

Annual Report 2010

VNG – Verbundnetz Gas Aktiengesellschaft

Natural gas importation | Exploration and Production | Natural gas wholesale



———— Natural gas storage | Natural gas logistics | Energy services ————

VNG highlights













VNG AG annual financial statements

		2010	2009
Sales	€ million	5,293	4,763
Cost of materials	€ million	4,979	4,319
Personnel expenses	€ million	59	55
Depreciation and amortisation expenses	€ million	61	58
Net income for the year	€ million	59	170
Total investment	€ million	193	393
Intangible assets and property, plant and equipment	€ million	521	473
Financial assets	€ million	598	698
Balance sheet equity	€ million	734	780
Provisions	€ million	387	416
Liabilities	€ million	1,300	1,063
Balance sheet total	€ million	2,436	2,270

VNG key performance data

		2010	2009
Numbers of employees at year-end		754	697
Gas sendout	billion kWh	220.3	183.0
Maximum daily sendout	million kWh	1,021	870
Minimum daily sendout	million kWh	338	283
Length of pipeline system at year-end	km	7,004	7,005
Power installed at compressor stations at year-end	MW	78.3	77.8
Working gas capacity of underground storage facilities at year-end	billion m ³	2.6	2.6

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Foreword of the Executive Board

In 2010, the VNG Group (VNG) earned net income of € 69 million. Sales reached € 6.3 billion. The natural gas sales volume in Germany and other countries once again rose. At 220 billion kWh, the natural gas sendout of VNG AG was some 20 per cent higher than the previous year's figure. This bears witness to the confidence shown by customers in the performance of the company.

Nevertheless, the marked fall in net income compared with 2009 reflects the dramatic changes that have taken place in market conditions and the entire framework for the gas industry. The world-wide natural gas surplus, intensive competition for customers, highly liquid European wholesale trading markets and lower demand compared with the years before the financial crisis resulted in considerable pressure on margins. By expanding sales activities on domestic and export markets, using the possibilities offered by European spot and futures markets and offering new gas products to customers, VNG was only able to compensate for these developments in part.

With a diversified international procurement portfolio, VNG has reinforced its position as Germany's third-largest natural gas importer and makes a major contribution to the security of supplies in Germany and other European countries. In the 2010 financial year, VNG purchased 214 billion kilowatt-hours of gas from a variety of producers and suppliers.

Long-term natural gas purchase contracts remain the backbone of European gas supplies and the gas purchasing activities of VNG. One of the main challenges in the 2010 financial year was to adapt these contracts to current market conditions. These efforts will continue in 2011. However, we are confident that we will find solutions based on partnership with all our suppliers.

In line with VNG's strategy of placing gas purchasing on as broad a basis as possible, we are developing our own sources on the Norwegian Continental Shelf, and, since 2010, also on the Danish Continental Shelf. The two first wells drilled resulted in an oil find. In Norway, we hold participations in two producing fields and are the operator of two further licences. This bears witness to the confidence of Norwegian partners in the competence of VNG.

Liquefied natural gas (LNG) is a further option for the diversification of gas procurement. VNG has concluded framework agreements with potential suppliers to take advantage of this option.

Our gas procurement mix also includes biomethane. This renewable energy available from domestic sources has an optimum CO₂ balance and is highly versatile; it can be used for space heating, power generation and in the mobility sector and can also be stored.

Not only with respect to security of supplies but also against the backdrop of changes in natural gas markets, characterised by a growing number of market players and increasing need for flexibility, underground storage facilities for natural gas are becoming more and more important. VNG is among the pioneers in the development and utilisation of natural gas storage facilities. On the basis of its

long-term strategy, VNG is Germany's third-largest storage facility operator. Up to 2.6 billion cubic metres of gas can be stored in the four storage facilities, a quantity sufficient to meet the demand of a million single-family homes for a whole year. Other caverns and new storage facilities are being developed at Etzel and Jemgum in North-Western Germany.

As natural gas specialists, we offer our customers sector-specific products and services. Thanks to the intelligent combination of our individual gas deliveries in line with market requirements with innovative services, customers are able to act rapidly and effectively in their competitive environment. In a dynamic market, permanent, open dialogue with customers is an essential prerequisite. This is why we operate regional sales structures in Germany and other countries; as a result, we are able to offer our customers solid personal support on site in a spirit of partnership.

VNG is committed to improving the efficiency of natural gas use in its various fields of application. For example, in cooperation with market partners, we are testing newly developed cogeneration plants, gas-fuelled heat pumps and fuel cell heating appliances. As a result of our own applied research and our development cooperation with the appliance industry, the world's first air-cooled micro cogeneration plant for single-family and two-family buildings is due to be launched on the market in the near future.

Natural gas is a reliable and environmentally compatible source of energy that will be available at economically acceptable conditions in the long term. Natural gas is open to new areas of application, innovative technologies and decentralised energy supply systems. The many possibilities of combining natural gas with renewable energy sources make it an indispensable energy for the future. For these reasons, we are firmly convinced of the sustained market success of our product and its applications.

On behalf of the entire workforce, the Executive Board would like to thank the business partners of VNG for the confidence they have placed in us and for their outstanding cooperation in the 2010 financial year.

Thanks are also due to our shareholders, the Supervisory Board, employee representatives, the Advisory Committee and the many friends and partners of VNG. Cooperation in a spirit of trust is essential for the success of a company. Finally, the Executive Board would like to thank the company's employees. Both their knowledge and their exemplary willingness to welcome change are indispensable.

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 four meetings in the 2010 financial year. These meetings dealt in depth with implementation of the strategy 2020 concept drawn up by the company, in particular various activities in connection with the acquisition of production licences for the Norwegian Continental Shelf and in the Danish North Sea as well as participation in the development of the storage facilities at Jemgum and Etzel. In addition, the Supervisory Board approved the conclusion of a long-term gas purchase contract. Deliberations also focused on consolidating and expanding business activities in Poland, the Czech Republic and Slovakia and the company's remaining portfolio of participating interests, including corporate law restructuring measures. Furthermore the Supervisory Board regularly considered 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, 2010, the management report and the consolidated management report for the 2010 financial year, together with the bookkeeping system, as well as



Dr Rainer Seele, Chairman of the Supervisory Board of VNG

compliance with the unbundling requirements of Art. 10 (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, 2010.

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

Mr. Rainer K. Otto stepped down from the Supervisory Board with effect from February 15, 2010. By resolution of the shareholders adopted on March 22, 2010, Mr. Hans-Jörg Scheliga was elected to the Supervisory Board as his successor.

Furthermore, Mr. Erik von Scholz stepped down from the Supervisory Board with effect from April 20, 2010. By resolution of the shareholders adopted on August 12, 2010, Mr. Matthias Warnig was elected to the Supervisory Board as his successor. We would like to thank the members who have stepped down from the Supervisory Board for their constructive cooperation and committed service.

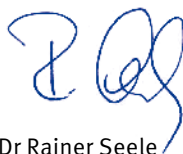
As of September 1, 2010, Dr Karsten Heuchert joined the Executive Board and became Chairman of the Executive Board as successor to Prof. e. h. Dr.-Ing. Holst, who stepped down from the Executive Board and left the service of the company as of September 30, 2010. The Supervisory Board would like to thank Prof. Holst for many years of service on the Executive Board during which he made an important contribution to the success of the company.

At its meeting on December 8, 2010, the Supervisory Board agreed to a reorganization of the responsibilities of the various Executive Board Divisions with effect from January 1, 2011. Dr Klaus-Dieter Barbknecht is now responsible for Gas Sales/Human Resources und Mr. Uwe Barthel for Infrastructure/Technical Affairs. Dr Heuchert, Chairman of the Executive Board, additionally assumed overall responsibility for Commercial Affairs. Mr. Michael Ludwig remains responsible for Gas Procurement.

The Supervisory Board would like to thank the Executive Board and the staff of the company for their dedication and commitment during the 2010 financial year.

Leipzig, April 5, 2011

The Supervisory Board



Dr Rainer Seele
Chairman

Executive Board of VNG – Verbundnetz Gas Aktiengesellschaft



Dr Karsten Heuchert
Chairman of the Executive Board



Dr Klaus-Dieter Barbknecht
Board Member Gas Sales/Human Resources



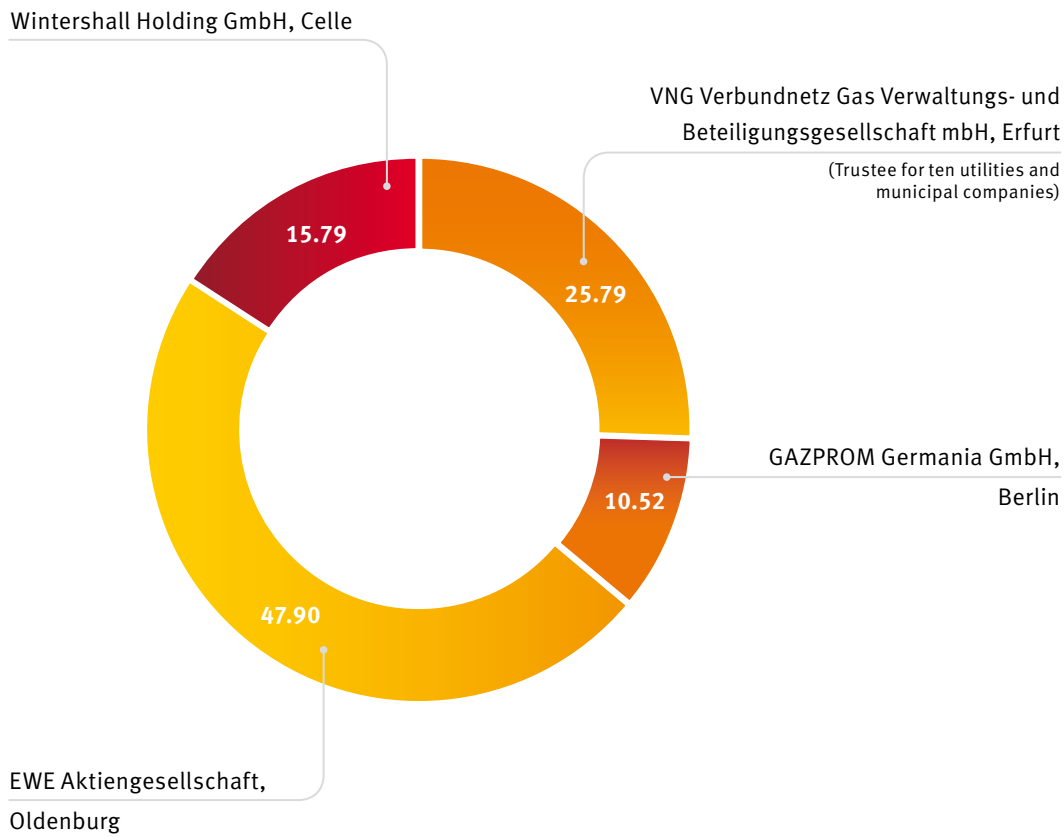
Uwe Barthel
Board Member Infrastructure/Technical Affairs



Michael Ludwig
Board Member Gas Procurement

Shareholders of VNG

figures in per cent



Until March 23, 2010, EEG - Erdgas Transport GmbH, Berlin (a wholly owned subsidiary of GDF SUEZ) held a stake of 5.26% in VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig.

As at 1 April 2011

Management Report and Consolidated Management Report on the 2010 Financial Year

Solid position in a difficult market environment

There is an exceptionally high dynamic to the European gas industry at present. Market players are facing enormous challenges. Market regulation calls for new strategies and business processes. There is global oversupply of natural gas. Competition at all trading levels of the industry is intense.

VNG is in a solid position poised for further growth despite the economic crisis and tougher competition, and was well placed to maintain its strong position on the market in 2010. There was a further rise in gas sales in Germany and abroad. At 220 billion kWh, VNG AG's sendout was roughly 20 per cent above the prior-year level. This was attributable to continued deliveries to the majority of existing customers and to the acquisition of new customers. Strong price pressure on the wholesale market led to lower margins and a noticeable decline in earnings at VNG, as elsewhere, in 2010. Pricing was often dominated by the price level on European spot and futures markets. In 2010, VNG again harnessed the opportunities for optimisation offered by the spot and futures markets.

As a specialist for natural gas, VNG operates along the entire value chain – from exploration and production through import and trade to transport and storage. During the year under review, VNG continued with its targeted and meaningful investment in the transport infrastructure, storage capacity expansion, its own upstream activities, and in market development. This investment is the basis for growth and economic success going forward.

Strategic orientation

The natural gas specialist. VNG produces, imports, trades and markets natural gas and biomethane. VNG supplies regional distributors and utilities, industry, large businesses and other major users and positions natural gas and biomethane as forward-looking energies and partners for renewable energies in the marketplace. VNG also manages the capacity of its own transport and storage facilities.

Natural gas wholesale

At home in Germany – active on the European market. VNG's core market is Germany. The VNG Group focuses on a regional presence and customised solutions in order to succeed on the intensely competitive German natural gas market. This approach is vindicated by the rise in sendout in 2010. VNG is also making increasing use of sales opportunities in neighbouring European countries and in Italy and Slovakia.

More security and flexibility through diversified procurement. VNG has successively expanded its procurement portfolio in recent years. This well-diversified portfolio will continue as the main basis for natural gas trading going forward. Spot and futures markets have become an important pillar of VNG's procurement portfolio. They provide additional potential for optimising and expanding the portfolio by accessing various supply sources with different contract terms.

The significance of liquefied natural gas (LNG) has increased quite substantially in recent years, and therefore exerted a lasting impact on the global natural gas market. LNG can contribute to the further diversification of sources of supply, thereby enhancing supply security. VNG proactively monitors these developments with a view to participating in them as appropriate.

Exploration & production

Natural gas from own sources. Exploration and production is VNG's latest division which was set up in 2006 to develop and expand these activities. Through its own exploration activities, a profitable production portfolio is to be built up in the coming years based primarily on organic growth. Activities are concentrated on the Norwegian Continental Shelf and the surrounding areas, and were expanded to the Danish Continental Shelf in 2010. In a long-term perspective, equity gas is to account for a significant share of the procurement portfolio.

Transport and storage of natural gas

Infrastructure is the key foundation for business. An adequate and reliable infrastructure is the basis for secure gas supplies in line with customers' needs. That is why the VNG Group sees its transmission system comprising some 7,000 kilometres of pipelines and its underground storage facilities with a current working gas capacity of some 2.6 billion m³ as key business units for the future.

Reorganisation of gas transport. Through ONTRAS – VNG Gastransport GmbH (ONTRAS), VNG proactively shapes cooperation in Germany's market areas and among international network operators based on the European regulatory framework. VNG will be reorganising its transport business over the coming years as a result of implementation of the EU's 3rd energy package. The objective is the even greater separation of transmission activities from supply and production.

VNG nonetheless considers the operation of its transmission network and the marketing of transport capacities to be an essential element of its business model. Activities in this regard focus on optimising the existing network.

Storage capacity grows – marketing becomes more individual. Apart from natural gas transport, natural gas storage is a further key business area for the VNG Group. Consequently, additional storage capacities will be created over the coming years both at existing underground storage facilities and at new locations. Furthermore, present facilities will be optimised in such manner as to offer customers further innovative storage products.

Present and planned storage capacity enables VNG to provide customers with secure gas supplies at all times and to offer innovative products tailored to their specific needs.

Natural gas is an indispensable part of secure energy supplies of the future. VNG sees natural gas as the ideal complement to renewable energies. Gas-fired power plants are ideally suited to balancing out fluctuations in the supply of renewables. In addition to expanding its core business areas, VNG is also seeking to harness promising new fields. Apart from biomethane marketing, the main area of interest concerns gas-fired decentralised power generation and the networking of such systems, as well as the development of new, environmentally-friendly technologies for natural gas applications.

Business environment and energy market

Following the crisis year 2009, German industry struck out on the road to economic recovery in 2010. Overall, gross domestic product was up 3.6 per cent year-on-year. Despite this positive trend, the economy still did not return to the 2008 level of economic output. At mid-year 2010, gross domestic product had only reached a level comparable to that of year-end 2006/2007. The German Council of Economic Experts is forecasting a year-on-year rise in gross domestic product

of 2.2 per cent for 2011. The Council expects that the downturn in Germany triggered by the crisis will have been fully absorbed by the end of 2011. That would mean the German economy needed three years to make up for the decline in gross domestic product caused by the crisis.

Energy consumption in Germany back on the increase. There was a robust rise in German energy consumption as a result of the strong economic recovery and the lower temperatures during the winter months compared with 2009. The year-on-year increase ran at 4.1 per cent and is chiefly attributable to energy-intensive sectors of industry. Despite this high rise, energy consumption still failed to return to the 2008 level and – with the exception of the previous year – was at the lowest level since 1990. Energy consumption in Germany is expected to stagnate in the coming years.

Natural gas consumption throughout Germany increases in 2010. Demand for natural gas benefited in particular from the high heating demand in the first and fourth quarters. 2010 was the coldest year since 1996. As a result of the economic recovery, more natural gas was also used by industry, particularly in the chemical sector. The use of natural gas for power generation revived strongly in the first half of the year, but then fell sharply in the second six months.

Natural gas consumption in absolute terms was on a par with the level for 2008. Adjusted for temperature, natural gas consumption in Germany was some 2 per cent down on the level for 2008. The number of consumers in 2010 remained largely unchanged compared with the prior year. The operating envelope of nuclear power and coal-fired power plants is having a growing impact on natural gas consumption. Depending on the availability of these plants, gas-fired facilities are increasingly being used to balance fluctuations in renewable generating capacity, resulting in a higher incidence of short-term fluctuations

in consumption not related to temperature or economic conditions.

Assuming long-term average temperatures, natural gas consumption in Germany can be expected to settle at a level similar to that established for 2010 over the coming years. The anticipated continued economic recovery and the ensuing increase in demand will be offset by efficiency gains, particularly in the heat energy market. A similar development is expected throughout the European Union. Volume increases are chiefly expected in markets in Southern Europe, e.g. on the Iberian Peninsula.

The share of natural gas in German primary energy consumption in 2010 remained unchanged at 21.7 per cent.

Share of renewable energies continues to grow. Although the share of wind power was below the prior-year level for the first time in 2010, the overall share of renewable energies in German energy supplies increased by 6.8 per cent year-on-year, with the rise chiefly attributable to the increased use of biomass for power and heat generation. This trend will continue over the coming years. The significance of renewables in the German energy mix will increase in both absolute and relative terms.

Energy policy framework

German government's Energy Concept. The German government adopted its Energy Concept on September 28, 2010. The concept gives clear priority to energy efficiency and to expanding the share of renewables and underscores the compatibility of natural gas in combination with biomethane, its use as an automotive fuel and the viability of natural gas in efficient gas-fired power plants.

Amendment to the Gas Network Access Ordinance. The new Gas Network Access Ordinance came into effect on September 9, 2010. The new provisions concern, among other things, feeding biogas into gas networks. The former 50:50 cost split has been amended so that plant operators will now bear 25 per cent of the costs going forward, while network operators must assume 75 per cent. The deadlines for reducing the number of market areas have been made more precise. According to the new provisions, the number of market areas must have been reduced to two by August 1, 2013. The proposed nationwide cost rollover for biogas feed-in was rejected by the Bundesrat. As a result, these costs continue to be allocated solely within the market areas, clearly discriminating against regions with a high number of biogas plants feeding into the network, such as the states in eastern Germany.

Implementation of the EU's 3rd energy package. The Federal Ministry of Economics and Technology submitted a position paper on a new Energy Industry Act in early November 2010. The amended act is to transpose the EU's 3rd energy package into national law. The package includes provision for extensive unbundling of energy generation and transmission. There had been some confusion in the political debate as to whether Germany would accept all three unbundling models; the position paper of the Ministry of Economics and Technology makes it clear that the new Energy Industry Act will include full unbundling and ISO (Independent System Operators) and well as the ITO model (Independent Transmission Operators). The VNG Group addressed the unbundling options at an early stage and began with the appropriate preparations in order to implement provisions in compliance with the deadlines. With regard to unbundling, the ITO model is the favoured solution.

Revision of the regulation on the security of natural gas supply. The EU Member States adopted the compromise for a "regulation concerning measures to safeguard security of natural gas supply" on October 11, 2010. The regulation came into effect on December 4, 2010 and is directly applicable in all Member States. It includes enhanced crisis prevention measures to improve the security of natural gas supply. Gas undertakings, the EU itself, its Member States and Member State regions are to make better preparations to handle a possible crisis. The regulation is a significant improvement on the Commission's original proposal. Core demands of the gas industry, in particular a stronger focus on market-based measures, have been included.

Europe 2020 energy strategy. In November 2010, the European Commission set out its strategy for European energy policy called "Europe 2020". The Commission's aim is to "Europeanise" energy policy in order to master the energy policy challenges of the next decade. Key elements of the strategy paper are: To raise energy efficiency, to implement the EU single market for energy, the further development of energy technologies, consumer protection and security standards as well as expanding energy policy foreign relations. The Commission also announced the following core issues relating to energy infrastructure to be a central building block of the "Energy 2020" strategy: methods to identify infrastructure projects, simplification and acceleration of approval procedures and mobilisation of energy infrastructure investments, for example through the introduction of new financing instruments. Overall, natural gas is to play a key role in the EU energy mix in the coming decades, too.

Exploration & production

Activities expanded and diversified. Through its exploration and production (E&P) activities, VNG is pursuing one of its main goals, namely the further diversification of sources of supply. VNG's E&P activities were successfully launched in 2006 and continued to develop on a solid basis in 2010. E&P activities focus on the Norwegian Continental Shelf and surrounding areas such as the Danish North Sea.

VNG currently holds shares in 21 production licences on the Norwegian Continental Shelf via VNG Norge AS based in Stavanger and Oslo. VNG Norge now has a workforce of over 50 and participates in oil and gas production in the Norwegian fields of Brage and Njord. The company's long-term objective is to produce a significant share of VNG's annual natural gas procurement volumes from its own sources. To that end, the E&P company mainly participates in licensing rounds organised by the state authorities, as well as engaging in projects to acquire shares in existing licences.

VNG Norge successfully participated in the APA 2009 licensing round and was allocated shares in three new exploration licences in January 2010. VNG Norge also submitted several applications to the Norwegian Ministry of Petroleum and Energy under the APA 2010 licensing round. Five such applications were approved by the Ministry in January 2011, with the company named the operator in two cases. VNG Norge also participated in the 21st state licensing round in November 2010. During the same period, licences where exploration work had identified unacceptably low resource expectations were returned to the Norwegian government.

One further milestone for VNG Norge was the founding of a second E&P company in Denmark where activities are focused on the Danish North Sea. The company holds shares in two Danish li-

cences via VNG Danmark ApS established in April 2010 and successfully started its participation in exploration activities on the Danish Continental Shelf. The first well identified an oil find that is currently being evaluated. VNG Danmark is also preparing an appraisal well under another licence in order to obtain detailed information on the size of the proven gas find and production possibilities.

Gas trading

Gas purchase

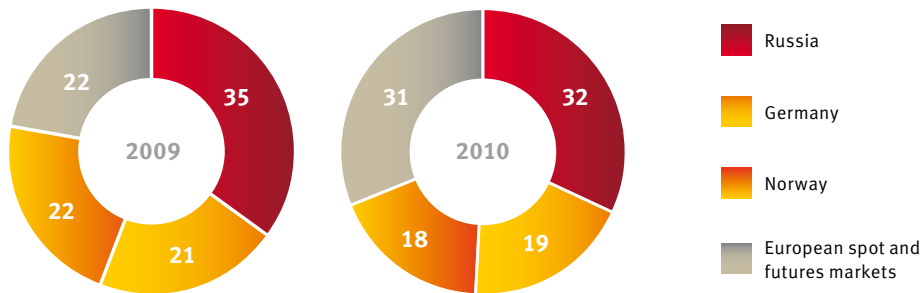
Optimised natural gas supplies. For VNG, long-term supply contracts remain the basis for reliable and secure deliveries to customers. VNG therefore takes most of its natural gas from suppliers and/or producers under long-term agreements, thereby securing flexible volumes in line with demand. However, the competitiveness of these long-term volumes on the German and European energy market has deteriorated as a result of the current global surplus and increasingly intense competition on the energy market. VNG is convinced that a mutually acceptable solution for safeguarding the competitiveness of these long-term volumes can be found through an intensive dialogue with its partners.

Growing volumes of natural gas available with different contract terms are being offered and requested at the virtual trading hubs. As a result, there has been a further significant increase in liquidity at these trading hubs. VNG again made use of these liquid spot and futures markets for optimisation purposes in 2010.

In the 2010 financial year, VNG AG took 213.9 billion kWh (2009: 188.5 billion kWh) from numerous producers and suppliers. The increase was mainly attributable to higher volumes taken from European spot and futures markets.

VNG AG supplies 2009/2010

per cent, figures rounded



Deliveries of Russian natural gas from the Russian-German joint venture Wintershall Erdgas Handelshaus GmbH & Co. KG under the existing long-term contract were in line with contractual obligations at all times.

That also applied for natural gas from Norwegian sources taken under the long-term contracts with Statoil ASA, TOTAL E&P NORGE AS, Eni Norge AS and ExxonMobil Exploration and Production Norway AS.

Once again, the long-standing suppliers of German high-cv gas, ExxonMobil Gas Marketing Deutschland GmbH & Co. KG, ExxonMobil Gas Marketing Deutschland GmbH and Shell Erdgas Marketing GmbH & Co. KG, were reliable contract partners for VNG in the 2010 financial year.

The VNG Group had access to a flexible portfolio of transport capacities in its markets in order to meet its contractual supply and delivery obligations.

In the context of diversified supply sources and supply security in Europe, LNG is playing an increasingly important role on gas markets. VNG permanently monitors these developments and reviews access to new sources of supply.

Gas sales

Another rise in VNG sendout in 2010. In 2010, VNG AG delivered approximately 220 billion kWh of natural gas to customers in Germany and other countries. This represents a year-on-year rise in sendout of some 20 per cent (2009: 183 billion kWh).

Sendout to industrial customers picked up again as the economic recovery gathered pace. Business in other European countries and sales via European spot and futures markets also contributed significantly to the increase.

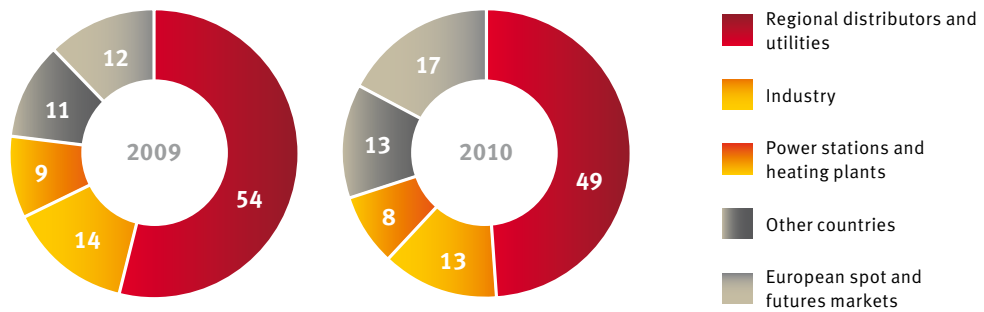
In the 2010 financial year, the VNG Group sold approximately 250 billion kWh to customers, a year-on-year rise of some 26 per cent. This increase is in particular attributable to sales in Italy via the wholly-owned subsidiary Spigas S.r.l. headquartered in La Spezia.

Gas sales, Germany

VNG successful on German market despite price pressure. Competition among all market players for every single customer intensified further in the 2010 financial year, with the number of players on

VNG AG sales by customer groups 2009/2010

per cent, figures rounded



the market increasing. Customers could choose from a wide range of delivery options. Producers in particular are increasingly focusing on utilities and distributors.

Price pressure from the oversupply of natural gas continued. Contract extensions and new contracts were oriented to the price level on the European spot and futures markets. All key competitors have revised their price calculation models accordingly.

Despite these difficult market conditions, VNG nevertheless successfully extended existing contracts and won new customers – for the most part to deliver partial volumes. This success in contracting volumes was attributable on the one hand to existing good customer relations and active customer acquisition, and on the other to VNG’s proactive customer support in this competitive environment through flexible customised products and consulting relating to all aspects of natural gas.

Competition for industrial customers and power station operators also intensified as price strategies became more aggressive. This was evidenced in particular by the growing number of competitors with attractive supply offers, even for major industrial users. VNG successfully acquired some important new industrial customers and concluded new delivery agreements with exist-

ing customers in spite of the changed market situation. VNG focuses on cooperation based on partnership which allows customers to hold their own on the national and international market. VNG’s sendout to industrial customers picked up as the economic recovery gathered pace.

VNG’s sales activities focus on a strong regional presence. In this context, a new office was opened in Erfurt in October 2010, thereby strengthening VNG’s direct sales activities in Thuringia.

Biomethane sales gain ground. Biomethane marketing efforts were intensified in 2010. There is growing customer interest in biomethane. Customers were won for the “VNG.Gasmarkt-Bioerdgas” product group as a result of intensive acquisition activities and targeted marketing initiatives. This product group includes delivery contracts for adding biomethane to existing supply portfolios as well as biomethane volumes for power generation under the Renewable Energy Sources Act. VNG also developed special products, for example regarding the use of biomethane in co-generation plants.

A biomethane trading platform initiated by VNG AG and developed in cooperation with MITGAS Mitteldeutsche Gasversorgung AG was launched in October 2010. The trading platform facilitates the purchase or sale of biomethane volumes at

the virtual trading hubs in Germany. There are also plans to introduce the trading of biomethane via certificates on the online platform www.bioerdgashandel.de in 2011. The biomethane trading certificates will be generated under the German biogas register.

Gas sales, other countries

Market position in neighbouring European countries expanded. At approximately 28 billion kWh, gas sales to other countries constitute a solid component of VNG AG's sales activities. The percentage share of gas sales to other countries in total sales reached double digits for the first time in 2009 (11 per cent), and was extended further (13 per cent) in the 2010 financial year. Poland and Italy remained the main sales areas outside of the German gas market in 2010.

Poland

Poland's significance for sales to other countries is undiminished. Deliveries in 2010 ran at approximately 10 billion kWh.

Czech Republic

The VNG Group has created a favourable framework for the efficient expansion of its sales activities on the Czech market through the merger of Energie Bohemia a.s. and VNG Energie Czech a.s. The activities of the VNG Group in the Czech Republic developed well in 2010. For the first time, natural gas sales exceeded 1 billion kWh/a.

Slovakia

VNG commenced natural gas deliveries to Slovakia in 2009, and sales were further expanded in the 2010 financial year through deliveries to several customers.

Italy

Despite the interruption in the transit pipeline through Switzerland, one of the main natural gas supply routes to Italy, since the middle of 2010, VNG's deliveries to customers in Italy continued to grow. In total, VNG AG sold approximately 6.4 billion kWh to Italian customers, a year-on-year rise of 12 per cent.

France

In France, VNG successfully applied for a licence to deliver natural gas to non-residential customers where there is a public service obligation, thereby further diversifying the sales portfolio. VNG opened a liaison office in Paris in October 2010 to gain an even greater insight into the market and to represent the company's interests in France.

Switzerland

Business relations with the Swiss gas industry were also intensified. VNG expanded its trading activities with spot and futures products in 2010 via its shareholding in SET Swiss Energy Trading AG.

Luxembourg

Deliveries under a long-term contract to deliver natural gas to the Luxembourg-based supplier Enovos Luxembourg S.A. began in the 2010 financial year.

More short-term trading. There was a substantial increase in the importance of spot and futures trading on Europe's natural gas wholesale markets in 2010 as a result of oversupply on European gas markets combined with a further rise in liquidity at the virtual trading hubs. Other reasons included a more active portfolio management on

the part of most competitors and tougher competition on the sales market.

The uncoupling of natural gas delivery prices and the trading prices for oil products continued in 2010. Volatile prices for various energy trading products and other dynamic global influences placed greater demands on energy trading portfolio and risk management.

In the 2010 financial year VNG was active at the virtual trading hubs in Germany, Belgium, France, the Netherlands and Austria and at various physical import and export points in Europe. Business was conducted at the National Balancing Point (NBP) in the UK for the first time.

There was a further marked increase in the volumes of natural gas bought and sold by VNG on the spot and futures markets. Apart from bilateral transactions (OTC – over-the-counter) with many European trading partners, VNG also used several brokers and the European Energy Exchange AG (EEX) as trading platforms for natural gas. The conclusion of new framework agreements resulted in a significant increase in the scope of trading relations in 2010.

Gas storage

Storage capacity expanded – some projects with partners. VNG AG's four underground storage facilities at Bad Lauchstädt, Bernburg, Buchholz and Kirchheilingen have a total working gas capacity of 2.56 billion m³.

Gas storage is of major significance for the long-term security of natural gas supply on the European energy market. The VNG Group's objective is therefore to further increase marketable storage capacities over the coming years.

To that end, VNG AG concluded cooperation agreements with E.ON Gas Storage GmbH (EGS) and

WINGAS GmbH & Co. KG (WINGAS) to expand storage capacities at the Etzel and Jemgum sites in Lower Saxony.

In cooperation with EGS and OMV Aktiengesellschaft, a cavity storage facility with an additional working gas volume of approximately 2 billion m³ is planned for Etzel, with VNG taking a share of 150 million m³.

In cooperation with WINGAS, it is planned to commission cavities to provide an additional working gas volume of up to 1.2 billion m³ at the Jemgum site. VNG's share of the planned capacity is one-sixth.

In addition, the VNG Group continually invests in the expansion and modernisation of its existing underground storage facilities. The filling of the first cavity under the second expansion phase at Bad Lauchstädt was started during the 2010 financial year. An additional working gas volume of approximately 65 million m³ is expected to be available from April 2011. Further capacities will be developed in several additional phases until 2022. At the Bernburg facility, work began on reactivating a decommissioned cavity. The planned increase of approximately 23 million m³ in working gas capacity is also scheduled to be available for marketing from April 2011.

Via the project and storage company Erdgaspeicher Peissen GmbH, VNG and Gazprom Germania GmbH, Berlin, are involved in building the "Katharina" underground storage facility.

Optimised storage capacity marketing. In 2010, capacities at the underground storage facilities were almost fully booked by VNG AG and third parties.

With new products not previously available on the German storage market, VNG aims to constantly adapt to the demands of the gas market and maximise the utilisation of existing capacities. A pilot project was launched in 2010.

An online booking system is currently being developed to optimise the short-term booking of free storage capacity in particular and to provide an enhanced customer service. One key benefit of the envisaged system for storage customers is the updated and transparent presentation of data on available capacity.

Gas transport

ONTRAS is the operator of VNG's transmission network spanning over 7,000 kilometres and markets the transport capacities of this network. ONTRAS sets industry-wide benchmarks in network access with its own advanced solutions and products. Continuous expansion of national and international cooperation strengthens the competitive position of ONTRAS.

ONTRAS in Europe. ONTRAS plays a key role in shaping cross-border capacity management, an issue which the European Commission also believes to be of growing importance, and maintains an ongoing involvement in the work of committees from various organisations at European level.

ONTRAS and incentive regulation. ONTRAS has been subject to cost regulation since notification of the decision by the Federal Network Agency regarding pipe-to-pipe competition of October 20, 2008 and has been formally subject to incentive regulation since January 1, 2010. Under the efficiency benchmark calculation, the Federal Network Agency set a provisional revenue cap for ONTRAS for the period 2010/2011. In a written communication dated February 14, 2011, ONTRAS received notice of a revenue cap based on an efficiency benchmark of 100%.

ONTRAS expands GATRAC cross-border cooperation. ONTRAS has further developed the GATRAC cooperation together with the Czech company NET4GAS s.r.o. (formerly RWE Transgas Net). Since November 25, 2010, GATRAC has been offering bundled day-ahead capacity between the GASPOOL and OTE (Czech Republic) virtual trading hubs. Transport customers can book capacity on the platform of their choice (ONTRAS or NET4GAS) irrespective of the direction in which they wish to transport the gas.

Biogas plant injection points. Demand for biogas plant injection points along the ONTRAS network area remains high. During the year under review ONTRAS supervised the planning and construction of six biogas plant injection points.

ONTRAS certified to ISO 9001. On July 27 and 28, 2010, ONTRAS successfully completed the certification audit pursuant to DIN EN ISO 9001 conducted by TÜV SÜD Life Service GmbH. The certification is public proof of ONTRAS' successful quality management.

Network service. VNG AG is the service provider for the operation and maintenance of the ONTRAS transportation system. Services are provided under a technical services contract. Continuous refurbishment and modernisation measures were performed as commissioned by ONTRAS in 2010. The significant funds invested in state-of-the-art condition diagnosis and analysis ensure the highest standard of reliability in supplies to customers.

The operational safety and leak tightness of old pipelines were investigated under a special quality inspection program. The repairs identified during this inspection have either already been completed or have been incorporated in the refurbishment program.

There were no hazards or interruptions in supply along the transmission pipelines at any time during 2010.

Network expansion. The transmission pipeline between Weißig and Diehmen was relaid from February to December 2010. The connecting lines and control cable routes will be laid in 2011.

Other activities in 2010 included the construction of the Summt gas metering and pressure regulating station, the construction of the Milzau junction and the construction of the transmission line tie-in at Steinitz delivery station.

Conversion work was carried out on the combustion chambers at Sayda compressor station and on the process control system at Bobbau compressor station.

Investment portfolio of the VNG Group

Consolidation and optimisation. As at December 31, 2010, VNG AG held 64 direct or indirect participating interests in Germany and abroad. The foreign participating interests are active in Poland, the Czech Republic, Slovakia, Italy, Austria, Switzerland, Norway and Denmark.

The 2010 financial year was characterised by investment portfolio consolidation and shareholding structure optimisation.

The founding of VNG Danmark as a subsidiary of VNG Norge was a further important step towards strengthening E&P activities. VNG Danmark holds and acquires production licences for the Danish Continental Shelf.

The VNG Group investment portfolio at year-end 2010 comprised the following:

Fully consolidated German companies in the VNG Group

Share	
100.00 %	BALANCE VNG Bioenergie GmbH, Leipzig
100.00 %	CCM Communication-Center Mitteldeutschland GmbH, Leipzig
100.00 %	ECG Erdgas-Consult GmbH, Leipzig
100.00 %	GDMcom Gesellschaft für Dokumentation und Telekommunikation mbH, Leipzig
100.00 %	GEOMAGIC GmbH, Leipzig
100.00 %	MBG Mitteldeutsche Biogasgesellschaft mbH, Leipzig
100.00 %	ONTRAS – VNG Gastransport GmbH, Leipzig
100.00 %	VNG-Beteiligungs-GmbH, Leipzig
100.00 %	VNG-Direkt GmbH, Leipzig
100.00 %	VNG-Erdgascommerz GmbH, Leipzig
100.00 %	VNG-Erdgastankstellen GmbH, Leipzig
91.22 %	ENERGIEUNION AG, Schwerin
50.92 %	Havelländische Stadtwerke GmbH, Werder (Havel)

Fully consolidated foreign companies in the VNG Group

Share	
100.00 %	G.EN. Gaz Energia Spółka Akcyjna, Tarnowo Podgórze, Poland
100.00 %	Gaz Budowa Sp. z o.o., Karlino, Poland
100.00 %	HANDEN Sp. z o.o., Warsaw, Poland
100.00 %	SPIGAS S.r.l., La Spezia, Italy
100.00 %	VNG Danmark ApS, Copenhagen, Denmark
100.00 %	VNG Energie Czech a.s., Prague, Czech Republic
100.00 %	VNG Italia S.r.l., Bologna, Italy
100.00 %	VNG Norge AS, Stavanger, Norway
100.00 %	VNG Polska Sp. z o.o., Tarnowo Podgórze, Poland
100.00 %	VNG Slovakia, spol. s r.o., Bratislava, Slovakia

Associated German companies in the VNG Group

Share	
100.00 %	Leipziger Biogasgesellschaft mbH, Leipzig
74.80 %	BGA Bioenergie GmbH, Hof (Saale)
50.00 %	enerXess GmbH, Essen
50.00 %	Erdgasspeicher Peissen GmbH, Halle (Saale)
50.00 %	Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG), Erfurt
50.00 %	Heizkraftwerk Halle-Trotha GmbH, Halle (Saale)
50.00 %	InterGasTrade GmbH i.G., Potsdam
50.00 %	InterTransGas GmbH, Leipzig
50.00 %	lictor GmbH, Leipzig
40.00 %	Untergrundspeicher- und Geotechnologie-Systeme Gesellschaft mit beschränkter Haftung, Mittenwalde
38.00 %	store-x Storage Capacity Exchange GmbH, Leipzig
25.00 %	caplog-x GmbH, Leipzig
25.00 %	GASPOOL Balancing Services GmbH, Berlin
24.90 %	EMB Energie Mark Brandenburg GmbH, Potsdam
24.80 %	SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus
24.60 %	MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)
24.00 %	trac-x Transport Capacity Exchange GmbH, Leipzig
23.38 %	Stadt- und Überlandwerke GmbH Luckau-Lübbenau, Luckau
21.40 %	Gas Service Freiberg GmbH, Freiberg
20.00 %	GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft, Straelen

Associated foreign companies in the VNG Group

Share	
50.00 %	FlameEnergy Trading GmbH, Vienna, Austria
50.00 %	BLUEFIN S.r.l., Bologna, Italy
49.00 %	Nitrianska teplárenská spoločnosť, a.s., Nitra, Slovakia
49.00 %	Prievidzské tepelné hospodárstvo, a.s., Prievidza, Slovakia
35.00 %	SET Swiss Energy Trading AG, Zurich, Switzerland

Other participating interests in the VNG Group

Share	
100.00 %	Energiefinanz GmbH, Schwerin ¹⁾
100.00 %	S I Sachsenross Erste Beteiligungsgesellschaft mbH, Leipzig
100.00 %	VNG Vertriebs-GmbH Thüringen/Bayern, Leipzig
49.00 %	NYSAGAZ Sp. z o.o., Wrocław, Poland
49.00 %	PROMETHEUS – Gesellschaft für Erdgasanwendungsanlagen mbH, Leipzig
30.07 %	ZEC Sp. z o.o., Białogard, Poland
20.00 %	GasLINE Telekommunikationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH, Straelen
15.20 %	Biomethan Schöpstal Verwaltungs-GmbH, Schöpstal
15.10 %	Versorgungsbetriebe Hoyerswerda GmbH, Hoyerswerda
12.55 %	Stadtwerke Rostock Aktiengesellschaft, Rostock
10.00 %	DFTG-Deutsche Flüssigerdgas Terminal Gesellschaft mit beschränkter Haftung, Wilhelmshaven
10.00 %	Deutsche Flüssigerdgas Terminal offene Handelsgesellschaft, Essen
6.60 %	Biomethan Schöpstal GmbH & Co. KG, Schöpstal
1.50 %	NBB Netzgesellschaft Berlin-Brandenburg mbH & Co. KG, Berlin ²⁾

¹⁾ Share held via ENERGIEUNION AG | ²⁾ Share held via Havelländische Stadtwerke GmbH.

Services in the VNG Group

Marketing and sales communication. VNG and its customers position natural gas and biomethane on the market as forward-looking energies and a reliable long-term bridge to the renewable era. These efforts are underpinned by the “Kraftpaket.plus” and “Brennwert.plus” market incentive programs, both of which encourage the use of forward-looking technologies such as micro and mini co-generation plants or condensing boiler and solar panel heating systems on the energy market. Under the “Brennwert.plus” program in particular, more than 4,400 new condensing boiler heating systems have been commissioned since the program began in 2009. Further projects over and above the two established programs are under preparation.

A further innovation initiative launched by VNG in 2009 and continued in 2010 investigates the use of proprietary co-generation plants, gas heat pumps and fuel cells under operating conditions and is working closely on the successful market launch of these modern and efficient forms of energy generation. The initiative focuses in particular on the owners of one and two family houses, small businesses and housing associations.

During the period under review, particular attention was devoted to intensifying biomethane marketing via the “VNG.Gasmarkt-Bioerdgas” product group. The success of these efforts indicates that the marketing measures targeted towards delivery contracts for biomethane mixtures or for biomethane deliveries for power generation under the Renewable Energy Sources Act will continue. A marketing concept for direct end user

contact to stimulate the use of biomethane in co-generation plants was developed specifically for utilities and regional distributors in regions such as Baden-Württemberg.

Natural gas as an automotive fuel. Efforts to market natural gas as an automotive fuel were stepped up in 2010. Sales at a total of eight natural gas refuelling stations owned by VNG – Erdgastankstellen GmbH (VNG-T) more than doubled during the year as a result of communication and advertising measures coupled with an intensive market partnership. The proportion of biomethane in the blend offered at selected VNG-T refuelling stations was increased to 20 per cent and this was communicated in a publicity campaign. The activities of “erdgas mobil e. V.” to foster the use of this alternative fuel continued along familiar lines.

Software and consulting. The Group subsidiary ECG Erdgas-Consult GmbH is a leading software and consulting house for gas traders, transmission network operators and storage operators. ECG provides its customers with high-quality proven solutions based on state-of-the-art IT technology and comprehensive energy industry know-how, and makes a crucial contribution to the smooth functioning of gas industry processes. ECG offers forward-looking software systems and services for the national and international energy market designed in direct dialogue with customers which are increasingly establishing themselves as software standards.

Telecommunication and documentation. GDMcom Gesellschaft für Dokumentation und Telekommunikation mbH is an experienced specialist for high-performance telecommunications and reliable documentation. As a service provider, GDMcom offers individual customised solutions for the preparation and administration of documentation in the supply industry, processing third-party planning enquiries and for easements

and servitudes relating to pipelines and plant. GDMcom uses advanced technology and comprehensive know-how to ensure its customers' business processes run smoothly.

Innovation and exchange of experience

Scientific and technical cooperation with partners. The close scientific and technical cooperation between VNG and OAO Gazprom and its subsidiaries already has a long tradition.

A comprehensive program to continue this cooperation until 2012 was concluded by the partners in July 2010. This cooperation focuses on the operation and status assessment of high-pressure gas pipelines and underground storage facilities. Work will also include the diagnosis measurement of well pipework using the MID magnetic pulse defectoscope method, safety status assessment of production strings and storage pipework, the dynamic geological modelling of reservoirs and the gas dynamic simulation of above-ground facilities at underground storage plants.

The most important project under this cooperation undertaken in 2010 was the construction of an ejector unit, now reaching completion, for the energy-efficient injection of natural gas into Bernburg underground storage facility. This is the first time that such a plant is being built to European technical standards as a joint venture project.

Conference of underground storage experts. At the initiative of VNG and OAO Gazprom, the second international conference on the operational safety of technical plant at underground storage facilities attended by numerous specialists from all over the world took place in Leipzig in May 2010. Aspects of plant safety and operating process optimisation were discussed and evaluated.

Deutsch-Russisches Rohstoff-Forum. The German-Russian commodities forum is a central platform for dialogue on developing strategies for the effective use of fossil, mineralogical and alternative natural resources. Russian and German representatives from industry, politics and science discussed the security of natural resource supplies at the third German-Russian commodities forum held in Freiberg and Dresden on March 17 – 19, 2010. This constant dialogue has turned the forum into a link between companies in both countries and has become the initiator of specific cooperation projects. It was established by the two oldest mining universities in the world – Technische Universität Bergakademie Freiberg and St. Petersburg State Mining Institute – on October 10, 2006 and has been supported by VNG ever since.

Research and development projects. VNG's research and development program serves the further development of existing business fields and fosters progress in new areas.

Since 2004, the VNG Group has been involved in researching new possibilities and technologies for capturing, transporting and storing CO₂ as part of global efforts to reduce CO₂ emissions. Together with European partners, VNG is investigating ways of storing CO₂ in underground rock formations and the long-term behaviour of CO₂ in the storage horizon under the "CO₂-SINK" and "CO₂-MAN" EU research projects. Work continued in 2010. It is planned to inject up to 100,000 tonnes of CO₂ into suitable underground rock formations in Brandenburg by 2013.

In May 2010, VNG and Vattenfall Europe Generation AG & Co. KG concluded a technology partnership in the field of CO₂ capture, transport and storage.

Together with Kirsch Home Energy, VNG designed and patented the KirschHomeEnergy L 4.12 air-cooled micro-co-generation plant. Kirsch Home Energy holds the licence to produce this auto-

nous gas-fuelled system that generates heat and power, and the equipment is now being brought to series maturity. VNG is offering an incentive program and monitoring activities to support customers during the field tests.

The VNG Group supports the production, marketing and use of biomethane. These activities not only relate to existing applications, but also investigate new fields such as the use of biomethane in gas turbines, co-generation units or combined-cycle plants.

Commitment and responsibility

For VNG, commitment and responsibility is much more than just success in a competitive environment, corporate growth and safeguarding jobs. Responsibility for social development goes hand in hand with benefits for the company itself and for environmentally-friendly natural gas. VNG's commitment has strong regional roots.

Networks encourage socio-cultural development. VNG's commitment aims at sustainable development. Social issues are identified at regional and local level and a series of networks (known as "Verbundnetz" in German) have been set up to address these issues.

"Verbundnetz der Wärme" is a network bringing together people in eastern Germany working in an honorary capacity and provides a platform among the public and the media for them and their projects. The initiative launched in 2001 now has over 200 members.

"Verbundnetz für den Sport" is a network supporting mass and top-class sport and fostering young athletes on their way to the world's elite. Sportsmen and women are selected and nominated for

the project in cooperation with the eight Olympic Centres in eastern Germany and the respective local authorities.

The VNG Foundation successfully began its work in 2010 and supports projects in the fields of science and education, religion, art and culture as well as non-profit commitments.

“Verbundnetz für Demokratie und Toleranz” is a network joining forces with municipal partners to strengthen civil society. The “Mauerfälle” exhibition and future workshop which went on tour to mark the 20th anniversary of German unification engaged in a democratic dialogue in the German cities of Leipzig, Munich, Essen, Neubrandenburg, Dresden, Frankfurt, Nordhausen and Stuttgart as well as the European cities of Stavanger and Brussels.

Research for strong municipal authorities. VNG supports the dialogue and research into issues pertaining to municipal action. The main platform is a non-partisan discussion platform called “Verbundnetz für kommunale Energie”.

VNG also supports the interdisciplinary research unit called “Forschungsstelle Kommunale Energiewirtschaft” at the business science faculty of Leipzig University and “Wissenszentrum Kommunalwirtschaft” at the Institute for Sustainable Regional Development of Eberswalde University of Applied Sciences.

Human resources

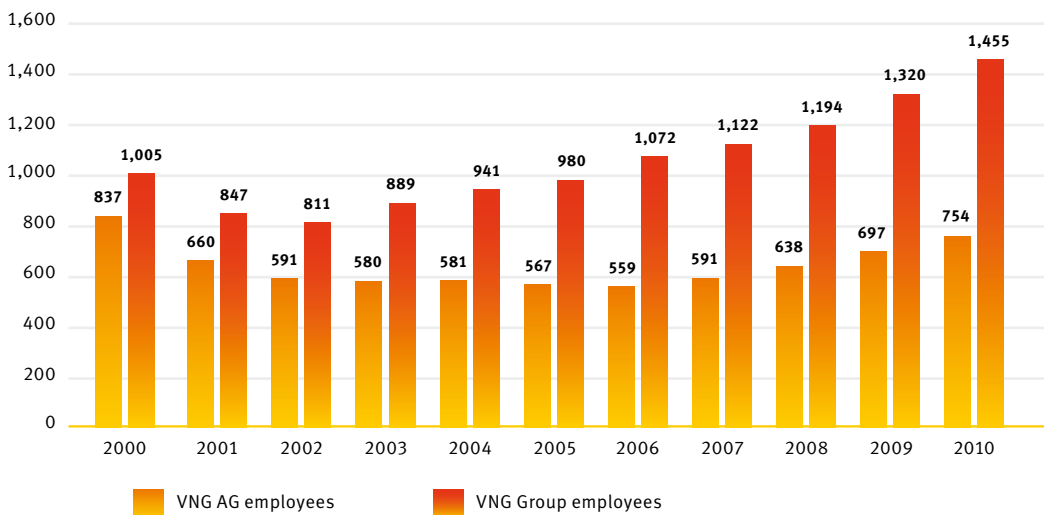
Well trained and motivated employees safeguard corporate success and the continued competitiveness of VNG. Recruiting and retaining the best employees for the company, and motivating and encouraging them is therefore a core task.

As at December 31, 2010, the VNG Group headcount at the parent company and in the fully-consolidated companies during the 2010 financial year totalled 1,455 employees. As a result, VNG continues to rank among the key employers in eastern Germany, but an increasing number of employees are also located in western and southern Germany. Preserving and creating secure jobs at VNG in Germany and abroad and retaining employees in the company will remain one of the main tasks of HR work at VNG.

Demographic trends are intensifying competition for the best experts and managers. To remain at the head of the field in this competition for knowledge and skills, VNG supervises interns, graduates and doctoral candidates and maintains contact with numerous universities. As part of VNG’s graduate marketing program, long-standing cooperation arrangements exist with institutions such as Leipzig University, Hochschule für Technik, Wirtschaft und Kultur Leipzig, and Technische Universität Bergakademie Freiberg. As internationalisation progresses, VNG is intensifying cooperation with its partner universities in St. Petersburg, Trondheim, Prague und Krakow. The VNG-Campus initiative coordinates this cooperation. The initiative fosters international scientific exchange among students and scientists. VNG scholarships have already been awarded to 255 students to spend time studying at a partner university or complete an internship at VNG.

The internal commercial vocational training program which has been running since 1997 and the technical vocational training scheme in cooperation with Stadtwerke Leipzig GmbH are illustrative of sustainable HR work at VNG. In 2010, 41 apprentices received professional vocational training at VNG oriented to the needs of the market.

VNG underpins its position as an attractive employer with a pronounced awareness of the needs of families through the attention the company devotes to combining a career and a family. Apart from flexible working hours and comprehensive

VNG Group and VNG AG workforce 2000–2010¹⁾

¹⁾ Year-end figures

health management, VNG also supports employees' families in various life situations such as arranging child care or finding suitable care alternatives for relatives in need of care, or through life coaching.

Annual financial statements of VNG AG and consolidated financial statements of the VNG Group

Earnings situation

The net income of the VNG Group for the 2010 financial year was about € 69 million, some € 99 million lower than the figure for the previous year. The earnings situation of the VNG Group is still largely determined by VNG AG, which recorded net income for the year of about € 59 million.

The reason for lower earnings was the decline in the trading margin despite the consistent use of all optimisation possibilities, especially the further intensification of gas purchasing and sales activities on spot and futures markets. The new gas sendout record of about 220.3 billion kWh (2009:

approx. 183.0 billion kWh) was not sufficient to compensate in full for the negative effects on net income. Despite a fall in average sales prices, especially the 11 per cent increase in sendout led to higher sales by VNG AG of about € 5.3 billion (2009: about € 4.8 billion). In the VNG Group as a whole, sales in 2010 rose to € 6.3 billion (2009: about € 5.4 billion); the VNG Group sold a total of approx. 250 billion kWh of gas to customers (2009: approx. 198 billion kWh). In addition to higher gas sales to distribution companies as well as on European spot and futures markets, especially success in Italy resulted in higher gas sendout for VNG AG and the VNG Group as a whole. As a result of the adjustment of gas prices under long-term contracts to reflect changes in oil prices, the cost of gas purchased rose disproportionately in the 2010 financial year in comparison with sales, which were affected by sustained pressure on prices.

Lower material costs for maintenance and demolition measures had a positive impact on the net income of VNG AG and the VNG Group. Within the VNG Group, there was a fall in exploration costs in connection with the upstream activities of VNG Norge.

Within the VNG Group, income from participating interests improved slightly compared with 2009; in contrast, there was a fall in income from participating interests of VNG AG. Especially ONTRAS suffered from a deterioration in earnings. It was necessary for VNG AG to record both write-ups and depreciation on participating interests; to a large extent, these have no effect on the consolidated financial statements.

The higher financial liabilities of VNG and the VNG Group compared with the previous year led to higher interest expenses. The tax expenses of VNG AG fell as a result of lower net income. In contrast, lower tax repayments by the Norwegian state in connection with exploration expenses resulted in only a slight change in tax income.

Financial situation

	VNG AG		VNG Group	
	2010	2009	2010	2009
Cash and cash equivalents at beginning of year	0.0	3.1	30.6	31.6
Cash flow				
from operating activities	60.0	203.0	65.1	120.9
from investing activities	-25.9	-360.7	-181.3	-137.6
from financing activities	-34.0	154.6	118.3	11.3
Changes resulting from exchange rates and consolidated group			1.8	4.4
Cash and cash equivalents at end of year	0.1	0.0	34.5	30.6

figures in million €

The cash flow from operating activities of VNG AG fell by about € 143 million compared with 2009 to about € 60 million in line with the development in net income and as a result of the greater amount of funds tied up in inventories. At about € 65 million, the cash flow of the VNG Group from operating activities was also lower than the figure for 2009 (about € 121 million).

The cash outflow of VNG AG from investing activities was, on balance, significantly lower than in 2009. The investments made in 2009 chiefly concerned financial assets, among other things in connection with the expansion of exploration activities in Norway. In contrast, investments in property, plant and equipment rose in 2010 as a result of higher investments in storage facilities

and pipelines. However, capital and loan repayments by affiliated companies led to cash inflows. On balance, cash outflow from investing activities therefore fell from € 360.7 million in 2009 to € 25.9 million in 2010.

As regards financing activities financing obligations of VNG AG rose by about € 71 million on balance in 2010. A dividend of € 105 million was paid to the shareholders. As a result of higher financing requirements in the Group, especially due to investment activities, the take-up of debt within the Group rose, leading to a positive cash flow from financing activities.

Assets and liabilities

The balance sheet structure of VNG AG and the VNG Group changed as follows compared with 2009:

	VNG AG		VNG Group	
	2010 %	2009 %	2010 %	2009 %
Assets				
Property, plant and equipment/intangible assets	21	21	25	27
Financial assets	25	31	11	13
Inventories	18	17	18	18
Receivables and other assets	33	29	38	36
Other assets	3	2	8	6
	100	100	100	100
Equity and liabilities				
Equity*	30	35	27	33
Liabilities	70	65	73	67
	100	100	100	100

*Equity includes special items

Especially the higher capital tied up in current assets led to an increase of about 7 per cent in the balance sheet total for VNG AG and 16 per cent for the VNG Group compared with 2009. Despite the higher balance sheet total, the share of property, plant and equipment remained unchanged or only changed slightly as a result of the increase in investments. While the financial assets of the VNG Group remained virtually unchanged, the financial assets of VNG AG fell in absolute and relative terms as a result of capital repayment by an affiliate. For VNG AG and the VNG Group, the value of receivables rose in absolute and relative terms as a consequence of the increase in gas sales prices compared with December 2009. In both cases, the equity ratio fell as a result of the higher balance sheet total and the lower net income for the year compared with the dividend paid to shareholders.

With an increase in liabilities, including trade payables and additional financial liabilities, the balance sheet structure of both VNG AG and the VNG Group shifted towards liabilities. Nevertheless, the equity ratio remains very solid and stable at 30 percent for VNG AG and 27 per cent for the VNG Group.

Opportunities and risks

Risk management at VNG. The systematic identification, measurement and monitoring of opportunities and risks and the efficient control of these opportunities and risks is essential to safeguarding the business activities of the VNG Group. A decisive factor is permanent adherence to a balanced risk-reward ratio.

A comprehensive risk audit which systematically records, assesses and aggregates all risks is conducted twice a year in addition to operational risk measurement and monitoring. There is also an ad-hoc reporting system based on pre-defined thresholds that ensures the timely identification of changes in the risk portfolio.

The auditor regularly monitors the risk management system. The system has again been deemed suitable for the early identification of developments which might threaten the continued existence of the company.

Financial risk control via management and control systems. As an international network of companies, the VNG Group is exposed to risks arising from changes in raw material prices, exchange rates, interest rates or credit risks. The company's essentially conservative approach is reflected in its systematic financial risk management.

There is strict separation of the organisational structures of the trading function and the financial risk controlling function.

The standard derivative financial instruments deployed are used exclusively to hedge the risks of the underlying transactions. Financial transactions are only concluded with business partners with first-class credit ratings.

Liquidity risk

Liquidity is guaranteed at all times through broadly-diversified and binding credit lines on an adequate scale. Rolling medium- and long-term credit facilities ensure a high level of security and flexibility in corporate financing.

Credit risk

The main credit risks arise from the continuously rising number of natural gas supply and trading contracts with national and international business partners. The conclusion of financing instruments also generates credit risks. The credit rating of our business partners (financial institutions, trading partners, customers and suppliers) is continually monitored under the established credit risk management on the basis of all available information. Apart from the bilateral collateralisation of individual loans by means of the usual securities (e.g. guarantees), credit insurances or factoring are deployed on a selective basis.

Raw material price risk

Financial risks from gas trading arise from the price fluctuations on raw material markets and the differing pricing mechanisms in purchasing and sales. In the context of overall portfolio management, the risk items from individual contracts are aggregated to form an overall risk item for each reference raw material; these are constantly monitored and effectively controlled. Derivative financial instruments that compensate for potential negative changes in the result of the gas trading portfolio are used, taking into account natural hedging effects in the portfolio. If the customer so requests, micro-hedges can be applied for sales transactions.

Currency risk

Where possible, currency risks from financing, trading or capacity contracts as well as other transactions in foreign currencies are centralised within VNG AG. Contracts with Group companies outside the eurozone are concluded in the national currency. Opportunities and risks are recorded centrally, evaluated daily and controlled on the basis of coordinated strategies and limits.

Risk of interest rate changes

As a result of seasonal fluctuations in liquidity, phases with and without net credit obligations during the year are balanced out over the course of the twelve-month period and for the most part allow natural hedging against interest rate changes. Derivative financial instruments were used to adjust the interest rate risk item over the course of the year in such manner as to achieve low-level fixed interest rates for all long-term financial instruments.

Shareholding portfolio management as part of the risk management system. Opportunities and risks arise in the shareholding portfolio as a result of the economic and legislative situation. The earnings forecasts regularly updated by the shareholdings are included in risk reporting and are continually monitored and assessed. In addition, all domestic and foreign subsidiaries have their own risk manual and form an integral part of the risk management system, preparing regular risk updates. The VNG Group monitors all the relevant markets of its shareholdings and can respond to identified risks in a timely manner through its presence on the companies' governing bodies.

Natural gas trading in a difficult market environment. The main risks in gas trading remain the price and volume risk. Key risk control instruments are the targeted adjustment of supply contracts to the new market conditions, active portfolio management and VNG's trading activities.

Competition on natural gas markets continued to intensify in the 2010 financial year. Oversupply remains a characteristic of European natural gas markets. This oversupply is the result of the continued relatively weak demand for natural gas and the increase in LNG deliveries to Europe, in part attributable to the development of new unconven-

tional gas reserves in the USA. Gas prices therefore came under strong pressure, and the trend towards uncoupling gas prices from European importers' oil-price-linked procurement portfolio which emerged in 2009 was reinforced during the year under review. VNG regularly harnesses the opportunities as they become available to adjust conditions under long-term procurement contracts to the fundamental changes in market situation.

VNG leverages the growing market dynamics and the associated opportunities in the trading business through the proactive management of its extensive procurement portfolio. Intensive market tracking and the constant transfer of information between Purchasing, Trading and Sales is essential for effectively harnessing market opportunities. On this basis, VNG develops new innovative products and price systems for the sales business, thereby allowing the company to respond swiftly and flexibly, offering customised solutions as part of its customer retention strategy.

On the supply side, VNG has a broad supply portfolio and is systematically continuing to diversify sources of supply. In addition, the partly geographical shift in volumes along with transport and storage capacity commitments, e.g. under the open season process, are important elements in supporting sales activities. Diversification is also aided by access to equity gas through the gradual expansion of the E&P business. The development of E&P activities also serves to foster a self-sustaining business as another source of added value for VNG.

Strong competition and the growing availability of natural gas naturally pose major challenges for Sales; notwithstanding, additional volume positions were won both in Germany and other European countries, thereby reducing the volume risk. VNG is responding to growing demand for biomethane products or to blend biomethane with gas from conventional delivery contracts by es-

establishing a long-term biomethane portfolio. Biomethane trading is not merely a further building block in strategic, trading-related diversification, but more importantly reflects efforts to increase the share of renewables in energy consumption as demanded by political circles. The price and sales risks for biomethane products are minimised by negotiating flexible pricing mechanisms in supply contracts and by constantly tracking the market.

Regulatory risks in gas transport. Network operators' revenue and costs were uncoupled when incentive regulation came into effect on January 1, 2010 and network operators are subject to annual efficiency benchmarks in the form of revenue reduction factors. The Federal Network Agency set a provisional revenue cap for the years 2010/2011 for ONTRAS as the network operator in the VNG Group. The final determination of this cap will be valid retroactively. Revenue already authorised may be capped further as a result of regulation. In addition, for the years 2011 to 2013, ONTRAS is obliged to factor in additional revenue generated between October 21, 2008 and October 1, 2009 as well as additional revenue from balancing overlapping periods when calculating charges. Accounting measures are in place to cater for these developments.

ONTRAS is adapting to changes as a result of the adoption of the EU's 3rd energy package, the amendments to the Gas Network Access Ordinance and further legislative measures and regulatory requirements.

Minimising technical risks through high quality standards. VNG owns a complex gas transmission system and several high-performance storage facilities. Ongoing maintenance and monitoring based on technical regulations and the company's own concepts combined with the continuous refurbishment and modernisation of gas plant ensure a high technical safety standard. External

and internal qualification measures and training for employees and service providers are based on an integrated quality, safety and environmental management system:

In April 2010, TÜV Süd Management Service GmbH again certified the reliability of all work processes, the high level of technical safety and the proper implementation of all standards on the basis of a surveillance audit. The technical infrastructure was examined by the inspection authorities (mining authorities, factory inspectorate), the liability insurance associations and the authorised experts. Here, too, VNG was certified to a high technical safety standard.

Outlook

Market situation remains challenging for the time being. The present global surplus of natural gas – in part attributable to the development of new reserves and higher LNG volumes combined with lower demand as a result of the global economic crisis – has lowered gas prices on VNG's markets. The at times substantial price differences between the market level and the price level under long-term import agreements has had, and will continue to exert, a significant impact on margins throughout the industry. This price situation on the market is expected to continue and can have a negative effect on VNG's earnings trend in the short to medium term. In respect of future earnings, it will therefore be important for VNG to reach agreement on market-oriented prices with gas suppliers, thereby creating a flexible response to market changes as they occur.

VNG is well prepared. The solid financial basis resulting from the successes of previous years allows VNG to continue and expand established fields of business despite the present difficult market situation. VNG expects sendout to be

slightly above the 2010 level. This forecast takes into account a rise in spot and futures trading compared with classic sales. Sales are expected to rise accordingly and profit will be on a par with 2010. This assumes the envisaged agreement with suppliers is achieved in 2011. Based on prices in line with the market and an optimised trading portfolio, VNG expects to see annual net income rise over the medium term.

Investment to continue. VNG will continue with targeted and meaningful investment in expanding and preserving the infrastructure. One focus of investment activity will be the expansion of storage capacity at various locations. This commitment will already bring returns on the earnings side in the medium term and will contribute to the planned rise in earnings.

Diversification of sources of supply through the production of its own gas via VNG Norge and VNG Danmark is another important area of investment for VNG. This commitment makes a sustained and long-term contribution to the company's earnings.

For VNG, investment is always geared to sustainable business development and earnings growth. VNG's home market remains a significant factor in contract award.

New regulatory framework. 2011 will be dominated by the implementation of the provisions of the EU's 3rd energy package. VNG is very well prepared; the foundations have already been laid.

Natural gas has a promising future. The global natural gas market is undergoing a process of change, making short-term forecasts more difficult than in previous years. These forecasts are based on market conditions and an underlying

framework that are difficult to predict and they depend on how quickly the markets recover from the effects of the economic and financial crisis.

As far as the medium to long term is concerned, natural gas is firmly anchored in the energy mix. It is a forward-looking energy and serves as a long-term partner for renewable energies. Demand for natural gas will continue to grow and VNG as Germany's third largest natural gas importer will participate in this trend.

During this phase, VNG will continue to make its mark as a natural gas specialist and develop competitive offers and products in line with market conditions that not only reflect the success of natural gas as a source of energy, but also cater for the demands and needs of customers.

Balance Sheet as at December 31, 2010

Assets

	Notes	Dec. 31, 2010 €k	Dec. 31, 2009 €k
A. Fixed assets			
I. Intangible assets		11,592	12,325
II. Property, plant and equipment	1	509,407	461,032
III. Financial assets	2	598,492	697,736
		1,119,491	1,171,093
B. Current assets			
I. Inventories	3	441,963	390,978
II. Receivables and other assets	4	811,362	659,294
III. Cash and cash equivalents		68	45
		1,253,393	1,050,317
C. Special loss item from provisions formed pursuant to Art. 17 (4), Act on the Preparation of Deutschmark Financial Statements		2,769	2,769
D. Prepaid expenses		60,376	45,481
		2,436,029	2,269,660

Equity and liabilities

	Notes	Dec. 31, 2010 €k	Dec. 31, 2009 €k
A. Equity			
I. Subscribed capital	5	328,000	328,000
II. Retained earnings	6	356,428	347,067
III. Balance sheet profit		50,000	105,000
		734,428	780,067
B. Special items		8,021	9,136
C. Provisions	7	387,200	415,963
D. Liabilities	8	1,299,908	1,063,447
E. Deferred income		6,472	1,047
		2,436,029	2,269,660

Consolidated Balance Sheet as at December 31, 2010

Assets

	Dec. 31, 2010 € k	Dec. 31, 2009 € k
A. Fixed assets		
I. Intangible assets	40,219	46,903
II. Property, plant and equipment	615,752	559,029
III. Financial assets	294,914	288,846
	950,885	894,778
B. Current assets		
I. Inventories	468,936	411,976
II. Receivables and other assets	997,134	814,381
III. Cash and cash equivalents	34,474	30,621
	1,500,544	1,256,978
C. Special loss item from provisions formed pursuant to Art. 17 (4), Act on the Preparation of Deutschmark Financial Statements	2,769	2,769
D. Prepaid expenses	76,305	64,003
E. Deferred tax assets	97,142	53,108
F. Surplus resulting from asset offsetting and capitalised	196	0
	2,627,841	2,271,636

Equity and liabilities

	Dec. 31, 2010 € k	Dec. 31, 2009 € k
A. Equity		
I. Subscribed capital	328,000	328,000
II. Retained earnings	307,489	293,862
III. Profit participation capital	196	0
IV. Equity difference from currency conversion	5,427	1,189
V. Consolidated balance sheet profit	50,000	105,000
VI. Adjustment item for share of other shareholders	10,644	10,447
	701,756	738,498
B. Special items	8,692	9,867
C. Provisions	600,483	606,891
D. Liabilities	1,280,313	893,154
E. Prepaid income	7,772	1,619
F. Deferred tax liabilities	28,825	21,607
	2,627,841	2,271,636

Income Statement for the Period January 1 to December 31, 2010

	Notes	Jan. 1 to Dec. 31, 2010 € k	Jan. 1 to Dec. 31, 2009 € k
1. Sales	9	5,293,372	4,762,854
2. Changes in work in progress		-300	-191
3. Work performed by the company and capitalised		1,604	1,106
4. Other operating income	10	66,486	32,556
		5,361,162	4,796,325
5. Cost of materials	11	4,978,523	4,318,971
6. Personnel expenses	12	58,893	54,566
7. Depreciation and amortisation expense		61,271	57,841
8. Other operating expenses	13	97,191	94,776
9. Financial result	14	-76,239	-21,472
10. Profit on ordinary activities		89,045	248,699
11. Extraordinary expenses	15	844	0
12. Extraordinary result		-844	0
13. Income tax expense	16	28,710	78,687
14. Other taxes		130	153
15. Net income for the year		59,361	169,859
16. Appropriation to retained earnings		9,361	64,859
17. Balance sheet profit		50,000	105,000

Consolidated Income Statement for the Period January 1 to December 31, 2010

	Jan. 1 to Dec. 31, 2010 € k	Jan. 1 to Dec. 31, 2009 € k
1. Sales	6,321,931	5,357,440
2. Changes in work in progress	-548	768
3. Work performed by the company and capitalised	4,709	2,169
4. Other operating income	48,522	42,269
	6,374,614	5,402,646
5. Cost of materials	6,027,259	5,018,944
6. Personnel expenses	99,322	86,741
7. Depreciation and amortisation expense	88,907	72,236
8. Other operating expenses	128,861	110,510
9. Financial result	20,851	32,637
10. Profit on ordinary activities	51,116	146,852
11. Extraordinary result	-981	0
12. Income tax income	-19,983	-22,033
13. Other taxes	1,187	979
14. Consolidated net income for the year	68,931	167,906
15. Profit or loss attributable to other shareholders	-1,417	1,049
16. Appropriation to retained earnings	17,514	61,857
17. Balance sheet profit	50,000	105,000

VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig

Notes

General notes

VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig (VNG), is a large company within the definition given in Article 267, HGB (German Commercial Code).

The annual financial statements for the 2010 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, 2010 recognises the partial appropriation of net income for the year.

For clearer and more effective presentation, individual items of the balance sheet and the income statement are grouped together. These items are explained in these notes. The notes to the balance sheet and income statement items required by law and the notes which may either be presented in the balance sheet itself or in the notes are presented in these notes.

The income statement has been prepared using the nature of expense method in accordance with Article 275 (2), German Commercial Code.

In the event that changes in the disclosure and valuation of balance sheet items have been made as a result of the German Financial Reporting Modernization Act which came into force on May 29, 2009, the previous year's figures have, in accordance with Article 67 (8), Sentence 2, Act Introducing the German Commercial Code, not been restated in connection with the first-time application of the German Financial Reporting Modernization Act as at January 1, 2010.

Accounting and valuation principles

Fixed assets

Intangible assets acquired for a consideration 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 (2), German Commercial Code. Buildings and structures are valued at procurement or production cost with straight-line depreciation. Technical plants and machinery, and other equipment, fixtures, furniture and office equipment were generally depreciated following the declining-balance method up to and including the 2009 financial year. VNG has exercised the option allowed by Article 67 (4), Sentence 1, Act Introducing the German Commercial Code, to continue the previous valuations and to apply declining-balance depreciation. If straight-line depreciation had been applied, the additional depreciation would have been € 1,148 k. Since 2010, newly acquired technical plants and machinery, other equipment, fixtures, furniture and office equipment have been depreciated by the straight-line method. Investment subsidies from previous years are shown as a special item and released on a pro rata basis in line with depreciation in accordance with the provisions of the Commercial Code.

Building subsidies are deducted from assets. 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. Appreciation is recorded where the reason for depreciation no longer applies.

Current assets

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 (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 received for no consideration (market value € 794 k) are carried at pro memoria value. They will be used up for planned emissions up to 2012.

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.

Provisions

Provisions are formed in the amount which will probably be required on the basis of a prudent commercial assessment. Provisions cover all foreseeable risks.

Provisions with a term of more than one year are discounted over their remaining term using a discount rate in accordance with the average market interest rates of the past seven financial years. For discounting, the average discount rates published by Deutsche Bundesbank under a statutory instrument are used in accordance with Article 253 (2), Sentence 4, German Commercial Code.

Provisions for pensions and similar obligations were determined on the basis of actuarial reports by the projected unit credit method. Provisions for pensions were valued on the basis of the "Richttafeln 2005 G" actuarial tables of Prof. Dr. Klaus Heubeck taking into consideration future salary increases of 3 or 4 % per annum and pension increases of 1.75 % per annum. Pension obligations were discounted in accordance with Article 253 (2), Sentence 2, German Commercial Code at the average market interest rate for the assumed remaining term of 15 years (5.17 %).

In the case of the other provisions, the option to retain provisions in accordance with Article 67 (1), Sentence 2 of the Act Introducing the German Commercial Code was exercised in cases where provisions would have otherwise been written back as at January 1, 2010 in connection with the changes provided for by the German Financial Reporting Modernization Act. In exercise of the option provided for by Article 67 (3), Sentence 1 of the Act Introducing the German Commercial Code, provisions for future expenses were also retained.

Provisions for obligations in connection with partial early retirement are formed on the basis of the block model. Provisions for partial early retirement are valued on the basis of an interest rate of 5.17 % p.a. and the “Richttafeln 2005 G” actuarial tables of Prof. Dr. Klaus Heubeck on actuarial principles. Provisions for partial early retirement are formed for partial early retirement agreements entered into as of the balance sheet date. Such provisions include supplementary payments and obligations accrued up to the balance sheet date. For the determination of provisions for partial early retirement, annual wage and salary increases of 3 % were assumed.

For provisions formed as a result of the first-time application of Article 249 (1), Sentence 1 of the German Commercial Code in the opening DM balance sheet, a special loss item is recognised as an asset. This item is written down as amounts of the item are used up or released.

In the income statement, additions to provisions, to the extent that provisions of this type were recognised for the first time, were recognised on the basis of the net presentation principle.

Liabilities

Liabilities are stated at the amounts repayable.

Currency conversion

Foreign currency transactions are valued at the exchange rate prevailing at the time of first entry.

Receivables denominated in foreign currencies are carried at the ask price in the case of trade receivables and at the bid price in the case of loans in foreign currencies, in both cases as at the date when the receivable arose. Long-term receivables denominated in foreign currencies are, where applicable, written down on the basis of the lower spot middle exchange rate as at the balance sheet date (following the principle that unrealised exchange losses are to be recognised but unrealised exchange gains are not to be recognised). Short-term foreign-currency receivables (with a remaining term of one year or less), cash and cash equivalents and other current assets denominated in foreign currencies are converted at the spot middle exchange rate as at the balance sheet date.

Payables denominated in foreign currencies are carried at the bid price as at the date when the payable arose. Long-term payables denominated in foreign currencies are, where applicable, carried on the basis of the higher spot middle exchange rate as at the balance sheet date (following the principle that unrealised exchange losses are to be recognised but unrealised exchange gains are not to be recognised). Short-term foreign-currency payables (with a remaining term of one year or less) are converted at the spot middle exchange rate as at the balance sheet date.

Contingent liabilities denominated in foreign currencies are converted at the spot middle exchange rate.

Deferred taxes

Deferred taxes are formed for differences between the balance sheet valuations in the commercial and

tax balance sheets to the extent that such differences will probably be eliminated in future financial years. In the event of an excess of deferred tax assets as of the balance sheet date, the capitalisation option allowed by Article 274 (1), Sentence 2, of the German Commercial Code has not been exercised. Excess tax assets are therefore not recognized in the balance sheet.

In formal terms, VNG, as the parent company, is the sole taxpayer. All the actual and deferred taxes of Group companies are therefore to be recognised in full in the annual financial statements of VNG as VNG alone bears the consequences of taxation. The deferred taxes of VNG Group companies are therefore explained in the notes to the financial statements of VNG.

Deferred taxes were calculated at an effective tax rate of 30.9625 % (15.825 % for corporation tax and 15.1375 % for trade tax), which will probably apply at the time when the tax differences are eliminated. The trade tax rate is based on the average trade tax base rate of 432.5 %.

Notes to the 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 58–59).

(1) Property, plant and equipment

	Dec. 31, 2010	Dec. 31, 2009
	€ k	€ k
Land, land rights and buildings	48,253	48,778
Technical plant and machinery	348,529	348,543
Other equipment, fixtures, furniture and office equipment	10,194	8,693
Advance payments made and assets under construction	102,431	55,018
	509,407	461,032

(2) Financial assets

	Dec. 31, 2010	Dec. 31, 2009
	€ k	€ k
Shares in affiliated companies	543,182	616,716
Loans to affiliated companies	22,850	67,593
Participating interests	32,130	12,909
Other loans	330	518
	598,492	697,736

Current assets

(3) Inventories

	Dec. 31, 2010 € k	Dec. 31, 2009 € k
Raw materials, consumables and supplies	6,180	5,614
Work in progress	72	371
Merchandise (especially natural gas inventories in storage facilities)	324,122	384,993
Advance payments made	111,589	0
	441,963	390,978

The application of the LIFO method resulted in a difference in the sense of Article 284 (2), no. 4 of the German Commercial Code of € 86,973 k as of December 31, 2010 (2009 € 47,016 k). Depreciation in accordance with Article 253 (3), Sentence 3, German Commercial Code was effected in the amount of € 3,567 k (2009: € 35,704 k).

Advance payments made concern future gas deliveries which will probably be made in the 2011 and 2012 financial years in accordance with the relevant plans.

(4) Receivables and other assets

	Dec. 31, 2010 € k	Dec. 31, 2009 € k
Trade receivables	558,234	440,864
Accounts receivable from affiliated companies	77,364	72,664
Accounts receivable from companies with which the company is connected by a participating interest	148,811	121,022
Other assets	26,953	24,744
	811,362	659,294

Accounts receivable from affiliated companies include accounts receivable in connection with profit transfer totalling € 41,929 k (December 31, 2009: € 54,814 k), trade receivables totalling € 25,864 k (December 31, 2009: € 11,967 k), liquidity management totalling € 5,939 k (December 31, 2009: € 0), turnover tax totalling € 3,620 k (December 31, 2009: € 2,820 k) and loans totalling € 12 k (December 31, 2009: € 0). In 2009, receivables in connection with tax levies for 2008 (December 31, 2009: € 3,063 k) were also recognized.

Trade receivables from companies with which VNG is connected by a participating interest amounted to € 148,811 k (December 31, 2009: € 121,022 k).

Other assets totalling € 20 k (December 31, 2009: € 109 k) had a remaining term of more than one year; all other receivables had a remaining term of up to one year.

Deferred taxes

As of the balance sheet date, the offsetting of deferred tax assets and liabilities (assessment of the overall difference) resulted in an excess of tax assets amounting to € 69,487 k. The company did not exercise the capitalisation option provided for by Section 274 (1), Sentence 2 of the German Commercial Code. Deferred taxes are therefore not recognized in the balance sheet. The deferred tax assets and liabilities determined resulted from the following temporary differences at the level of the company as a parent company or at the level of the affiliated companies included in the Group for tax purposes.

The differences between the commercial and tax balance sheets, which gave rise to deferred tax liabilities in the amount of € 2,059 k, were mainly the result of the selection of different depreciation methods in the commercial and tax balance sheets for technical plant and machinery and other equipment, fixtures, furniture and office equipment, different valuation approaches for financial assets and the non-recognition of the special loss account in accordance with Article 17, No. 4. Act on the Preparation of Deutschmark Financial Statements. The deferred tax liabilities are offset by deferred tax assets chiefly resulting from the non-recognition for tax purposes of provisions.

Equity

(5) Subscribed capital

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

(6) Retained earnings

	Dec. 31, 2010 € k	Dec. 31, 2009 € k
Statutory reserve pursuant to Article 150 (2), Stock Corporation Act	32,800	32,800
Statutory reserve pursuant to Article 27 (2), Act on the Preparation of Deutschmark Financial Statements	7,096	7,096
Other retained earnings formed pursuant to Article 272 (3), German Commercial Code	316,532	307,171
	356,428	347,067

Liabilities

(7) Provisions

	Dec. 31, 2010 € k	Dec. 31, 2009 € k
Provisions for pensions and similar obligations	16,087	15,799
Provisions for taxes	30,648	64,951
Other provisions	340,465	335,213
	387,200	415,963

The changeover of provisions for pensions in connection with the German Financial Reporting Modernization Act resulted in an addition of € 3,750 k compared with the old valuation as at December 31, 2009. VNG has exercised the option provided for in Article 67 (1), Sentence 1, Act Introducing the German Commercial Code, and is distributing the expense in connection with the changeover of provisions for pensions (€ 3,750 k) in equal amounts over a maximum period of 15 years. In the 2010 financial year, an amount of € 250 k was recognised as extraordinary expenses. As at December 31, 2010, the deficit with reference to provisions for pensions is therefore € 3,500 k.

In accordance with Article 28 (1), Sentence 2 of the Act Introducing the German Commercial Code, provisions for indirect pension obligations to be met by 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, 2010 was € 1,708 k.

Provisions for taxes concern corporation tax in the amount of € 26,515 k and trade tax in the amount of € 4,133 k.

The other provisions mainly concern obligations in connection with the decommissioning of pipelines and underground storage facilities. In addition, provisions were formed for outstanding invoices, risks in connection with gas business, human resources obligations and other uncertain obligations.

The changeover in long-term provisions for the decommissioning of pipelines and storage facilities as a result of the changes in valuation required by the German Financial Reporting Modernization Act resulted in a surplus of € 13,716 k as at January 1, 2010. As the surplus to be released would need to be added again by December 31, 2024 at the latest, VNG has exercised the option provided for by Article 67 (1), Sentence 2 of the Act Introducing the German Commercial Code and retained the provision. The amount of the surplus as at December 31, 2010 was € 2,338 k.

The amount of discount on provisions of a type recognized as liabilities for the first time, additions to which are recognised in the income statement on the basis of the net presentation principle, is € 453 k.

(8) Liabilities

	Dec. 31, 2010 € k	Remaining term		Dec. 31, 2009 € k
		up to 1 year (previous year) € k	more than 5 years (previous year) € k	
Liabilities to banks	352,454	4,678 (35,722)	99,000 (49,000)	332,382
Advance payments	546	546 (43)	0	43
Trade payables	496,233	493,394 (347,951)	500 (0)	348,805
Liabilities to affiliated companies	186,550	186,550 (302,154)	0	302,154
Liabilities to companies with which the company is connected by a participating interest	116,809	116,809 (11,970)	0	11,970
Other liabilities	147,316	65,936 (62,646)	77,125 (1,642)	68,093
(thereof taxes)	51,691	51,691 (54,593)	0	54,593
(thereof social security contributions)	6	6 (0)	0	0
	1,299,908	867,913 (760,486)	176,625 (50,642)	1,063,447

Liabilities to affiliated companies concern the absorption of losses in the amount of € 93,645 k (December 31, 2009: € 67,105 k), investment transactions made by these companies as part of cash management in the amount of € 90,221 k (December 31, 2009: € 208,942 k), trade payables in the amount of € 1,838 k (December 31, 2009: € 4,890 k), tax liabilities in the amount of € 845 k (December 31, 2009: € 21,217 k) and liabilities in connection with a security retention in the amount of € 1 k (December 31, 2009: € 0).

Liabilities to companies with which VNG is connected by a participating interest concern loans (€ 100,040 k including interest payable; December 31, 2009: € 0), trade transactions (€ 8,569 k; December 31, 2009: € 3,768 k) and outstanding capital contributions not called up (€ 8,200 k; December 31, 2009: € 8,200 k). In 2009, liabilities in connection with security retentions (December 31, 2009: € 2 k) were also recognised.

Liabilities also include amounts payable to the tax authorities totalling € 40,598; under tax law, these liabilities arose only after the balance sheet date.

Contingent liabilities

Contingent liabilities to be reported pursuant to Article 251 of the German Commercial Code amount to € 17,176 k. These include guarantees totalling € 10,000 k given by VNG to trading partners of an affiliated company (€ 2,000 k) and for financing investments by a company in which VNG holds a participating interest (€ 8,000 k). Furthermore VNG gave binding parent company guarantees for a company in which VNG holds a participating interest (€ 3,000 k) and two affiliated companies (€ 4,157 k). The company also undertook to provide a rent guarantee amounting to € 19 k for an affiliated company. In addition, VNG has given unlimited abstract guarantees to Norwegian and Danish state institutions with regard to natural gas exploration and production activities. On the basis of the information currently available, it is not expected that payment obligations will arise in connection with the contingent liabilities.

Other financial obligations

Other financial obligations pursuant to Article 285, No. 3a of the German Commercial Code amount to € 256 million, including obligations of € 63 million towards affiliated companies. These chiefly concern commitments for investments, financial obligations arising out of leasing and rental contracts and payment obligations for the use of gas transmission capacity in 2011. To cover gas demand, VNG has undertaken long-term purchase commitments with gas suppliers.

Notes to the income statement

(9) Sales

87% of sales were realised in Germany and 13% in other European countries. Sales were chiefly accounted for by income from the gas business. Sales realised on European wholesale markets were assigned to sales in Germany.

(10) Other operating income

Other operating income includes income from currency conversion totalling € 19 k.

(11) Cost of materials

	2010 € k	2009 € k
Cost of raw materials, consumables and supplies and of purchased merchandise	4,926,397	4,225,469
Cost of purchased services	52,126	93,502
	4,978,523	4,318,971

The cost of materials includes energy tax expenses (€ 17,144 k; 2009: € 30,994 k).

(12) Personnel expenses

	2010 € k	2009 € k
Wages and salaries	49,692	46,596
Social security costs, pensions and assistance expenses	9,201	7,970
	58,893	54,566

Personnel expenses include expenses incurred for pensions totalling € 866 k (2009: € 645 k).

(13) Other operating expenses

Other operating expenses include expenses (€ 59 k) resulting from currency conversion.

(14) Financial result

	2010 € k	2009 € k
Income from participating interests (including income from affiliated companies of € 0; 2009 € 0)	7,478	8,684
Income from profit transfer agreements (including income from affiliated companies € 41,929 k; 2009 € 54,814 k)	41,929	54,814
Income from loans carried as fixed assets (including income from affiliated companies € 4,128 k; 2009 € 880 k)	4,146	901
Interest receivable and similar income (of which receivable from affiliated companies € 537 k; 2009 € 1,550 k)	2,322	6,533
Amortization of financial assets (including amortization of € 17,822 k on interests in affiliated companies; 2009 € 15,425 k)	19,953	15,425
Expenses from absorption of losses (including losses of € 93,645 k absorbed from affiliated companies; 2009 € 67,105 k)	93,694	67,105
Interest payable and similar charges (including interest of € 679 k payable to affiliated companies; 2009 € 868 k)	18,467	9,874
	-76,239	-21,472

Interest payable includes an amount of € 2,624 k with respect to interest on provisions.

(15) Extraordinary expenses

Changeover effects as a result of the first-time application of the German Financial Reporting Modernization Act posted as extraordinary expenses concern the new valuation of provisions for pensions and similar obligations (€ 250 k) and provisions for partial early retirement (€ 594 k).

(16) Income tax expense

Income tax expense includes taxes payable for previous years, amounting to € 16,067 k, and tax repayments for previous years, amounting to € 7,334 k.

Balance sheet profit

The Executive Board proposes to the shareholders' meeting that the balance sheet profit of € 50 million be applied as follows: Distribution of a dividend of € 0.390625 per share to the 128,000,000 no-par-value shares with dividend rights, with the result that a total of € 50,000,000.00 is made available for distribution to shareholders.

Derivative financial instruments and hedge accounting

In connection with its business activities, VNG is exposed to currency, interest rate and price risks. These are hedged chiefly using derivative financial instruments. All the derivatives are OTC transactions with contract parties of sound financial standing in the banking sector. They include currency futures, interest rate swaps and oil price swaps. The use of derivatives is subject to uniform standards and stringent internal monitoring and is limited to hedging the business operations of VNG and related investments and financing transactions. The objective of using derivative financial instruments is to reduce fluctuations in profit and cash flows caused by changes in exchange rates, interest rates and market prices. The use of derivative financial instruments for speculative purposes is not permitted.

Derivative financial instruments are normally used for hedging underlying transactions in the case of payables and receivables denominated in foreign currencies and planned transactions in foreign currencies, for hedging interest rate risks in connection with variable-interest loans and for hedging the risk of price changes under gas purchase and sales contracts. Where the statutory requirements are met, hedge accounting in accordance with Article 254 of the German Commercial Code is applied. The effective portions of hedges are presented in the balance sheet in accordance with the net hedge presentation method. The effectiveness of hedge relations is reviewed by appropriate methods (especially the critical term match method and the dollar offset method) both prospectively and retrospectively as of each balance sheet date. The basis for the effectiveness of a hedge is the agreement between the parameters of the underlying and hedging transaction which are relevant to valuation. Loss peaks are recognised as expenses, while gain peaks are not recognised.

As at the balance sheet date, VNG held derivative financial instruments with reference to currencies, interest rates and commodity prices.

	Dec. 31, 2010 Face value € k	Dec. 31, 2010 Positive fair value € k	Dec. 31, 2010 Negative fair value € k
Currency derivatives			
Currency futures	43,571	453	165
Interest rate derivatives			
Interest rate swaps	228,000	4,279	0
Commodity derivatives			
Oil price swaps	276,370	23,602	8,851
	547,941	28,334	9,016

The fair value of derivative financial instruments depends on the development of the underlying market factors. Individual fair values were determined on the basis of market data as at the balance sheet date using accepted market methods. Currency futures are carried at the futures exchange rate as at the balance sheet date. The fair values of oil price swaps are determined by discounting future cash flows. Future exchange rates are determined from current exchange rates using the premiums and discounts for futures. Interest rate swaps are valued using recognised analysis methods on the basis of the interest rate structure curve as of the balance sheet date and accrued interest.

Hedges against foreign currency risks

A loan receivable in the amount of NOK 78 million as at the balance sheet date was hedged against the risk of changes in the NOK exchange rate by a micro-hedge. For the loan, currency future contracts with a face value of € 9,859 k were concluded with a term corresponding to the earliest repayment date of the loan (underlying transaction) in 2011. The negative fair value of these currency futures as at the balance sheet date was € 128 k.

The contrary changes in the values of the loan receivable and the currency futures offset each other as the underlying transaction and the hedging transaction are exposed to the same foreign currency risk. The underlying and hedging transactions are denominated in the same currency as the loan receivable in NOK as of the due date is offset by payables in NOK at a fixed NOK/euro exchange rate.

To hedge currency risks connected with receivables and payables, currency future contracts with a face amount of € 26,079 k were concluded with external partners. The terms of these contracts were in accordance with the expected due dates of the underlying transactions. As of the balance sheet date, the currency futures had a positive fair value of € 425 k and a negative fair value of € 9 k. The payables, receivables and currency futures concerned are all due in 2011.

In addition, currency futures with a face value of € 7,633 k were concluded to hedge transactions expected with a high degree of probability in 2011. The positive fair values of these futures (€ 28 k) were offset by negative fair values of the same amount. These transactions were not recorded on the balance sheet as a result of the application of hedge accounting.

Hedges against interest rate risks

Interest rate swaps have been concluded to hedge the risk of interest rate changes in connection with variable-interest financial liabilities in the amount of € 132 million. The term of the loans concerned expires in 2012 or 2014. In accordance with the amount of the loans, the swaps also have a face value of € 132 million. The interest rate swaps form a micro-hedge with the loans. The effectiveness of the hedge is reviewed prospectively and retrospectively. As cash inflows and outflows offset each other, the interest rate swaps are not recognised in the balance sheet. As of the balance sheet date, the interest rate swaps had a positive fair value of € 2,405 k.

To hedge the risk of interest rate changes in connection with loans which VNG firmly plans to take up in the future, interest rate swaps with a face value of € 96 million were concluded. As at the balance sheet date, these interest rate swaps had a positive fair value of € 1,874 k.

Hedges against oil price risks

Commodity futures in the form of oil price swaps with a face value of € 276,370 k were concluded as micro-hedges to minimize price risks in connection with gas purchase and sale contracts. Such micro-hedges were used for example to fix purchase prices, which are indexed to oil price levels. In addition, fixed prices agreed in gas sale contracts were hedged against rising oil prices by oil price swaps. The terms of most of the oil price swaps expire in 2012; all the swaps expire by 2014 at the latest. As at the balance sheet date, oil price swaps had positive fair values of € 23,602 k and negative fair values of € 8,851 k.

Other disclosures

Information in accordance with Article 10 (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. The regulated gas network was leased to ONTRAS – VNG Gastransport GmbH, Leipzig.

Staff

The average number of staff employed at VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig in 2010 was 742, consisting of 683 white-collar workers, 50 blue-collar workers, and nine assistants/student trainees. In addition, the company employed an average of 39 persons in the pre-retirement passive phase and 39 vocational trainees.

List of shareholdings

VNG holds, directly or indirectly, at least 20 % of the shares in the following companies (disclosure in accordance with Article 285, No.11, German Commercial Code). The values stated for equity capital and net income or loss for the year are taken from the financial statements of the companies concerned drawn up in accordance with the applicable national legislation. The values have been rounded.

German affiliated companies

Share		Name and registered office of company	Equity capital €	Net income or loss for the year €
Direct %	Indirect %			
100.00		BALANCE VNG Bioenergie GmbH, Leipzig	8,893,700	0 ³⁾
100.00		GDMcom Gesellschaft für Dokumentation und Telekommunikation mbH, Leipzig	286,060	0 ³⁾
100.00		ONTRAS – VNG Gastransport GmbH, Leipzig	100,000	0 ³⁾
100.00		S I Sachsenross Erste Beteiligungsgesellschaft mbH, Leipzig	22,282	-1,013 ¹⁾
100.00		VNG-Beteiligungs-GmbH, Leipzig	62,868,666	0 ³⁾
100.00		VNG-Direkt GmbH, Leipzig	11,361,301	0 ³⁾
100.00		VNG-Erdgascommerz GmbH, Leipzig	174,189,866	0 ³⁾
100.00		VNG Vertriebs-GmbH Thüringen/Bayern, Erfurt ¹²⁾	47,473	-596 ¹⁾
100.00		CCM Communication-Center Mitteldeutschland GmbH, Leipzig	702,239	222,949
100.00		ECG Erdgas-Consult GmbH, Leipzig	279,513	0 ³⁾
100.00		Energiefinanz GmbH, Schwerin ²⁾	734,535	-11,266 ¹⁾
100.00		GEOMAGIC GmbH, Leipzig	1,510,824	289,824
100.00		Leipziger Biogasgesellschaft mbH, Leipzig	904,272	-20,728 ¹⁾⁴⁾
100.00		MBG Mitteldeutsche Biogasgesellschaft mbH, Leipzig	4,178,369	-317,402
100.00		VNG-Erdgastankstellen GmbH, Leipzig	2,000,000	0 ³⁾
91.22		ENERGIEUNION AG, Schwerin	6,166,901	-29,976
74.80		BGA Bioenergie GmbH, Hof (Saale)	1,293,588	-190,028 ¹⁾
50.92		Havelländische Stadtwerke GmbH, Werder (Havel)	15,187,937	3,471,058

Foreign affiliated companies

Share		Name and registered office of company	Equity capital €	Net income or loss for the year €
Direct %	Indirect %			
100.00		VNG Energie Czech a.s., Prague (Czech Republic)	1,703,360	291 ⁶⁾
100.00		VNG Italia S.r.l., Bologna (Italy)	47,069,924	2,654,609
100.00		VNG Norge AS, Stavanger (Norway)	56,814,158	-10,499,296 ⁶⁾
100.00		VNG Polska Sp. z o.o., Tarnowo Podgórne (Poland)	63,765,722	537,691 ⁶⁾
100.00		VNG Slovakia, spol. s r.o., Bratislava (Slovakia)	9,189,234	912,154 ⁶⁾
100.00		G.EN. Gaz Energia Spółka Akcyjna, Tarnowo Podgórne (Poland)	47,758,113	1,916,926 ⁶⁾
100.00		GAZ BUDOWA Sp. z o.o., Karlino (Poland)	538,935	120,916 ⁶⁾
100.00		HANDEN Sp. z o.o., Warsaw (Poland)	340,271	-323,214 ⁶⁾
100.00		SPIGAS S.r.l., La Spezia (Italy)	10,833,751	5,707,625 ⁷⁾
100.00		VNG Danmark ApS, Copenhagen (Denmark)	9,924,627	-819,066 ^{4) 6)}

German participating interests

Share		Name and registered office of company	Equity capital €	Net income or loss for the year €
Direct %	Indirect %			
50.00		Erdgasspeicher Peissen GmbH, Halle (Saale)	402,157	-259,252
50.00		Heizkraftwerk Halle-Trotha GmbH, Halle (Saale)	741,373	0 ^{1) 10)}
50.00		InterGasTrade GmbH i.G., Potsdam	200,000	- ⁹⁾
50.00		InterTransGas GmbH, Leipzig	1,448,477	-131,084 ¹⁾
20.00		GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft, Straelen	41,000,000	35,920,702 ^{1) 11)}
20.00		GasLINE Telekommunikationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH, Straelen	51,648	1,684 ¹⁾
50.00		enerXess GmbH, Essen	20,459	-1,400 ¹⁾
50.00		Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG), Erfurt	87,711,648	30,613,639 ¹⁾
50.00		lictor GmbH, Leipzig	59,604	-15,396 ¹⁾
49.00		PROMETHEUS - Gesellschaft für Erdgasanwendungsanlagen mbH, Leipzig	268,429	6,392 ^{1) 9)}
40.00		Untergrundspeicher- und Geotechnologie-Systeme Gesellschaft mit beschränkter Haftung, Mittenwalde	11,237,319	3,607,140 ^{1) 9)}
38.00		store-x Storage Capacity Exchange GmbH, Leipzig	1,331,940	267,909 ¹⁾
25.00		caplog-x GmbH, Leipzig	293,116	95,514 ¹⁾
25.00		GASPOOL Balancing Services GmbH, Berlin	2,645,288	2,495,288 ^{1) 4)}
24.90		EMB Energie Mark Brandenburg GmbH, Potsdam	109,266,095	15,500,808 ¹⁾
24.80		SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	46,245,792	11,677,355 ¹⁾
24.60		MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)	132,591,502	38,805,279 ¹⁾
24.00		trac-x Transport Capacity Exchange GmbH, Leipzig	1,917,984	102,180 ¹⁾
23.38		Stadt- und Überlandwerke GmbH Luckau-Lübbenau, Luckau	17,172,191	2,972,563 ¹⁾
21.40		Gas Service Freiberg GmbH, Freiberg	333,186	206,716 ¹⁾

Foreign participating interests

Share		Name and registered office of company	Equity capital €	Net income or loss for the year €	
Direct %	Indirect %				
50.00		FlameEnergy Trading GmbH, Vienna (Austria)	3,863,883	397,049	¹⁾
35.00		SET Swiss Energy Trading AG, Zurich (Switzerland)	26,771,596	-189,844	^{1) 4) 5) 9)}
	50.00	BLUEFIN S.r.l., Bologna (Italy)	24,988,508	228,897	⁸⁾
	49.00	Nitrianska teplárenská spoločnosť, a.s., Nitra (Slovakia)	11,592,963	754,763	¹⁾
	49.00	NYSAGAZ Sp. z o.o., Wroclaw (Poland)	1,248,734	-26,069	^{1) 5)}
	49.00	Prievidzské tepelné hospodárstvo, a.s., Prievidza (Slovakia)	11,727,204	507,482	¹⁾
	30.07	ZEC Sp. z o.o., Białogard (Poland)	1,044,369	34,284	^{1) 5)}

1) Figures from the annual financial statements as at December 31, 2009.

2) Held via ENERGIEUNION AG, Schwerin.

3) Profit and loss transfer agreement with VNG.

4) Incomplete financial year.

5) Converted at middle rate as at December 31, 2009.

6) Converted at middle rate as at December 31, 2010.

7) Figures from the annual financial statements as at March 31, 2010.

8) Figures from the annual financial statements as at June 30, 2010.

9) Subscribed capital outstanding and not called up.

10) Profit and loss transfer agreement with Stadtwerke Halle GmbH.

11) Limited partnership capital outstanding and not called up.

12) Formerly S II Sachsenross Zweite Beteiligungsgesellschaft mbH, Leipzig.

Members of the Executive Board

Dr Karsten Heuchert	Chairman of the Executive Board from September 1, 2010
Prof. e. h. Dr.-Ing. Klaus-Ewald Holst	Chairman of the Executive Board until August 31, 2010, Member of the Executive Board from September 1, 2010 to September 30, 2010
Dr Klaus-Dieter Barbknecht	Board Member, Gas Procurement/Human Resources from January 1, 2011 Board Member, Commercial Affairs/Human Resources until December 31, 2010
Uwe Barthel	Board Member, Infrastructure/Technical Affairs from January 1, 2011, Board Member, Gas Sales/Technical Affairs until December 31, 2010
Michael Ludwig	Board Member, Gas Procurement

Members of the Supervisory Board

Dr Rainer Seele	Chairman Chairman of the Executive Board, Wintershall Holding GmbH
Holger Hanson	1st Vice-Chairman Chairman of the Board of Management, Neubrandenburger Stadtwerke GmbH
Jürgen Behm	2nd Vice-Chairman Former Chairman of the General Works Council, VNG – Verbundnetz Gas Aktiengesellschaft
Günther Boekhoff	Honorary Mayor of the City of Leer
Dr Werner Brinker	Chairman of the Management Board, EWE Aktiengesellschaft
Martin Döscher	Honorary Chief Executive of Cuxhaven Rural District
Joachim Ebert	Telecommunication systems engineer, GDMcom Gesellschaft für Dokumentation und Telekommunikation mbH
Dr Hans Michael Gaul	Former member of the Board of Management, E.ON AG
Hans-Joachim Gornig	Former Managing Director, GAZPROM Germania GmbH

Dr Hans-Dieter Harig	Former Chairman of the Board of Management, E.ON Energie Aktiengesellschaft
Johannes Hegewald	Foreman, Bad Lauchstädt compressor station of VNG – Verbundnetz Gas Aktiengesellschaft
Rainer K. Otto (until February 15, 2010)	Former Managing Director, SWE Stadtwerke Erfurt GmbH
Josef Rahmen	Chairman of the Board of Management, LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH
Andreas Reichelt	Pipeline system technology officer, VNG – Verbundnetz Gas Aktiengesellschaft
Hans-Joachim Richter	Chairman of the General Works Council, VNG – Verbundnetz Gas Aktiengesellschaft
Hans-Jörg Scheliga (from March 22, 2010)	Chairman of the Management Board, Stadtwerke Rostock AG
Erik von Scholz (until April 20, 2010)	Chairman of the Management Board, GDF SUEZ Energie Deutschland AG
Anita Schwabe	Cost accounting officer, VNG – Verbundnetz Gas Aktiengesellschaft
Petra Steuer	Scheduling employee, Bernburg underground storage facility, VNG – Verbundnetz Gas Aktiengesellschaft
Dr Ties Tiessen	Member of the Executive Board, Wintershall Holding GmbH
Björn Thümler MdL	Historian and political scientist
Michael Wagener	Vice-Chairman of the Management Board, EWE Aktiengesellschaft
Matthias Warnig (from August 12, 2010)	Managing Director, Nord Stream AG

Emoluments of board members

The total emoluments of the Executive Board of VNG – Verbundnetz Gas Aktiengesellschaft for the 2010 financial year amounted to € 1,987,521.22 (2009: € 2,844,020.47). As Chairman of the Supervisory Board of an affiliated company, one member of the VNG Executive Board also received emoluments of € 2,000.00. In 2009, two members of the VNG Executive Board had received emoluments of € 2,000.00 as members of the Supervisory Board of the affiliate. The emoluments of retired Executive Board members and their surviving dependants in the 2010 financial year totalled € 1,016,366.04 (2009: € 255,520.32). Provisions for ongoing pensions for former Executive Board members and their surviving dependants amount to € 8,605,848.00 (2009: € 5,294,193.00). Pension obligations of € 958,072.00 are not shown in the balance sheet in exercise of the option permitted by Article 67 (1) of the Act Introducing the German Commercial Code. As at December 31, 2010, a loan to a member of the Executive Board with a remaining term until 2013 was outstanding in the amount of € 39,000.00 (2009: € 52,000.00). Interest is payable on the loan at a rate of 5 % p.a. A provision of € 138,000.00 (2009: € 241,600.00) was formed in the 2010 financial year for the emoluments 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, 2010. In accordance with Section 285, No. 17, German Commercial Code, the total fees paid to the auditor are not stated as the information is given in consolidated financial statements in which the company is included.

Leipzig, March 7, 2011

VNG – Verbundnetz Gas Aktiengesellschaft

The Executive Board



Dr Heuchert



Dr Barbknecht



Barthel



Ludwig

VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig

Changes in Fixed Assets

	Procurement/production cost		
	Jan. 1, 2010 €k	Additions €k	Disposals €k
I. Intangible assets			
1. Concessions, industrial and similar rights, and licences in such rights and assets	46,066	5,328	6,367
2. Advance payments made	1,515	1,044	107
	47,581	6,372	6,474
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land	106,594	881	459
2. Technical plant and machinery	1,789,788	34,749	11,599
3. Other equipment, fixtures, furniture and office equipment	37,601	5,512	3,797
4. Advance payments made and assets under construction	55,018	62,606	1,433
	1,989,001	103,748	17,288
III. Financial assets			
1. Shares in affiliated companies	737,346	4,300	80,000
2. Loans to affiliated companies	67,593	57,377	102,120
3. Participating interests	13,063	21,352	138
4. Other loans	518	1	189
	818,520	83,030	182,447
	2,855,102	193,150	206,209

	Procurement/ production cost		Accumulated depreciation	Book value at		Depreciation in 2010 financial year	Appreciation in 2010 financial year
	Transfers €k	Dec. 31, 2010 €k	Dec. 31, 2010 €k	Dec. 31, 2010 €k	Dec. 31, 2009 €k	€k	€k
	294	45,321	35,892	9,429	10,810	6,958	0
	-289	2,163	0	2,163	1,515	0	0
	5	47,484	35,892	11,592	12,325	6,958	0
	1,494	108,510	60,257	48,253	48,778	3,208	367
	12,186	1,825,124	1,476,595	348,529	348,543	47,036	176
	75	39,391	29,197	10,194	8,693	4,069	0
	-13,760	102,431	0	102,431	55,018	0	0
	-5	2,075,456	1,566,049	509,407	461,032	54,313	543
	0	661,646	118,464	543,182	616,716	17,822	19,988
	0	22,850	0	22,850	67,593	0	0
	0	34,277	2,147	32,130	12,909	2,131	0
	0	330	0	330	518	0	0
	0	719,103	120,611	598,492	697,736	19,953	19,988
	0	2,842,043	1,722,552	1,119,491	1,171,093	81,224	20,531

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 VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig for the business year from January 1 to December 31, 2010, which is combined with the management report of the group. 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 combined 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 combined 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 combined 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 combined 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 the combined 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 combined 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 combined 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, March 8, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Rainer Altvater
Wirtschaftsprüfer

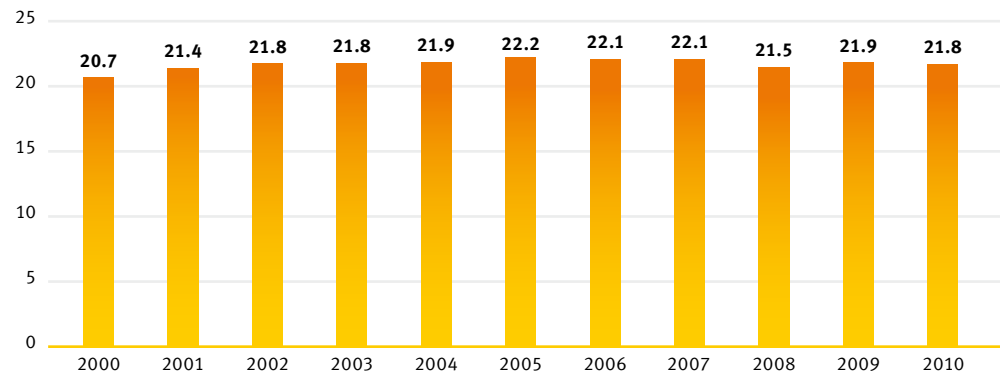
ppa. Werner Horn
Wirtschaftsprüfer

Key Data

Share of natural gas in German primary energy consumption 2000–2010

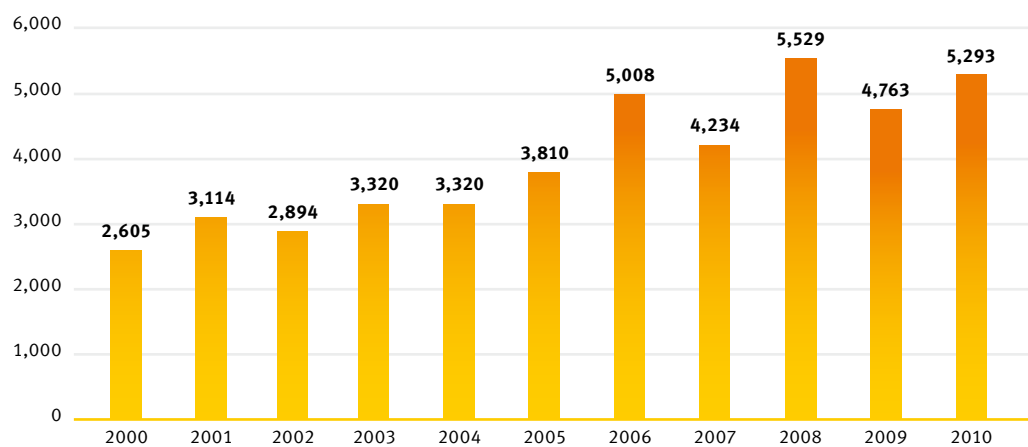
per cent

Source: AG Energiebilanzen



VNG AG sales 2000–2010

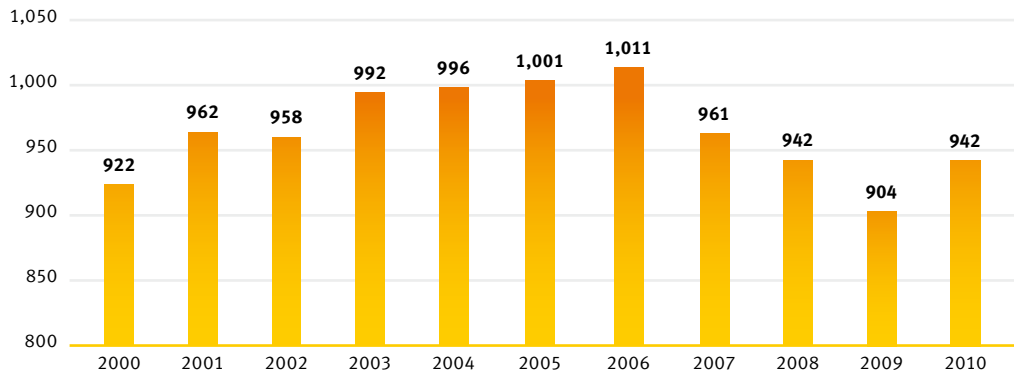
million €



Natural gas consumption in Germany 2000–2010

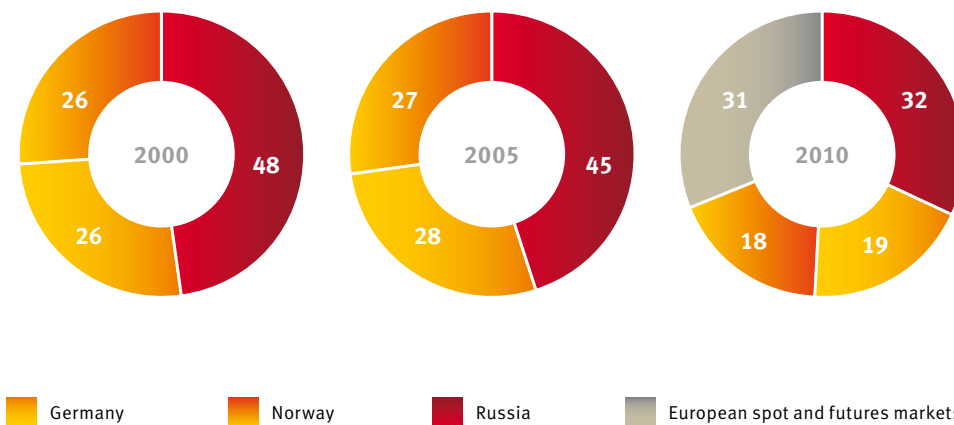
billion kWh

Source: BDEW, AG Energiebilanzen



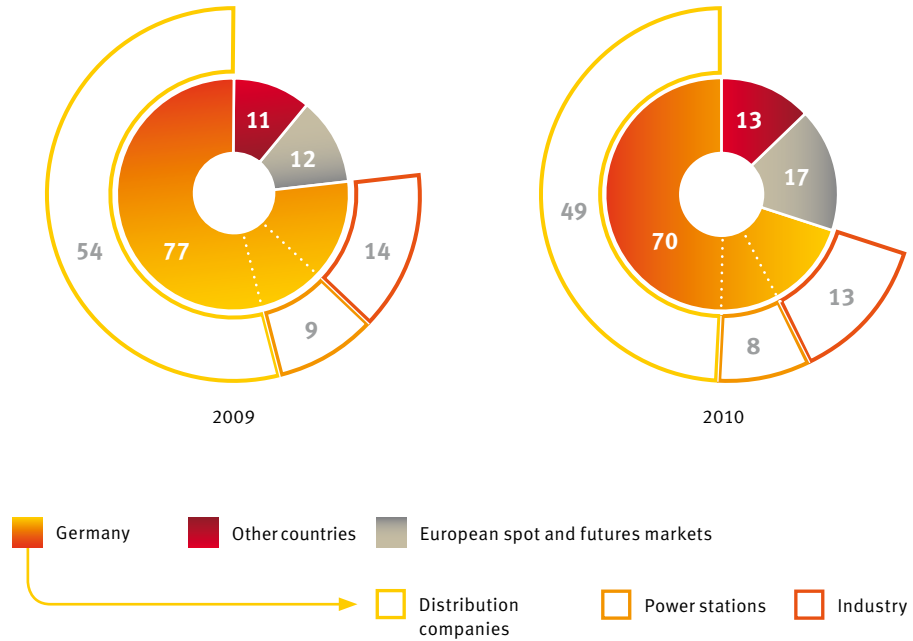
VNG AG diversified natural gas procurement, annual comparison 2000, 2005, 2010

per cent



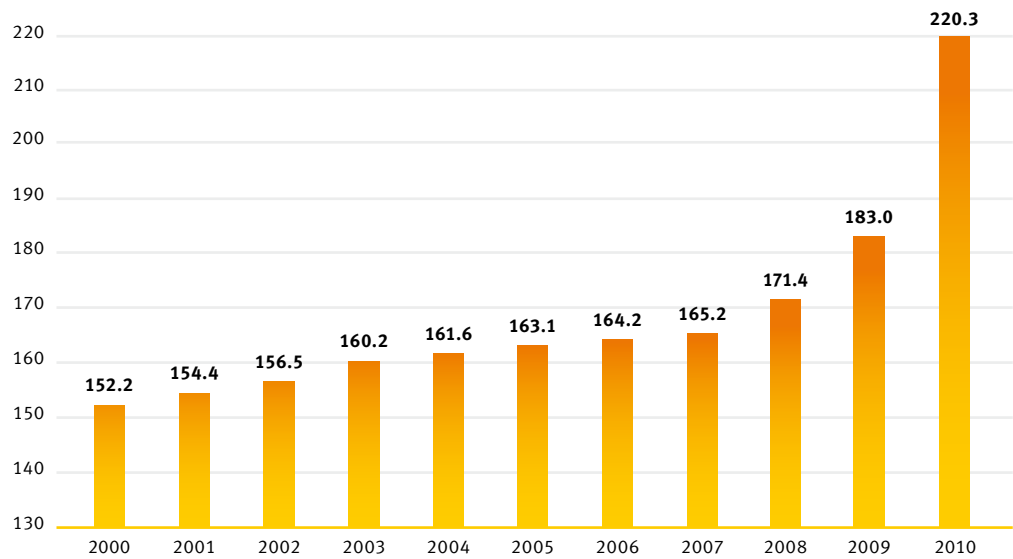
Gas sales of VNG AG by customer groups 2009 and 2010

per cent



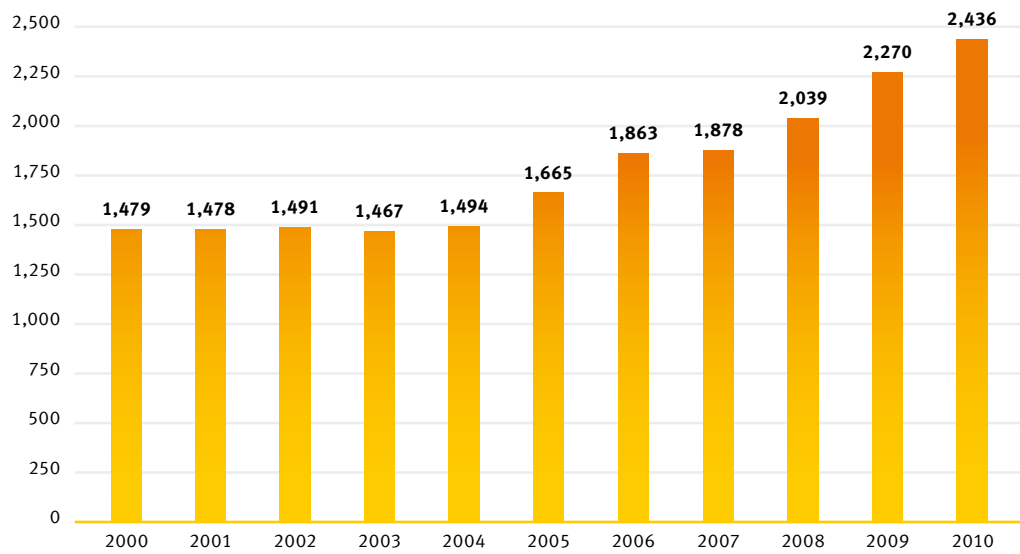
Natural gas deliveries of VNG AG 2000–2010

billion kWh



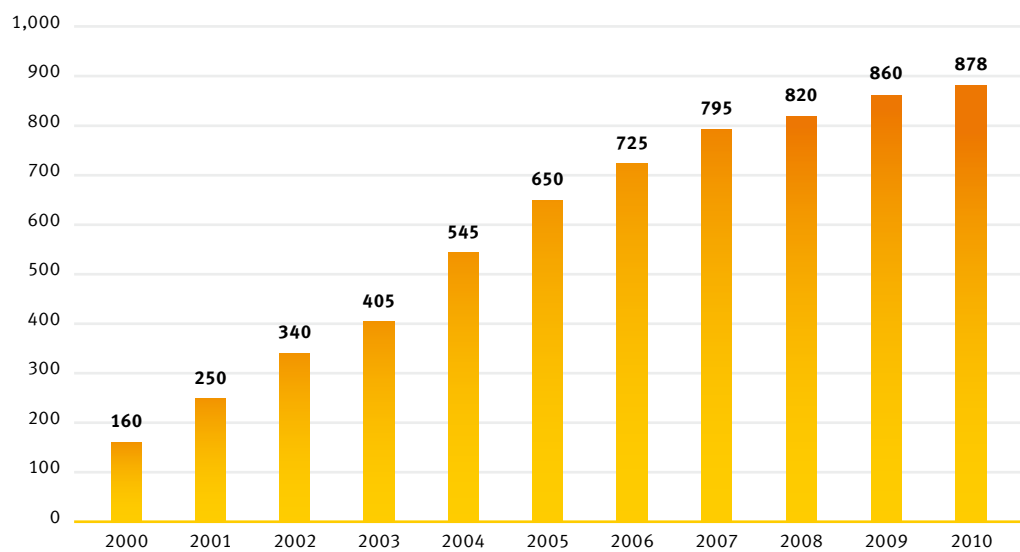
Balance sheet total of VNG AG 2000–2010

million €

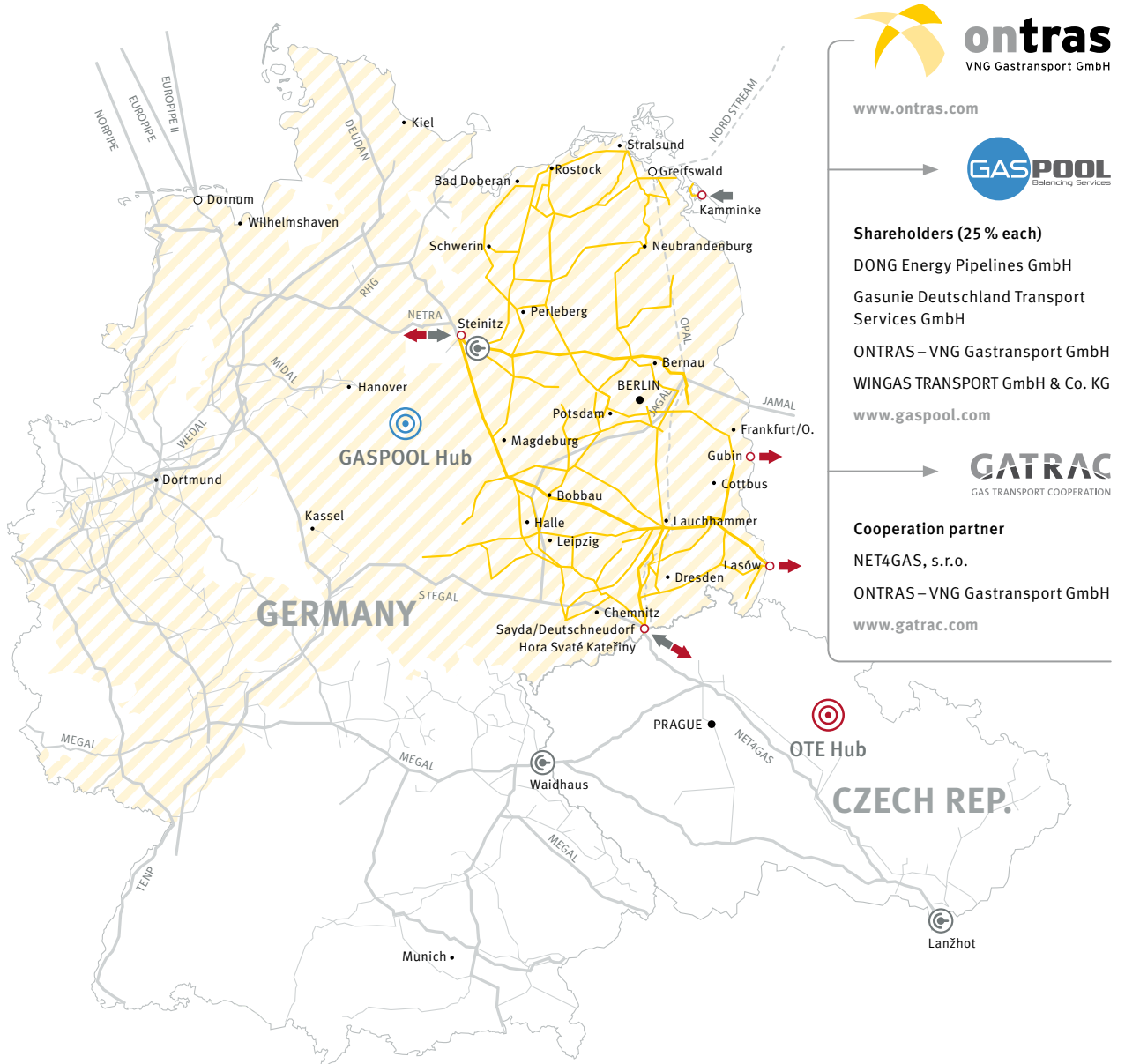
**Natural gas refuelling stations in Germany 2000–2010**

Figures at year-end in each case

Source: gibgas



Market area and transport cooperation arrangements of ONTRAS – VNG Gastransport GmbH



www.ontras.com



Shareholders (25 % each)

- DONG Energy Pipelines GmbH
 - Gasunie Deutschland Transport Services GmbH
 - ONTRAS – VNG Gastransport GmbH
 - WINGAS TRANSPORT GmbH & Co. KG
- www.gaspool.com



Cooperation partner

- NET4GAS, s.r.o.
 - ONTRAS – VNG Gastransport GmbH
- www.gatrac.com

GATRAC simplifies gas transmission between the Czech Republic and Germany.



* since November 2010: only for day-ahead

- Gas pipelines operated by ONTRAS – VNG Gastransport GmbH
- Network interconnection points of ONTRAS with European natural gas transmission systems
- ← → Flow direction
- ◎ GASPOOL hub
- ◎ OTE hub
- ◎ GATRAC network interconnection points
- GASPOOL market area

Natural gas storage facilities in Germany and storage sites of VNG



Source: GIE | As at 1 April 2011

- Gas transmission pipeline
- - - Gas transmission pipeline under design/construction
- ▲ Gas storage project
- ◆ Gas storage project
- ▲ VNG storage project
- ▲ Salt cavern
- ◆ Depleted gas field
- Aquifer
- ◆ VNG storage facility

Storage facility Working gas volume

Bad Lauchstädt	1,101 million m ³
Bernburg	1,087 million m ³
Buchholz	175 million m ³
Kirchheilingen	190 million m ³

As at 31 December 2010

Publication details

Published by VNG – Verbundnetz Gas Aktiengesellschaft | Corporate communications Bernhard Kaltefleiter | Phone +49 341 443-2058 | Editorial deadline 1 April 2011 | Design and production Militzer & Kollegen GmbH | Reproduction and printing Werbe- & Sofordruck GmbH, Leipzig | Photos VNG

———— Natural gas storage | Natural gas logistics | Energy services ————



Natural gas importation | Exploration and Production | Natural gas wholesale

Annual Report 2010

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