S.r.l., La Spezia, Italy
25.10 %	BLUEFIN S.r.l., Bologna, Italy
	76.98 % BLUENERGY GROUP S.p.A., Campofornido, Italy

### ● Participating interests of VNG-Beteiligungs-GmbH

#### Share

24.60 %	MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)
21.40 %	Gas Service Freiberg GmbH, Freiberg
0.04 %	VNG Slovakia, spol. s r.o., Bratislava, Slovakia

### ● Participating interest of VNG-Direkt GmbH

#### Share

21.48 %	Havelländische Stadtwerke GmbH, Werder (Havel)
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### Research and Innovation

VNG is an innovative and competitive European gas importer and infrastructure operator. This competence is underscored by numerous scientific and technical projects initiated by the company with partners all over the world.

#### Scientific and technical cooperation with partners

VNG and universities in Germany (TU Bergakademie Freiberg, Leipzig University and Rostock University), Norway (NTNU Trondheim), Poland (AGH Kraków), Russia (St. Petersburg State Mining Institute and MGIMO Moscow) and the Czech Republic (Institute of Chemical Technology Prague) have been cooperating on numerous projects for more than a decade.

The VNG-Campus program supports students and scientists with scholarships and research funds. Every year, students spend a semester abroad at one of the participating universities. VNG-Campus therefore lays an excellent foundation for international exchange in the field of energy and fosters international expert networks.

The long-standing close scientific and technical cooperation between VNG und OAO Gazprom, Moscow, and their subsidiaries continued in 2008. These activities focused, for example, on the operation of underground storage facilities and on diagnostic measurements of well pipe-work at VNG's storage facilities. In addition, a new memorandum of understanding concerning scientific and technical cooperation as well as a program for extending the scope of specific cooperation projects were concluded.

### Dialog between commodity producers and importers

VNG is an industrial partner of Deutsch-Russisches Rohstoff-Forum e.V. in Freiberg. The German-Russian commodities forum founded as part of the Petersburg dialog in October 2006 in the presence of the German Chancellor Dr. Angela Merkel and the then Russian President Dr. Vladimir Putin is a dialog platform for the development of strategies for the effective use of fossil, mineralogical and alternative natural resources.

The primary objective of the forum is to intensify scientific cooperation between the two oldest mining universities in the world – TU Bergakademie Freiberg and St. Petersburg State Mining Institute.

By pooling scientific innovations for the benefit of commodity producers and importers, it is also hoped that the initiative will create an enduring link between Russia and Germany and strengthen the scientific, political and economic relations between the two countries.

#### Research projects

VNG continued to work on innovative projects to modernise gas plant and further develop new technologies based on natural gas.

In the interests of climate protection, VNG and 17 other partners have been involved in the EU "CO<sub>2</sub>SINK" research project since 2004. The project investigates ways of storing the greenhouse gas carbon dioxide in suitable underground rock formations. The medium-term effects of storing the gas in such formations are being studied over a lengthy time period. Injection of CO<sub>2</sub> began in July 2008. VNG is responsible for operating and monitoring the injection process.

VNG continued test operation of the world's first micro-cogeneration plant using condensing boiler technology. The objective is to save primary energy and improve the energy efficiency of space heating systems using this technology. Over 5,000 operating hours, equivalent to two years of operation in a single-family home, had been clocked up by the end of 2008. Further plants are planned for 2009.

Tests on an innovative, low-emission hybrid burner were conducted at the Sayda compressor station under a joint research project with the Czech company EKOL, Brno. VNG and EKOL are seeking to achieve a significant reduction in nitrogen oxide and carbon monoxide emissions from gas turbines in order to meet the lower threshold values specified in the 13<sup>th</sup> Federal Pollution Control Ordinance.

**Staff**

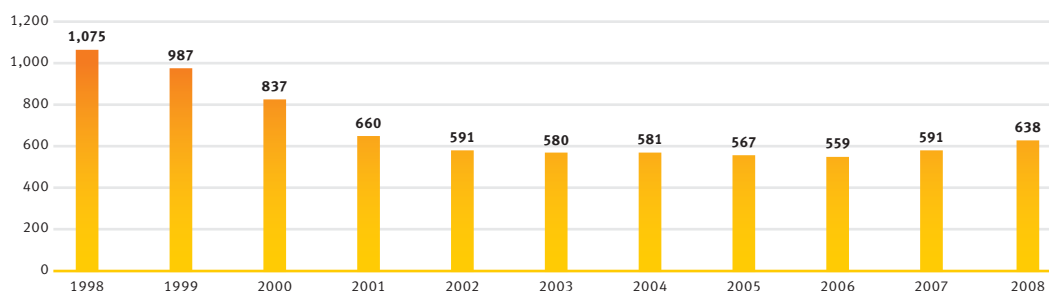
With a workforce of 638 as at December 31, 2008, VNG is a major employer, particularly in eastern Germany. Preserving and creating secure jobs with a promising future both in Germany and other countries is and will remain one of the main tasks of HR work at VNG.

VNG has a tradition of vocational training. Apart from 44 apprentices who are receiving solid training in future-oriented trades at VNG and its cooperation partners, the company also offers attractive opportunities for interns, work placement students and trainees. In addition, VNG supports the training program providing an additional qualification as an energy and supply industry clerk. This training measure developed by Leipzig University and recognized by Leipzig Chamber of Commerce was added to the vocational training program in 2007 and offers successful candidates very diverse openings at VNG with interesting career prospects.

The award for Saxony's best industrial clerk apprentice, received for yet another year in 2008, confirms the quality of vocational training at VNG.

VNG has maintained excellent contacts with leading universities for many years with a view to recruiting qualified academic talent for specialist and senior management posts. There is particularly close cooperation with institutions such as Leipzig University, Leipzig Graduate Management School, Leipzig University of Applied Science and TU Bergakademie Freiberg, where VNG is a regular participant at graduate days and recruitment fairs. There is a very close network of

● VNG workforce 1998–2008



research and teaching, which also embraces mentoring for interns and students about to complete their diplomas or doctorates.

VNG offers its specialist and senior management personnel an extensive program of advanced vocational training. HR development work focuses on encouraging personal development and professional qualifications. As internationalisation continues to progress, particular emphasis is given to language training.

A comprehensive HR policy also caters for the different needs of the workforce: at VNG this includes, for example, an employer-sponsored company pension scheme to encourage financial security in old age, and proactive health management. In addition, an attractive profit-sharing model has been in operation for several years.

Until 2002 the focus at VNG lay on enhancing efficiency and optimising processes. There has been focused manpower growth since 2007 in line with the expansion of core business activities.

**Financial Statements**

**Earnings situation**

With a sales volume of 171.4 billion kWh, VNG achieved a new record in 2008. The significant increase in gas purchase prices as a result of oil price developments led to a rise in gas sales prices with a certain time delay in accordance with the relevant contracts. Rising sales volumes and prices boosted sales by about € 1.3 billion to some € 5.5 billion.

In the 2008 financial year, VNG increased its net income by more than € 10 million to about € 140.8 million.

The rise in net income was due to the continued strict application of cost management and successful financial management as well as extraordinary factors affecting gas purchasing and sales.

All in all, VNG subsidiaries reported positive results in 2008. Nevertheless, increasing regulatory pressure and growing competition led to further adjustment of the valuation of participating interests in Germany, in some cases by a significant amount.

**Financial situation**

	2008	2007
Cash and cash equivalents at beginning of year	1.3	1.4
Cash flow from operating activities	140.8	157.6
from investing activities	-64.2	-56.6
from financing activities	-74.8	-101.1
Cash and cash equivalents at end of year	3.1	1.3

figures in million €

Compared with the previous year, cash flow from operating activities fell by € 17 million to about € 141 million. Higher gas purchase prices in particular had a negative impact on cash flow. In addition, VNG received lower prepayments from its customers.

Higher cash outflow from investing activities mainly concerned the expansion of underground storage facilities. Further funds were also provided for VNG Norge and VNG-EC. Additional

investments in the participating interests of the VNG Group in Germany and other countries were made via VNG-EC.

On balance, cash outflow from financing activities was reduced by the draw-down of loans. As in 2007, VNG paid a dividend of € 96 million.

### Assets and liabilities

The balance sheet structure changed as follows compared with 2007:

Assets	2008	2007
Property, plant and equipment	23	26
Financial assets	19	21
Inventories	19	21
Receivables and other assets	38	31
Other assets	1	1
	<b>100</b>	<b>100</b>

Equity and liabilities	2008	2007
Equity*	35	36
Liabilities	65	64
	<b>100</b>	<b>100</b>

figures in per cent, rounded

\* Equity includes special items.

The balance sheet total was higher than for 2007 as a result of an increase in receivables from gas business. In contrast, fixed assets fell in both relative and absolute terms as depreciation of property, plant and equipment and amortisation of financial assets were higher than investments in fixed

assets in 2008. The book value of gas inventories remained largely unchanged year-on-year; higher purchase prices were sufficient to compensate for the reduction in inventory volumes.

The net income for 2008 was once again higher than the dividend paid for the previous year, resulting in a further increase in equity. With a rise in liabilities, there was a slight change in capital structure compared with the previous year. The equity ratio remains very solid and stable at 35 per cent.

### Opportunities and Risks

The entrepreneurial framework for VNG is subject to permanent change which generates numerous opportunities and risks for the company. Particularly in the context of the competitive and regulatory environment for the gas industry it is important to identify risks, proactively manage them and leverage the opportunities they bring as early as possible.

VNG operates a comprehensive risk management system to this end. The system is designed to identify, evaluate and communicate potential risks throughout the VNG Group at an early stage, thereby putting VNG in a position to initiate timely countermeasures if so required.

The early identification of risks is an essential part of the planning and controlling process. A comprehensive risk audit to record and assess all risks is conducted twice a year. Furthermore, the infringement of pre-defined thresholds triggers a risk warning. A risk committee discusses and monitors the general risk situation and major individual risks to facilitate the organizational integration of the risk management process. The Executive Board is closely involved in the entire process.

In addition, the auditor regularly monitors the risk management system. The system has again been found suitable for the early identification of developments threatening the continued existence of the company.

### **Opportunities and risks in VNG's core business**

VNG reduced dependence on individual suppliers through timely diversification. VNG is seeking to expand diversification further, for example through its activities at various European gas trading hubs and through LNG deliveries. VNG extended its value chain by founding VNG Norge in July 2006. The gradual expansion of E&P business contributes to the continued diversification of sources of supply.

The economic and legislative frameworks, the growing trend towards short-term gas business and tougher competition impact on VNG's business activities. Expanding activities beyond the home market and rising spot market and futures business offer the opportunity to compensate for a decline in volumes on the home market and to grow sales further.

The main risks in gas trading remain the volume and margin risks. 2008 demonstrated that markets are converging and competition is becoming more intense. As a result, other price mechanisms are exerting a decisive effect.

VNG's response is to evolve pricing systems further and to introduce new products. Market changes are recognized early and the ensuing opportunities and risk potential identified and assessed. There must be a balance between business opportunities and market risks.

The significance of spot and futures markets continues to grow as the liberalisation of European energy markets proceeds. For VNG, this brings earnings potential from leveraging short-term price movements on volatile trading markets and price differences among the various trading hubs.

Foreign business can be strengthened by participating in "open season" procedures for planned capacity bookings in central and western Europe.

The orientation to renewable energies brought about by climate protection and ever-scarcer fossil fuel resources will also have a positive effect on VNG's business in the medium term, creating new fields of business which VNG can proactively harness and expand.

### **Opportunities and risks of gas transportation**

With regard to gas transportation, the regulation risk is of special relevance. In autumn 2008, the federal Network Agency served all decisions still pending at that time, all of them rejecting so-called pipe-to-pipe competition in the long-distance gas grid sector. ONTRAS received notice of the negative decision on October 20, 2008 and lodged an appeal against the decision with Düsseldorf Higher Regional Court.

Under the notice served, ONTRAS was given two months to submit documents concerning cost-oriented charges. Approval of these charges is expected mid-2009. At present, it is not possible to conclusively estimate the revenue risk associated with this decision. In preparation for the incentive regulation which comes into force in 2010,

supraregional long-distance network operators will be subject to an efficiency benchmark following approval of their charges. Experience with the current efficiency comparisons for distribution network operators has shown that this sector already has a high efficiency level. As a result, the specifications made by the Federal Network Agency were moderate. Whether this will also apply for long-distance network operators remains to be seen. It may be assumed, however, that the outcome will impact on investment decisions.

The German government passed the changes in the legislative framework for the support provided for biogas in April 2008. ONTRAS holds a pioneering position in realizing these specifications and plays an instrumental role in developing and implementing the envisaged target model.

### Engineering risks

VNG owns a complex gas transmission system and high-performance storage facilities and deploys extensive safety measures to avoid operational engineering risks or failure and to guarantee high security of supply.

External and internal qualification measures and training based on an integrated quality and safety management system are organized on a regular basis for employees and service providers. Processes and technical safety management of plant and facilities are subject to continuous certification.

Ongoing maintenance and monitoring based on external rules and the company's own operating concepts combined with the continuous refurbishment and modernisation of gas plant ensure a high technical safety standard and significantly reduce the risk of failure.

In 2008, TÜV SÜD Management Service GmbH, Munich, re-certified the reliability of all work processes and compliance with the implementation of all standards on the basis of a functioning integrated management system comprising quality, safety and environmental management.

### Financial risks

VNG is exposed to interest rate, currency and raw material price risks in addition to the risks associated with liquidity and default. All risks are monitored under the risk management process and managed and hedged by customary market instruments where appropriate.

### Liquidity risk

VNG's liquidity is guaranteed at all times through adequate credit lines. Financing security was raised by further diversifying the credit portfolio and by rolling medium-term credit facilities in combination with long-term commitments. Ongoing liquidity planning combined with long-term planning allow a timely response to changes in financing requirements.

### Default risk

The main default risks arise from gas delivery and trading contracts. These are continuously monitored as part of the established credit risk management system.

Other default risks arise from contracted financial instruments. Trading partners must meet credit rating criteria. There are also credit limits per bank or trading partner.

### Interest rate risk

Interest rate risk remains of subordinate significance for VNG. The strong seasonal fluctuations in liquidity with periods of no credit obligations during the year for the most part allow natural hedging against interest rate changes.

### Currency risk

At VNG, currency risks generally arise from financial obligations with consolidated companies. Currency risk management is centralized and applied across the VNG Group. Foreign currency loans are hedged against currency and interest rate risks. Other contracts and transactions conducted in foreign currencies are subjected to an ongoing analysis of their opportunities and risks and individually hedged where appropriate.

### Opportunities and risks concerning the portfolio of participating interests

The risks incurred by the individual shareholdings are regularly monitored and assessed as part of the risk management procedure. The earnings forecasts regularly updated by the shareholdings are included in VNG's monthly reporting process. VNG constantly checks the opportunities and risks concerning the actual value of shareholdings. In addition, all domestic and foreign subsidiaries are an integral part of the VNG risk management system and have their own risk manuals as well as preparing regular risk updates. VNG monitors all the relevant markets of its participating interests and can respond to identified risks in a timely manner through its presence in the companies' governing bodies.

### Prospects

In preceding years, VNG has proved its ability to strengthen its standing as a highly-efficient gas importer and infrastructure operator on its home market and to extend its position in Europe even under difficult market conditions. This is once again confirmed by the financial results for 2008.

As far as VNG's core business is concerned, the crucial challenges going forward lie in ever more intense European competition, both on the supply and on the sales side. In addition, the increasingly gloomy general economic situation will impact on the energy market.

VNG will continue to press ahead with the further diversification of its sources of gas supply. Global demand for gas, and therefore competition for the most environmentally friendly fossil fuel, will continue to grow. VNG is one of the three largest German gas importers and is in a good position with its extensive procurement portfolio based on long-term contracts with numerous producers.

VNG will continue with the systematic expansion of its sales activities throughout Germany in 2009. The sales offices set up in 2008 form a good starting point for these activities. At the same time, VNG will also seek to consolidate its strong position on its home market and to grow sales in Europe.

VNG is well prepared to respond flexibly to changes in the gas market and to leverage competition-driven opportunities. This development is supported by the efficient infrastructure. VNG will continue to invest in this infrastructure, and in the storage business in particular, provided that the regulatory environment permits such activities.

In all probability, the significantly worse economic climate will have a negative impact on VNG's business development, as elsewhere. However, VNG is active on a comparatively stable European gas market, so that serious effects are not anticipated at the present time. Crises also bring opportunities. VNG is in a good position to harness openings for growth.

VNG is confident it can continue the successful development of previous years in 2009 as well, and is aiming for earnings on a par with the previous year's level.

Leipzig, February 25, 2009

## Balance Sheet as at December 31, 2008

### Assets

	Notes	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
<b>A. Fixed assets</b>			
I. Intangible assets	1	10,277	6,824
II. Property, plant and equipment	2	460,292	492,791
III. Financial assets	3	387,573	394,230
		<b>858,142</b>	<b>893,845</b>
<b>B. Current assets</b>			
I. Inventories	4	378,296	389,999
II. Receivables and other assets	5	794,382	585,279
III. Cash and cash equivalents		3,135	1,299
		<b>1,175,813</b>	<b>976,577</b>
<b>C. Special loss item from provisions formed pursuant to Art. 17, Par. 4, Act on the Preparation of Deutschmark Financial Statements</b>		<b>2,769</b>	<b>2,769</b>
<b>D. Prepaid expenses</b>		<b>2,454</b>	<b>5,171</b>
		<b>2,039,178</b>	<b>1,878,362</b>

### Equity and liabilities

	Notes	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
<b>A. Equity</b>			
I. Subscribed capital	6	328,000	328,000
II. Retained earnings	7	282,208	237,431
III. Balance sheet profit		96,000	96,000
		<b>706,208</b>	<b>661,431</b>
<b>B. Special items</b>	8	<b>10,350</b>	<b>11,505</b>
<b>C. Provisions</b>	9	<b>332,237</b>	<b>336,225</b>
<b>D. Liabilities</b>	10	<b>990,005</b>	<b>866,350</b>
<b>E. Deferred income</b>		<b>378</b>	<b>2,851</b>
		<b>2,039,178</b>	<b>1,878,362</b>

## Income Statement for the Period January 1 to December 31, 2008

	Notes	Jan. 1 to Dec. 31, 2008 € 000s	Jan. 1 to Dec. 31, 2007 € 000s
1. Sales	11	5,528,539	4,234,080
2. Changes in work in progress		-861	553
3. Work performed by the company and capitalised		1,020	755
4. Other operating income	12	136,117	66,669
		5,664,815	4,302,057
5. Cost of materials	13	5,265,933	3,907,852
6. Personnel expenses	14	48,593	46,512
7. Depreciation and amortisation expense		55,752	60,373
8. Other operating expenses	15	73,359	86,738
9. Financial result	16	2,406	28,425
<b>10. Profit on ordinary activities</b>		<b>223,584</b>	<b>229,007</b>
11. Income tax expense	17	82,649	98,464
12. Other taxes	18	158	158
<b>13. Net income for the year</b>		<b>140,777</b>	<b>130,385</b>
14. Appropriation to retained earnings		44,777	34,385
<b>15. Balance sheet profit</b>		<b>96,000</b>	<b>96,000</b>

## Changes in Fixed Assets

	Procurement/production cost		
	Jan. 1, 2008 € 000s	Additions € 000s	Disposals € 000s
<b>I. Intangible assets</b>			
1. Concessions, industrial and similar rights, and licences in such rights and assets	32,463	2,526	271
2. Advance payments made	2,441	3,740	49
	34,904	6,266	320
<b>II. Property, plant and equipment</b>			
1. Land, land rights and buildings, including buildings on third-party land	103,335	210	373
2. Technical plant and machinery	1,742,179	1,624	2,711
3. Other equipment, fixtures, furniture and office equipment	34,334	3,329	1,645
4. Advance payments made and assets under construction	52,042	18,170	1,548
	1,931,890	23,333	6,277
<b>III. Financial assets</b>			
1. Shares in affiliated companies	431,645	52,165	25
2. Loans to affiliated companies	10,521	0	10,521
3. Participating interests	8,469	40	0
4. Other loans	749	136	247
	451,384	52,341	10,793
	<b>2,418,178</b>	<b>81,940</b>	<b>17,390</b>

Procurement/production cost		Accumulated depreciation Dec. 31, 2008 € 000s	Book value at		Depreciation in 2008 financial year € 000s
Transfers € 000s	Dec. 31, 2008 € 000s		Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s	
626	35,344	30,561	4,783	4,383	2,667
-638	5,494	0	5,494	2,441	0
-12	40,838	30,561	10,277	6,824	2,667
2,246	105,418	54,422	50,996	51,881	3,281
17,454	1,758,546	1,404,997	353,549	382,046	46,858
34	36,052	29,247	6,805	6,822	2,946
-19,722	48,942	0	48,942	52,042	0
12	1,948,958	1,488,666	460,292	492,791	53,085
0	483,785	105,205	378,580	374,645	48,205
0	0	0	0	10,521	0
0	8,509	154	8,355	8,315	0
0	638	0	638	749	0
0	492,932	105,359	387,573	394,230	48,205
0	2,482,728	1,624,586	858,142	893,845	103,957

## Notes

### Legislation Governing the Annual Accounts

The annual accounts for the 2008 financial year have been drawn up in accordance with all the relevant provisions of the German Commercial Code, the German Stock Corporation Act, the Energy Industry Act and the Act on the Preparation of Deutschmark Financial Statements. The balance sheet as at December 31, 2008 recognises the partial appropriation of net income for the year.

Composite items shown in the balance sheet and the income statement are broken down and detailed in these notes.

### Accounting and Valuation Principles

#### Fixed assets

Intangible assets are carried at historical cost less straight-line depreciation. Property, plant and equipment are carried at procurement or production cost taking into consideration appropriate overheads in accordance with Article 255, paragraph 2 of the German Commercial Code. Buildings and structures are stated at procurement or production cost with depreciation written off on a straight-line basis. Technical plant and machinery, other equipment, fixtures, furniture and office equipment are generally depreciated by the declining-balance method; assets acquired in 2008 are depreciated by the straight-line method in accordance with the applicable tax regulations. If the declining-balance method had been used, the additional amount of depreciation would have been € 518 thousand. Investment subsidies from previous years are shown as a special item and released on a pro rata basis.

Building subsidies are deducted from assets. Low-value assets up to a value of € 150 each are written off in full and considered as having been disposed of in the year of acquisition. A collective item is formed for low-value assets with a value above € 150 but not exceeding € 1,000. This collective item is written off over a period of five years on a straight-line basis.

Financial assets are shown at the lower of cost or attributable value.

## Current assets

All current assets were valued by strict application of the lower-of-cost-or-market-value principle.

Raw materials, consumables and supplies were valued at average cost. The last-in, first-out (LIFO) method using the monthly inventory layer principle and taking into consideration the strict lower-of-cost-or-market principle in accordance with Article 253, par. 3, sentence 1, German Commercial Code, was applied for gas inventories stated as merchandise. Work in progress was valued at manufacturing cost capitalised pursuant to tax requirements. Emission rights are carried at pro memoria value. Receivables and other assets are shown at principal.

Reasonable allowance was made for uncollectible individual accounts. A percentage of outstanding accounts was deducted to cover general credit risks.

Receivables denominated in foreign currency were valued at the exchange rate (euro to foreign currency) as of the date when the claim arose or as of the balance sheet date where this was lower. Payables denominated in foreign currency were valued at the exchange rate (euro to foreign currency) as of the date when the claim arose or as of the balance sheet date where this was higher.

Cash and cash equivalents denominated in foreign currency were valued at the official buying rate on the balance sheet date.

## Provisions

The provisions for pensions were determined pursuant to Article 6a of the German Income Tax Act on the basis of actuarial principles and according to their present value, with application of a discount rate of 5.4 %. Liabilities in connection with partial early retirement were also calculated using a discount rate of 5.4 %. Other provisions adequately cover all foreseeable risks.

## Liabilities

Liabilities are stated at the amounts repayable.

## Balance sheet

### Fixed assets

Fixed assets and changes in the fixed assets shown in the balance sheet are detailed in the statement of changes in fixed assets (pages 40–41). The disclosures required by Sec. 285, sentence 1, no. 11 of the German Commercial Code are made in the list of participating interests\*.

#### (1) Intangible assets

Intangible assets relate mainly to software.

#### (2) Property, plant and equipment

	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
Land, land rights and buildings	50,996	51,881
Technical plant and machinery	353,549	382,046
Other equipment, fixtures, furniture and office equipment	6,805	6,822
Advance payments made and assets under construction	48,942	52,042
	<b>460,292</b>	<b>492,791</b>

#### (3) Financial assets

	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
Shares in affiliated companies	378,580	374,645
Loans to affiliated companies	0	10,521
Participating interests	8,355	8,315
Other loans	638	749
	<b>387,573</b>	<b>394,230</b>

\* The disclosures required by Sec. 285, sentence 1, no. 11 of the German Commercial Code are not part of the Annual Report and are available from the electronic company register.

**Current assets****(4) Inventories**

	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
Raw materials, consumables and supplies	5,678	5,262
Work in progress	562	1,423
Merchandise	372,056	383,314
	<b>378,296</b>	<b>389,999</b>

Raw materials, consumables and supplies comprise materials for general operating activities, among other items. Work in progress concerns work undertaken for third parties in connection with the rerouting of gas transmission pipelines. Merchandise primarily relates to high-cv natural gas.

The application of the LIFO method resulted in a difference in the sense of Article 284, paragraph 2, item 4 of the German Commercial Code of € 209,265 thousand as of December 31, 2008 (2007 € 83,749 thousand). Depreciation in accordance with Article 253, par. 3, sentence 3, German Commercial Code was not effected.

**(5) Receivables and other assets**

	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
Trade receivables	554,210	369,815
Accounts receivable from affiliated companies	76,444	80,195
Accounts receivable from companies with which the company is connected by a participating interest	147,937	124,940
Other assets	15,791	10,329
	<b>794,382</b>	<b>585,279</b>

Trade receivables relate principally to gas supplies.

Accounts receivable from affiliated companies include accounts receivable in connection with profit transfer and tax levies totalling € 64,932 thousand (Dec. 31, 2007 € 73,282 thousand), turnover tax totalling € 4,543 thousand (Dec. 31, 2007 € 4,132 thousand) and trade receivables totalling € 6,969 thousand (Dec. 31, 2007 € 2,781 thousand).

Trade receivables from companies with which VNG is connected by a participating interest amounted to € 145,743 thousand (Dec. 31, 2007 € 121,320 thousand) and amounts receivable from such companies in connection with loans totalled € 2,194 thousand (Dec. 31, 2007 € 3,620 thousand).

As in the previous year, all accounts receivable had a remaining term of less than one year.

**Equity****(6) Subscribed capital**

The share capital of the company is € 328 million and consists of 128,000,000 no-par-value shares.

**(7) Retained earnings**

	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
Legal reserve formed pursuant to Art. 150, par. 2, Stock Corporation	32,800	32,800
Legal reserve formed pursuant to Art. 27, par. 2, Act on the Preparation of Deutschmark Financial Statements	7,096	7,096
Other retained earnings formed pursuant to Art. 272, par. 3, Commercial Code	242,312	197,535
	<b>282,208</b>	<b>237,431</b>

**(8) Special items**

Funds allocated to the special item for investment subsidies were released in line with depreciation in accordance with the German Commercial Code with an effect on profit.

**Liabilities****(9) Provisions**

	Dec. 31, 2008 € 000s	Dec. 31, 2007 € 000s
Provisions for pensions and similar obligations	15,986	14,045
Provisions for taxes	69,564	55,424
Other provisions	246,687	266,756
	<b>332,237</b>	<b>336,225</b>

Other provisions consist of liabilities associated with the decommissioning of pipelines and underground storage facilities. Provision has also been made for deferred maintenance, outstanding accounts, gas business risks, personnel-related costs and other uncertain liabilities.

Provisions for taxes include provisions totalling € 42,108 thousand for corporation tax and € 27,456 thousand for trade tax.

In accordance with Article 28 of the Act Introducing the German Commercial Code, provisions for the pension obligations of an assistance fund are not shown on the balance sheet. The difference between the present values of the pension obligations of the assistance fund and the cash and cash equivalents held by the assistance fund as at December 31, 2008 was € 770 thousand.

**(10) Liabilities**

	Dec. 31, 2008	Residual term up to 1 year (previous year)	Residual term more than 5 years (previous year)	Dec. 31, 2007
	€ 000s	€ 000s	€ 000s	€ 000s
Liabilities to banks	134,457	58,959 (25,592)	50,000 (100,000)	141,092
Advance payments	719	719 (1,433)	0	1,433
Trade payables	537,476	536,911 (510,428)	0	510,835
Liabilities to affiliated companies	92,394	92,394 (90,453)	0	90,453
Liabilities to companies with which the company is connected by a participating interest	119,572	119,572 (59,404)	0	59,404
Other liabilities	105,387	101,264 (59,296)	684 (792)	63,133
– thereof taxes	89,882	89,882 (56,434)	0	56,434
– thereof social security contributions	0	0 (2)	0	2
	<b>990,005</b>	<b>909,819</b> <b>(746,606)</b>	<b>50,684</b> <b>(100,792)</b>	<b>866,350</b>

VNG has given the creditor banks a negative pledge undertaking.

Liabilities to affiliated companies mainly concern investment transactions made by these companies as part of cash management (€ 53,540 thousand; Dec. 31, 2007 € 77,416 thousand), the absorption of losses (€ 293 thousand; Dec. 31, 2007 € 788 thousand), trade transactions (€ 24,864 thousand; Dec. 31, 2007 € 2,962 thousand), tax levies, turnover and investment income tax (€ 13,697 thousand; Dec. 31, 2007 € 9,227 thousand) as well as partial early retirement (€ 0 thousand; Dec. 31, 2007 € 60 thousand).

Liabilities to companies with which VNG is connected by a participating interest concern short-term loans (€ 100,838 thousand; Dec. 31, 2007 € 50,098 thousand), outstanding contributions not called up (€ 8,200 thousand; Dec. 31, 2007 € 8,200 thousand) and trade transactions (€ 10,534 thousand; Dec. 31, 2007 € 1,106 thousand).

Other liabilities also include loan liabilities to staff arising under the staff participatory loan scheme.

### **Contingent liabilities**

Contingent liabilities to be reported pursuant to Article 251 of the German Commercial Code amount to € 14,996 thousand. These include guarantees amounting to € 7,000 thousand given by VNG in favour of trading partners of an affiliated company. Furthermore, VNG gave binding parent company guarantees in the amount of € 5,000 thousand in favour of a participating interest and € 2,977 thousand in favour of an affiliated company. The company also undertook a rent guarantee amounting to € 19 thousand for an affiliated company. In addition, VNG has given an unlimited abstract guarantee to Norwegian state institutions with regard to natural gas exploration and production activities.

### **Other financial obligations**

Other financial obligations pursuant to Article 285, item 3 of the German Commercial Code amount to € 232.2 million, including obligations of € 142.9 million towards affiliated companies. These chiefly concern commitments for investments, financial obligations arising out of leasing contracts and payment obligations for the use of gas transmission capacity in 2009. To cover gas demand, VNG has undertaken long-term purchase commitments with gas suppliers.

## **Income statement**

### **(11) Sales**

Sales are chiefly accounted for by income from the gas business. 91 % of sales are realised in Germany and 9 % in other European countries. Sales realised on the European spot and futures market are assigned to sales in Germany. Sales include income for other accounting periods (€ 11,807 thousand), mainly resulting from gas deliveries.

**(12) Other operating income**

Other operating income mainly comprises amounts from the reversal of provisions (€ 45,466 thousand). This item also includes income from rentals and leases, commercial services and amounts released from the special item for investment subsidies. The other operating income includes income for other accounting periods totalling € 66,982 thousand. This income is mainly the result of credit notes received in respect of previous years.

**(13) Cost of materials**

	2008 € 000s	2007 € 000s
Cost of raw materials, consumables and supplies and of purchased merchandise	5,180,187	3,847,838
Cost of purchased services	85,746	60,014
	<b>5,265,933</b>	<b>3,907,852</b>

The cost of raw materials, consumables and supplies and of purchased merchandise includes the cost of gas purchased, gas transmission charges, amounts paid for excise tax on natural gas (€ 28,408 thousand; 2007 € 32,918 thousand), expenditure on materials and repairs, and other purchasing expenses. The cost of materials includes expenses for other accounting periods totalling € 5,276 thousand, which chiefly concern balancing group accounting.

**(14) Personnel expenses**

	2008 € 000s	2007 € 000s
Wages and salaries	40,414	36,291
Social security costs, pensions and assistance expenses	8,179	10,221
	<b>48,593</b>	<b>46,512</b>

Personnel expenses include expenses incurred for pensions totalling € 1,655 thousand (€ 4,003 thousand in 2007).

**(15) Other operating expenses**

Other operating expenses chiefly include additions to provisions. This item also concerns charges for publicity and advertising, expenditure on professional fees, costs of market development and other administrative expenses (travel expenses, insurance, office expenditure and similar items).

**(16) Financial result**

	<b>2008</b> <b>€ 000s</b>	<b>2007</b> <b>€ 000s</b>
Income from participating interests (including income from affiliated companies of € 0 thousand; 2007 € 0 thousand)	8,320	6,261
Income from profit transfer agreements (including income from affiliated companies of € 54,319 thousand; 2007 € 73,276 thousand)	54,319	73,276
Income from loans carried as fixed assets (including income from affiliated companies of € 371 thousand; 2007 € 421 thousand)	388	437
Interest receivable and similar income (including interest from affiliated companies of € 1 thousand; 2007 € 38 thousand)	8,468	3,552
Amortization of financial assets (including amortization of € 48,205 thousand on interests in affiliated companies; 2007 € 17,000 thousand)	48,205	17,000
Expenses from absorption of losses (including losses of € 293 thousand absorbed from affiliated companies; 2007 € 788 thousand)	1,633	2,983
Interest payable and similar charges (including interest of € 3,279 thousand payable to affiliated companies; 2007 € 3,083 thousand)	19,251	35,118
	<b>2,406</b>	<b>28,425</b>

**(17) Income tax expense**

This item includes trade tax and corporation tax. Taxes payable for previous years account for € 1,370 thousand of the total amount.

**(18) Other taxes**

Other taxes totalling € 158 thousand were deducted from profit (€ 158 thousand in 2007).

### Balance sheet profit

The Executive Board proposes to the shareholders' meeting that the balance sheet profit of € 96,000 thousand be applied as follows:

Distribution of a dividend of € 0.75 per share to the 128,000,000 no-par-value shares with dividend rights, with the result that a total of € 96,000,000.00 is made available for distribution to shareholders.

### Information in accordance with Article 10, par. 2, Energy Industry Act

VNG performed commercial, technical and energy industry services for affiliated companies on the basis of individual service contracts. A cash pooling system using normal market interest rates is operated within the VNG Group.

### Derivative financial instruments

At VNG, derivative financial instruments are used solely for hedging risk items connected with underlying transactions. The use of derivative financial instruments for speculative purposes is not permitted.

As of the balance sheet date, VNG had concluded derivative financial instruments to hedge against exchange rate and raw material price risks. All the derivatives are OTC transactions with contract parties of sound financial standing in the banking sector.

	Dec. 31, 2008 Nominal values € 000s	Dec. 31, 2008 Positive market values € 000s	Dec. 31, 2008 Negative market values € 000s
<b>Foreign exchange derivatives</b>			
Currency futures	3,850	20	-132
<b>Commodity derivatives</b>			
Oil price swaps	36,370	18	-4,040
	<b>40,220</b>	<b>38</b>	<b>-4,172</b>

Currency futures were used to eliminate the exchange rate risks associated with payments to be made in foreign currencies in the future in connection with business operations.

Oil price swaps were used to hedge fixed prices laid down in gas supply contracts against rising oil prices.

The market values of derivative financial instruments depend on underlying market factors. Each derivative deal is valued individually on the basis of the market factors as of the balance sheet date using methods in line with normal market practice.

Currency futures are valued at the future exchange rate as of the balance sheet date. Oil swaps are valued by discounting future cash flows. Future exchange rates are determined from current exchange rates using the premiums and discounts for futures.

### Staff

The average number of staff employed at VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig in 2008 was 624, consisting of 52 blue-collar workers, 569 white-collar workers and three assistants/student trainees. In addition, the company employed an average of 44 persons in the pre-retirement passive phase and 38 vocational trainees.

### Emoluments

The total emoluments of the Executive Board of VNG – Verbundnetz Gas Aktiengesellschaft for the 2008 financial year amounted to € 2,692,033.44. The emoluments of retired Executive Board members and their surviving dependants totalled € 194,278.77 in the 2008 financial year. Provisions for ongoing pensions for former Executive Board members and their surviving dependants amount to € 2,689,267.00. A provision of € 230,000.00 was made in the 2008 financial year for the remuneration of the Supervisory Board.

### Participation pursuant to Article 20, German Stock Corporation Act

As of the balance sheet date, EWE Aktiengesellschaft, Oldenburg, and VNG Verbundnetz Gas Verwaltungs- und Beteiligungsgesellschaft mbH, Halle (Saale) each held a share of more than 25 per cent in VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig.

### Consolidated financial statements

VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig, has prepared consolidated financial statements for the year to December 31, 2008.

Leipzig, February 25, 2009

VNG – Verbundnetz Gas Aktiengesellschaft

Executive Board



Holst



Wolff



Barbknecht



Holtmeier

## 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 the VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig for the business year from January 1 to December 31, 2008. As required by Article 10 (4) EnWG (“Energiewirtschaftsgesetz”, “German Energy Industry Law”), the audit also included the Company’s observance of obligations for the unbundling of internal accounting pursuant to Article 10 (3) EnWG. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation as well as the observance of the obligations pursuant to Article 10 (3) EnWG are the responsibility of the Company’s Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report, and on the internal accounting pursuant to Article 10 (3) EnWG based on our audit.

We conducted our audit of the annual financial statements in accordance with Article 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 to obtain reasonable assurance about whether, in all material respects, the obligations pursuant to Article 10 (3) EnWG have been observed.

Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report, as well as in the internal accounting pursuant to Article 10 (3) EnWG are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company’s Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report, and assessing whether the amounts stated and the classification of accounts in the internal accounting pursuant to Article 10 (3) EnWG are appropriate and comprehensible and 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 supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

The audit of the observance of obligations for the unbundling of internal accounting pursuant to Article 10 (3) EnWG has not led to any reservations.

Leipzig, February 26, 2009

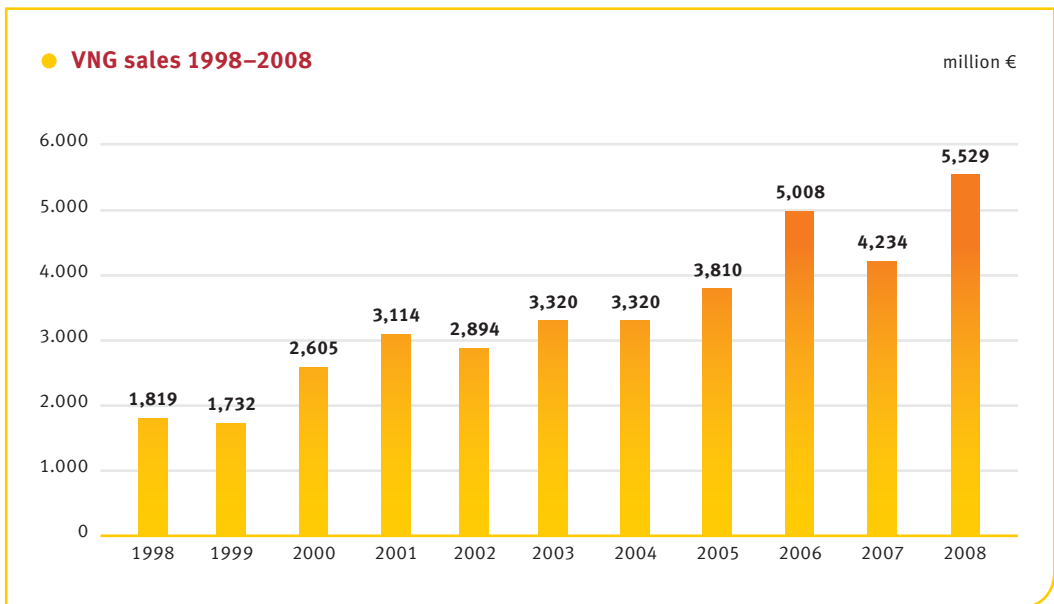
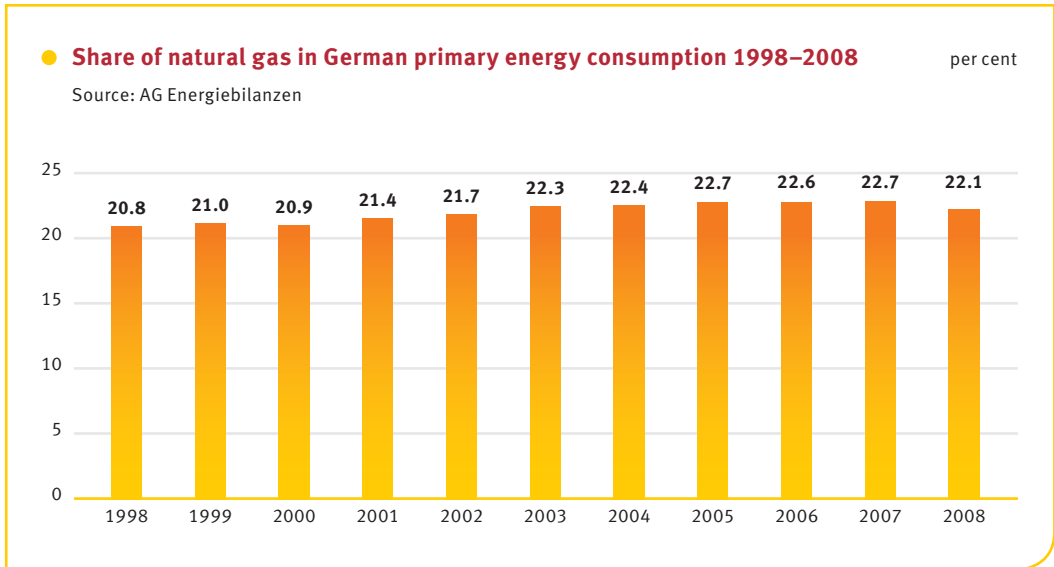
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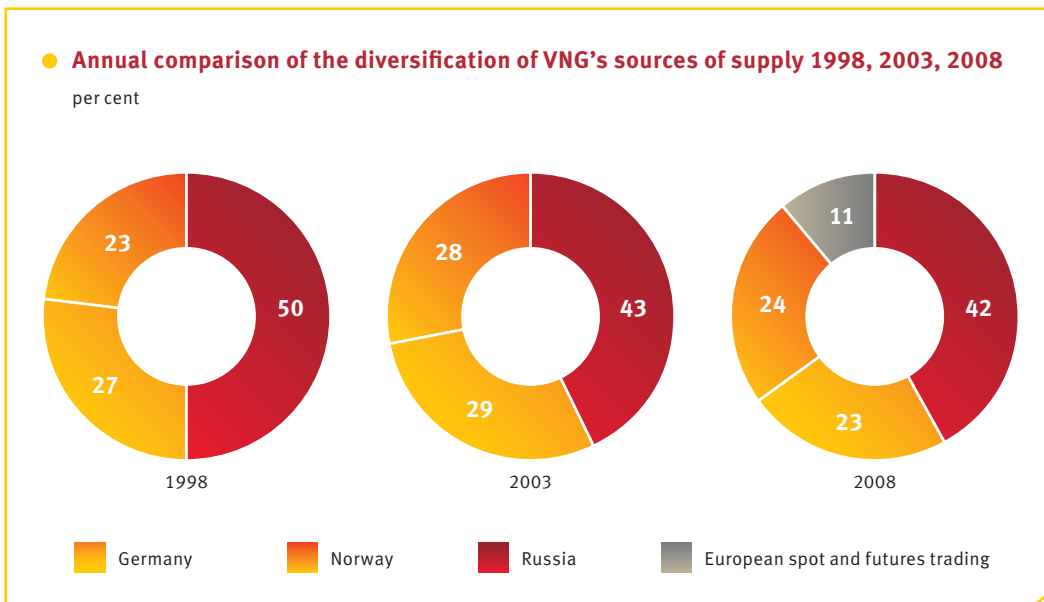
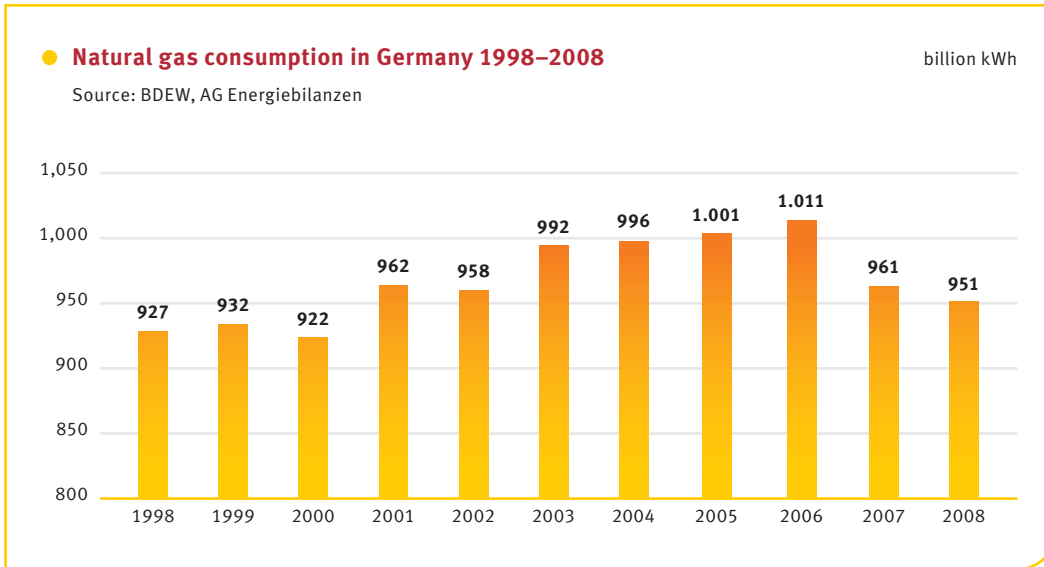


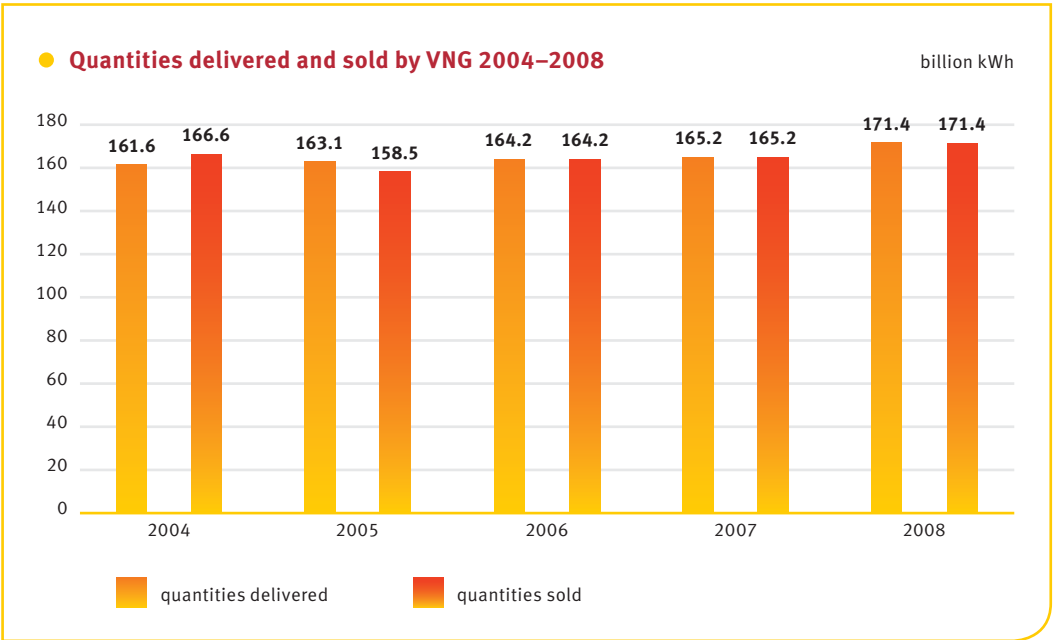
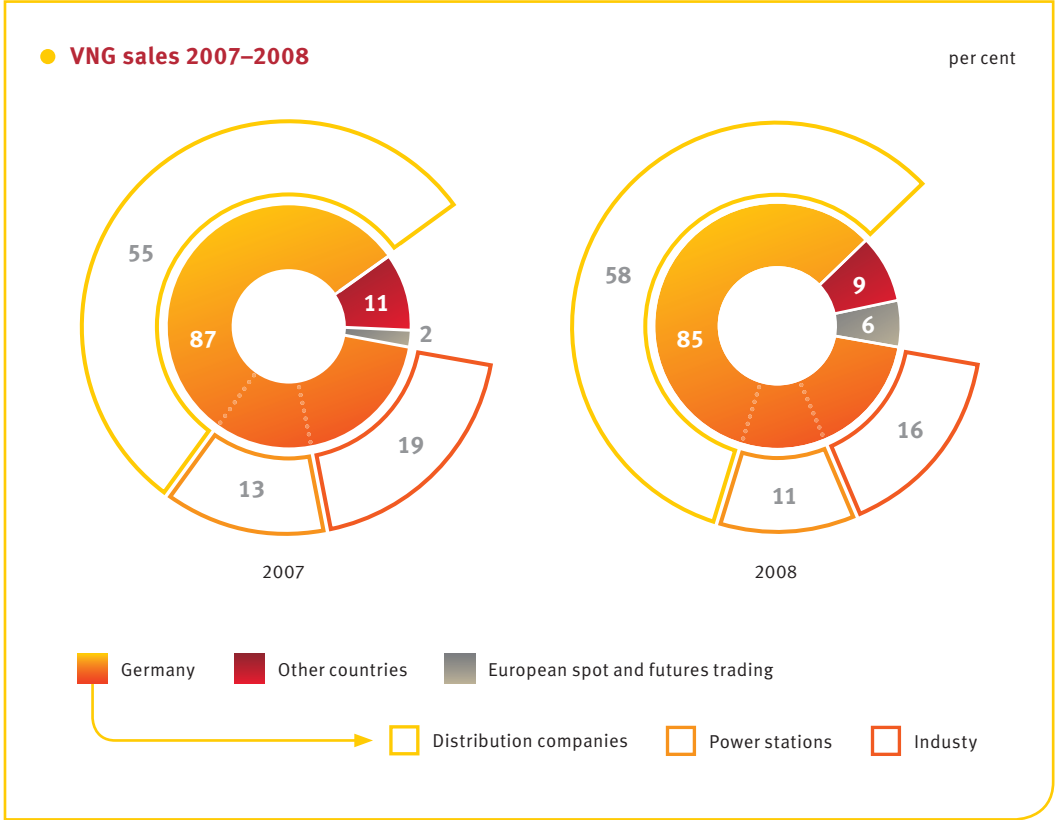
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Wirtschaftsprüfer

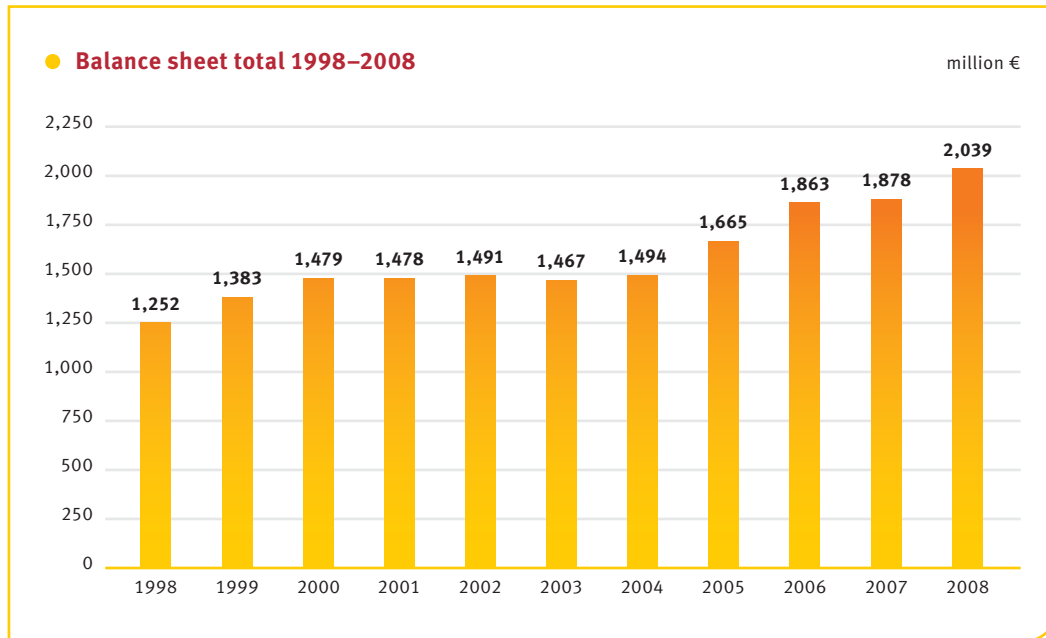
ppa. Petra Schmidt  
Wirtschaftsprüferin

## Key Data









This version of the Annual Report is a translation of the German original. The German takes precedence.

● **Editorial Information**

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# VNG Highlights

## ● Financial Highlights

		2008	2007
Sales	million €	5,529	4,234
Cost of materials	million €	5,266	3,908
Personnel expenses	million €	49	47
Depreciation and amortisation expense	million €	56	60
Net income for the year	million €	141	130
Total investment	million €	82	60
Intangible assets and property, plant and equipment	million €	470	500
Financial assets	million €	388	394
Balance sheet equity	million €	706	661
Provisions	million €	332	336
Liabilities	million €	990	866
Balance sheet total	million €	2,039	1,878

## ● Operating Highlights

		2008	2007
Number of employees at year-end		638	591
Gas sales	billion kWh	171.4	165.2
Maximum daily sales	million kWh	802	815
Minimum daily sales	million kWh	246	233
Length of pipeline system at year-end	km	7,029	7,040
Power installed at compressor stations at year-end	MW	77.8	77.8
Working gas capacity of underground storage facilities at year-end	billion m <sup>3</sup>	2.4	2.3



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Angenehm,

**Verbundnetz  
Gas AG**