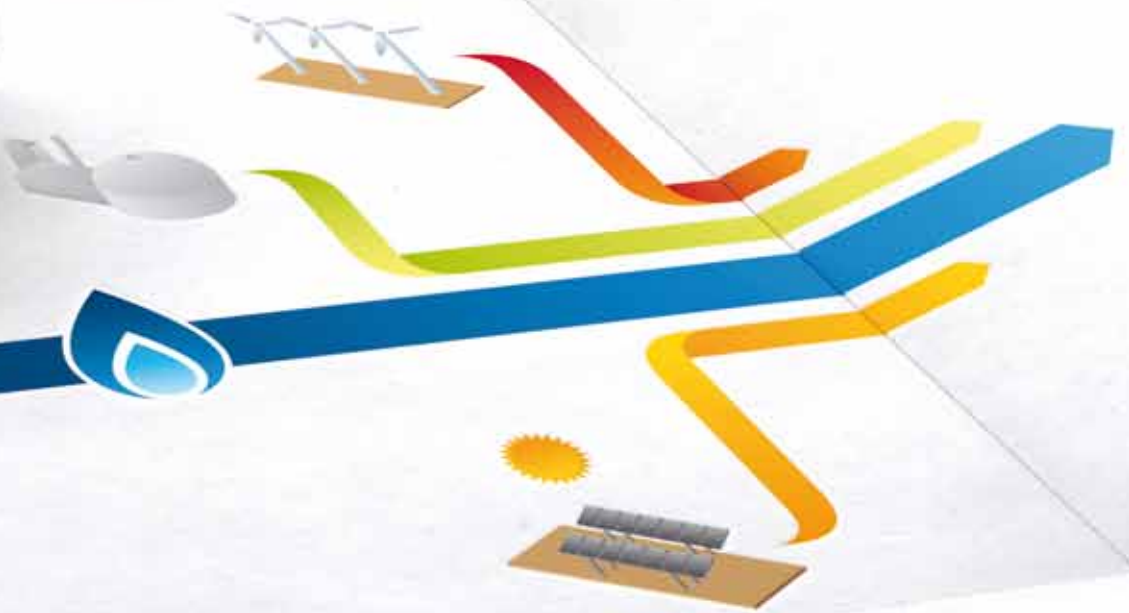


bayerngas

Energiepartnerschaft mit Zukunft



NEW PERSPECTIVES
MANAGEMENT REPORT 2010

Group Key Performance Indicators

	2010	2009
Sales revenue (million €)	1,735.6	2,012.8
Cost of sales (million €)	1,663.4	1,835.8
Group annual net profit (million €)	55.9	24.5
Group revenue (million €)	50.1	47.0
Balance sheet total (million €)	964.7	1,390.7
Gross investments in tangible and intangible fixed assets (million €)	12.7	380.0
Tangible fixed assets (million €)	107.0	270.6
Exploration and production licenses (million €)	0.0	229.2
Depreciation on tangible assets (million €)	10.4	30.4
Loans to associate companies (million €)	230.4	-
Subscribed capital (million €)	80.3	80.3
Bayerngas network system (km)	1,313	1,314
Personnel expenses (million €)	19.3	26.8
Average annual headcount	222	235

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bayerngas

Energiepartnerschaft mit Zukunft

Exploration & Production

Storage

Transport & Logistics

Import & Procurement

bayerngas
norge

(31.5%)

bayerngas
petroleum dk

bayerngas
energy trading

(100%)

bayerngas
danmark

bayerngas
UK Ltd.

Overview Bayerngas Group



Executive Bodies of Bayerngas GmbH (Parent Company)

Shareholders	Stake in € million	Stake in %
SWM Services GmbH	35.75	44.5
Stadtwerke Augsburg Energie GmbH	22.08	27.5
REWAG Regensburger Energie- und Wasserversorgung AG & Co. KG	6.94	8.6
TIGAS – Erdgas Tirol GmbH	4.82	6.0
SWU Stadtwerke Ulm/Neu-Ulm GmbH	4.02	5.0
Stadtwerke Landshut	3.36	4.2
Stadtwerke Ingolstadt Beteiligungen GmbH	2.11	2.6
Ingolstädter Kommunalbetriebe AöR	1.25	1.6
	80.33	100.0

Supervisory Board of Bayerngas GmbH

[Dr. Kurt Mühlhäuser](#) ^{1,2}

Executive Board Chairman
Stadtwerke München GmbH
(Chairman)

[Dr. Claus Gebhardt](#) ^{1,2}

Managing Director
of Stadtwerke Augsburg Energie GmbH
(Vice-chairman)

[Oliver Belik](#)

City Councillor of the State Capital Munich

[Matthias Berz](#) ^{1,2}

Managing Director of SWU
Stadtwerke Ulm/Neu-Ulm GmbH

[Norbert Breidenbach](#) ^{1,2}

Executive Board Chairman of REWAG
Regensburger Energie- und Wasserversorgung AG

[Dr. Kurt Gribl](#)

Mayor of the City of Augsburg

[Dr. Philipp Hiltolt](#) ^{1,2}

Managing Director of TIGAS – Erdgas Tirol GmbH

[Dr. Alfred Lehmann](#)

Mayor of the City of Ingolstadt

[Hans Podiuk](#)

City Councillor of the State Capital Munich

[Hans Rampf](#)

Mayor of the City of Landshut

Permanent representatives on the Supervisory Board were:

[Dr. Klaus Blum](#) ^{1,2}

Works Manager of Stadtwerke Landshut
on behalf of Mr. Hans Rampf (until 25.11.2010)

[Werner Maier](#) ^{1,2}

Works Manager of Stadtwerke Landshut
on behalf of Mr. Hans Rampf (from 25.11.2010)

[Matthias Bolle](#) ^{1,2}

Managing Director
of Stadtwerke Ingolstadt Beteiligungen GmbH
on behalf of Dr. Alfred Lehmann

¹ Member of the Finance Committee

² Member of the HR Committee

Managing Director

Marc Hall

Highlights of fiscal 2010

January

The Norwegian government grants Bayerngas Norge the contract (APA) for shares in six exploration licenses on the Norwegian continental shelf.

February

Bayerngas successfully markets the new, trader-friendly product called Trader's Pack.

For the first time, *bayernets* offers a counter-current product at the Überackern Exit border-crossing point.

March

Bayerngas Norge takes on an additional partner (SWM Gasbeteiligungs GmbH & Co. KG).

New distribution:

31.5% Bayerngas GmbH, 31.31% Stadtwerke München GmbH, 30.11% SWM Gasbeteiligungs GmbH & Co. KG, 3.75% TIGAS-Erdgas Tirol GmbH, 3.33% Swissgas AG.

May

GRTgaz Deutschland GmbH becomes a partner in the market area cooperation NetConnect Germany GmbH & Co. KG.

September

Bayerngas UK Ltd takes on shares of the field developments Clipper South (25%) und Cygnus (12.5%) in the Southern British North Sea.

October

Bayerngas expands cross-regional sales to industrial customers and opens sales offices in Berlin and Vienna.

December

Start of municipal gas production: Bayerngas Norge brings Vega South gas field (Licence PL090C) online.

Bayerngas Norge discovers oil and gas in the Solsort prospect on the Danish continental shelf.





Business Environment and Development

Economic Development and Market Share for Natural Gas

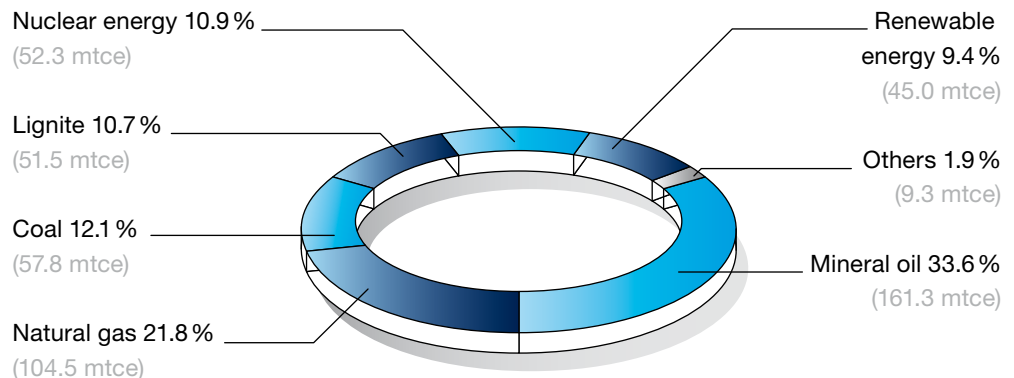
General economic conditions in Germany. The gross domestic product (GDP) grew by 3.6 % in 2010 compared with the previous year (status: January 2011). This was the biggest increase in GDP since German unification. As a result of the economic and financial crisis, the GDP had fallen by 4.7 % in 2009.

The recovery was due both to increased demand from abroad as well as improved domestic demand. The rise in investments in equipment was especially strong.

Energy consumption in 2010 remains below the level of 2008

Energy consumption. Energy consumption in Germany rose in 2010 compared with the previous year by 4.6 % or 622 petajoules (PJ) to 14,057 PJ (status: February 2011). The pre-crisis consumption level of 2008 has not yet been regained (2008: 14.216 PJ).

Energy Consumption in Germany in 2010



Electricity exchange balance: -0.4%; -2.1 t mtce

Date: February 2011, preliminary data
Source: Arbeitsgemeinschaft Energiebilanzen e. V.

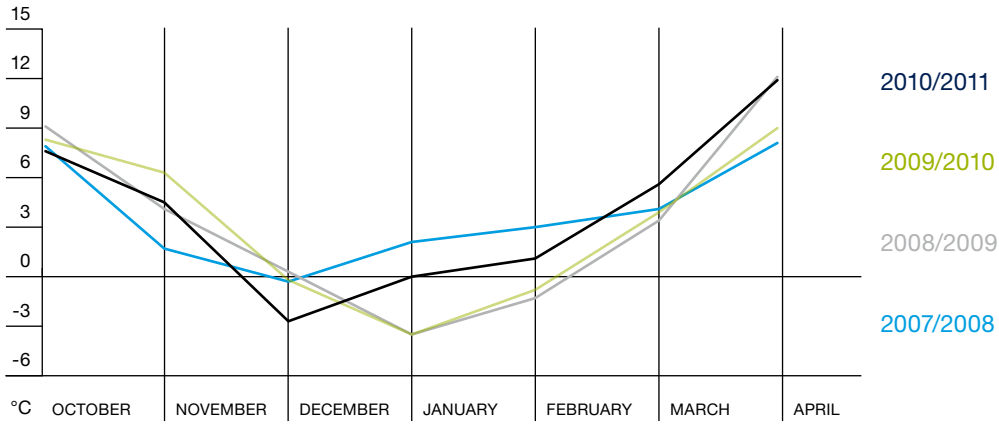
Total: 479.6 mtce

In 2010, natural gas consumption rose 4.2% over the previous year

The reasons for the increase in consumption are the economic recovery and the colder weather at the beginning and end of the year. The gas industry benefitted from this: sales in the heating market and demand from industrial customers increased. Gas consumption in Germany rose in 2010 compared to 2009 by 4.2 % to 3,063 PJ. This almost corresponds to the consumption level in 2008.

Consumption of mineral oil rose by 1.3 %, that of anthracite coal by 15.4 %. Demand for lignite remained more or less unchanged. The contribution of nuclear power stations to the energy balance increased by 4.1 %. Renewable energies had an overall increase of 9.9 %. Wind energy was used less in 2010 (-5.5 %). However, the shares of photovoltaic energy rose by more than 80 % and that of biomass by 12 %.

Temperature profile winter months 2007 to 2011

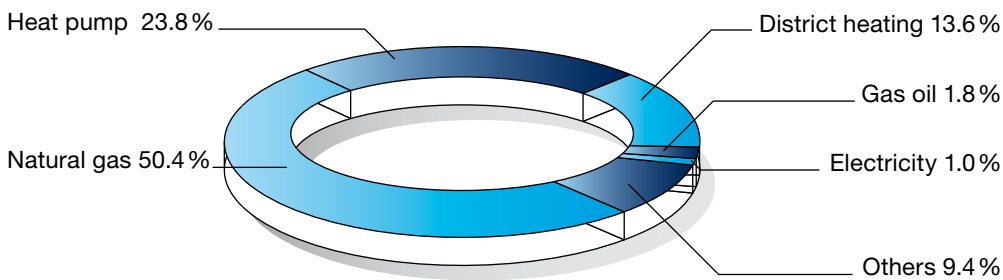


Average temperature in Munich (since 10/2007 temperatures recorded in Finsing)

Market share of natural gas in the heating market. The market share of natural gas in new building development in 2010 amounts to 50.4 % (status: February 2011) and remains therefore almost at the same level as the previous year (2009: 51.0 %). Although gas lost market share to heating systems such as electric heat pumps and district heating (DH) in previous years, the environmentally-friendly energy sustained its position in 2010. The market share of electric heat pumps remained stable compared to the previous year (2010: 23.8 %; 2009: 24.0 %) and district heating increased its share slightly from 12.5 % to 13.6 %.

Natural gas remains the market leader in heating systems

Market Share of Natural Gas in New Buildings 2010



Date: March 2011; Source: BDEW, Bundesverband der Energie- und Wasserwirtschaft e.V.

Competition and Legal Framework

Established natural gas suppliers drive competition forward

Gas-to-gas competition. Over the past years new providers have stimulated the competition situation. However, in 2010 established energy suppliers drove competition forward by expanding their sales activities significantly. Over 200 companies in the household market or industrial customer market are doing business outside their previous sales region. 10 % of these companies are doing business on a national basis. Household customers can choose on average from around 40 suppliers.

Industrial key accounts increasingly prefer supply contracts which enable them to source a part of their supply from the spot market. They meet their supply needs with part-supplies on day-ahead or forward basis and part-supplies on the basis of oil-linked contracts. This enables them to spread their risks. The trend towards structured procurement has a positive impact on competition.

Trading and portfolio management becomes more important for municipal utilities; as a gas procurement platform, Bayerngas offers its customers these functions

Competition in the utilities market has intensified. Optimised natural gas procurement is essential for utility companies because they themselves have come under huge competitive pressure. A lot of utility companies are exploiting market developments in order to define and enquire about an optimised portfolio made up of prices, services or risks. Suppliers were challenged to individualise their offerings and to exploit market flexibility. Offers of gas volumes further increased competitive pressure. Utility companies are building up a pool of suppliers.

On the other hand, the number of utility companies which did business via their own trading companies on the trading markets or which fell back on platforms for portfolio management increased. Bayerngas' gas procurement platform offers its shareholders and customers all these functions.

In 2010 price levels on procurement markets were no longer as far apart as in previous years. Nevertheless, prices on the trading markets were generally under the reference value border price for oil-linked contracts.

Continued high liquidity in the gas market

High liquidity – market entry threshold low. The market entry threshold is low when there is high liquidity on the trading market. In 2010 liquidity on the European gas procurement market was high once again, but also inconsistent. Offerings on the market faced an initially slow increase in demand following economic recovery. Furthermore, the share of unconventional gas in the USA rose dramatically. Supplies of Liquefied Natural Gas (LNG) planned for the USA were diverted to the more lucrative European markets.

In 2010 around 300 billion kilowatt hours of H-gas was physically traded at the most important German trading point, the virtual trading point of NetConnect Germany GmbH & Co. KG (NCG-VTP) (2009: 213 billion kWh). The average monthly Churn Rate at NCG stood at over three between June and September. This means that three times as much gas was traded as that which physically flowed. The NCG-VTP therefore almost reached the level of Dutch TTF, a company which is important for continental, European gas trade.

Challenging storage market. High liquidity in the gas market has resulted in gas suppliers and big industrial customers purchasing the necessary flexibility for their gas supply on the market when needed. The demand for gas storage in order to structure the supply therefore decreased.

NCG grows – competitive edge improves further. Thyssengas GmbH announced last year that it wished to join the NCG market area cooperation in 2011. The long-distance gas grid operator intends to bring in both its H-gas and its L-gas. In addition, the NCG shareholder

Open Grid Europe GmbH (OGE) plans to integrate its L-gas market area into that of NCG. With these announcements Thyssengas and the shareholders of NCG, OGE, *bayernets* GmbH and GRTgaz Deutschland GmbH are preparing to reduce gas market areas. The German gas market will continue to gain liquidity with the expansion of NCG.

Thyssengas is becoming the new partner of the NCG, high and low-methane gas market areas grow together

Moreover, Bayerngas has suggested market area cooperation between NCG and the Austrian gas control zone. This would give competition a further push.

New regulation for gas network access. In 2010 the amendment to the Gas Network Access Act (German: GasNZV) came into force. The changes should provide new impulses for competition in the gas market. Key points of the Gas Network Access Act amendments are to further reduce market areas and to reorganise the capacity allocation system. In concrete terms: the number of market areas should be reduced to one L-gas market area and two H-gas market areas by 1 April 2011. By 1 August 2013 the whole should be reduced to a total of two market areas. In the future, fixed injection and withdrawal capacities are to be auctioned – punctually by 1 October 2011. The thirteen long-distance network operators have to develop a common platform for the allocation of capacities by 1 August 2011.

Long-distance gas network operators create new capacity allocation platform

Moreover, in the future new regulations will prevail for storage and production plants as well as for LNG terminals and gas power stations. This should facilitate access to the gas grid for these plants.

Energy concept of the Federal Government. In September the government coalition agreed on a new energy concept. A pressing topic for politicians was obviously to clarify whether the government would adhere to the nuclear power pull-out scenario. The contract terms for nuclear power stations were extended by twelve years on average in contrast to hitherto legal regulation.

An 80 % reduction of CO₂ emissions by 2050 is of overriding importance to politicians (base year 1990). Nuclear energy should serve as a bridge to an ecologically-friendly energy supply with renewable energy. Energy is often equated with electricity. The ecologically-sensible expansion of decentralized, combined heat and power was neglected.

Natural gas – part of the solution. Natural gas is low on CO₂ and is a flexible source of energy. The pipeline system is an efficient energy storage facility. Biogas is CO₂-neutral and is injected into the gas grid.

Natural gas is the more natural energy. Gas is not a bridge – without it, the use of renewable energies would not be possible. The generation of electricity using wind and solar energy is volatile. The flexible and decentralized use of natural gas to generate electricity can be exploited when wind or solar energy does not suffice. In the case of surplus supply, electricity could be stored in the pipeline system using synthesis gas (syngas) from electrolysis. The demand for new storage technologies set out in the energy concept can be met by the existing infrastructure to a large extent. The German Scientific Association for Gas and Water (German: DVGW – Deutscher Verband des Gas- und Wasserfaches e.V.), Bayerngas and other German gas companies pushed this topic forward in 2010.

Natural gas allows the use of renewable energies

EU directive for security of gas supply. EU bodies have agreed on a directive about measures for guaranteeing a secure supply of natural gas. A directive has immediate effect and does not have to be transferred to national law. The directive is a reaction to the Russia-Ukraine gas transit crisis in the winter of 2008/2009. At the core of the regulation is security of supply for especially vulnerable customers – in particular households – for 30 days. The consequences for Germany are not so significant due to the above-average number of storage facilities. At the beginning of 2010 47 storage facilities were in operation in Germany with

a maximum working gas volume of 20.8 billion cubic metres. Bayerngas operates its own underground storage facility: Wolfersberg storage facility is situated southeast of Munich.

Group Development

Gas sales nearly back to previous year's levels

Gas sales. The communal gas procurement platform Bayerngas supplies utility companies, regional distributors and large industrial customers. Competition has become considerably fiercer for Bayerngas in all customer segments. Nevertheless the company sold only marginally less than the year before with 69 billion kWh (2009: 70 billion kWh).

In the existing market Bayerngas had to accept revenue losses in the case of regional distributor customers in particular. Sales in the Germany-wide industrial customer segment showed a positive trend.

Common procurement system with shareholder customers. Bayerngas continued to meet the market demands of its shareholder customers in 2010. Together with its customers, Bayerngas developed a procurement system based on a common tranche model. In doing so, the utility companies minimise risks and increase their ability to react to market changes.

Bayerngas has opened new sales locations in Vienna and Berlin

Development of new markets. Bayerngas opened two new sales locations for industrial customers in Vienna and Berlin last year. Hitherto, industrial customers had been served exclusively from the locations Munich and Düsseldorf. New customer acquisition was very successful: Bayerngas was able to achieve a sales increase in the case of industrial customers of 50 percent. The location in Vienna was also able to secure new customers already in the fourth quarter of 2010.

Bayerngas was also able to sustain its ground against competition in the case of existing industrial customers. Through intensive customer care of existing customers, Bayerngas was able to replace other energy sources and increase sales.

The Germany-wide business with utility companies of novogate GmbH also showed a positive trend. novogate is the common marketing company of Bayerngas, Gelsenwasser AG and Südtiroler Elektrizitätswerke AG. In 2010 novogate focussed on offering utility companies innovative and tailored products. And novogate was successful. The annual sales objective was exceeded by approx. 5%.

Nearer to the customer. Significantly intensified customer care and cooperation with the customer along with tailored supply and procurement concepts developed in many cases together with the customer were the most important factors for Bayerngas' success in the areas of Market & Customer.

Bayerngas bundles trade activities in Bayerngas Energy Trading

Bundling of trading activities. After Bayerngas increased its stake in actogas from 60 % to 100 % at the end of 2009, there followed an analysis of how to exploit possible synergies between both companies in 2010. Consequently it was decided to bundle all trading activities into one company. Actogas was renamed to Bayerngas Energy Trading GmbH and the portfolio management and balancing management of Bayerngas was integrated into the new company. Concentration of the energy trading know-how in the Bayerngas Energy Trading means a significant strengthening of the Bayerngas Group on the European energy market.

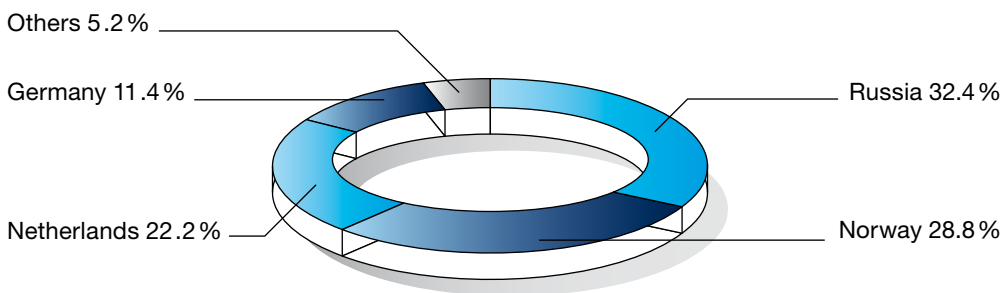
Trading market orientation. Bayerngas expanded its presence on the trading market. The degree of diversification of the gas procurement portfolio is increasing constantly. The port-

folio management exploited gas market liquidity in 2010. Trading activities of the 100-percent subsidiary Bayerngas Energy Trading were very intensive at the hubs and gas exchanges.

Bayerngas has expanded its presence in trade markets

Bayerngas Energy Trading showed a very positive result for the business year 2010. The physical gas business continued to increase and a new turnover record was achieved. This led to the highest annual profit since the founding of Bayerngas Energy Trading/actogas.

Natural Gas Supplies in Germany 2010



Date: May 2011, preliminary data;
 Source: BDEW, Bundesverband der Energie- und Wasserwirtschaft e.V.

Start of communal gas transmission in Norway. Bayerngas founded Bayerngas Norge AS in Norway, Oslo in 2006 in order to gain access for itself and its shareholders to gas sources. Shortly after its founding, the company bought a 25 % stake in the license PL090C for the gas discovery Vega South. In December 2010 Vega South went into operation. This meant that for the first time, communal companies transported their own gas. Shareholders in the Norwegian exploration & production company are Bayerngas, Stadtwerke München GmbH, SWM Gasbeteiligungs GmbH & Co KG (previously SWM Gasbeteiligungs GmbH), TIGAS – Erdgas Tirol GmbH and Swissgas Schweizerische Aktiengesellschaft für Erdgas.

Bayerngas Norge brings Vega South gas field online

The share of Bayerngas Norge in the transportable reserves of Vega South amount to 2.6 billion cubic metres of gas equivalent (around 28 billion kWh). The production horizon of the gas field will reach to 2022. Gas is transported via the Gjøa platform and then further via the FLAGS pipeline to St. Fergus in Scotland. The available oil is sent via the Troll oil pipeline to Mongstad in Norway.

Already in February 2011, Bayerngas Norge began operating the second gas field Trym. The company has a 30 % stake in the corresponding license PL147. It is presumed that there are reserves amounting to approx. 2.3 billion cubic metres of gas and around 0.55 million cubic metres of condensate.

Bayerngas Norge brings its second gas field, Trym, online

Further licenses in Norway. Bayerngas Norge was granted six licenses on the Norwegian Continental Shelf by the Norwegian authorities at the beginning of 2011. The allocation took

place within the framework of the Applications in Predefined Areas-Rounds 2010 (APA-Rounds 2010). The new APA licenses are all in areas which are strategically important for Bayerngas Norge. Four licenses are for the Norwegian North Sea and two for the southern part of the Norwegian Sea. Bayerngas Norge therefore has a stake in 46 licenses (status January 2011) with three production fields. Moreover, three fields are in a development stage. Three further discoveries have development potential.

Expansion of British upstream business – high activity in Denmark. Bayerngas Norge operates in the Danish and British exploration & production business (upstream business) through its 100-percent subsidiary Bayerngas Danmark ApS, Copenhagen, Bayerngas Petroleum Danmark AS, Oslo, and Bayerngas UK Ltd., Westerham/Great Britain.

Through its stake in the gas fields Hejre und Svane, the Bayerngas Norge Group already has over two very promising assets on the Danish Continental Shelf. In 2010 two new hydrocarbon leading horizons were identified in the license Dk5/06, Ravn, and Dk 4/96, Solsort.

Bayerngas UK acquires a stake in Clipper South und Cygnus

In Great Britain, the Bayerngas Norge Group strengthened its position. Bayerngas UK Ltd, Westerham/London, acquired a 25-percent stake in the gas find Clipper South via Bayerngas North Sea Ltd. and a 12.5-percent stake in Cygnus via Bayerngas E&P Ltd.. Both finds are located on the British Continental Shelf. Bayerngas North Sea and Bayerngas E&P Ltd. are 100-percent subsidiaries of Bayerngas UK. Clipper South can begin operation from 2012 and Cygnus from 2013.

Bayerngas and RAG decide in favour of conveying gas in the foothills of the Alps

Decision in favour of gas transmission in Bavaria. The Austrian company Rohöl-Aufsuchungs Aktiengesellschaft (RAG) and Bayerngas GmbH were successful for the first time in Bavaria with their search for natural gas in Bavaria. The partners identified transportable reserves of gas in the drilling well Assing R1. Assing is located northeast of Chiemsee in the Salzach-Inn region of Bavaria. Bayerngas holds a 30 % stake in the corresponding license.

It is planned that 13 million cubic metres of gas will be produced and marketed from 2012. The exploration well will be used as a production well. The gas can be transported via a connection pipeline to the pipeline network of Energienetze Bayern GmbH, which is only 500m away. Assing is the first example of gas production in Bavaria since 1996 where exclusively gas will be transported.

Network business: more capacities for transport customers. *bayernets* GmbH is the independent grid operator for the approx. 1,300 km long, high-pressure pipeline system of Bayerngas. *bayernets* was successful with the marketing of pipeline capacities.

Through expansion measures, firm capacities could also be increased in 2010 for transport customers at Kiefersfelden/Tirol (exit) and at the storage connection point of the underground storage facility Wolfersberg (entry/exit). For the first time, a counter-flow product could be offered at the border point Exit-Überacker on an interruptible basis from February 2010. This product could be booked from 1 April 2010 for the first time and was then permanently used by transport customers.

bayernets prepares for restructuring to ITO

Preparation to become Independent Transmission Operator. In 2010 *bayernets* prepared itself for organisational restructuring to become an Independent Transmission Operator (ITO). The demand to implement an ITO is based on the 3rd EU Single Market Package of September 2009. On 3 March 2011, the EU guideline concerning stricter unbundling stipulations should be transformed into national law. This deadline could not be met, however, by German legislation and has been pushed back to the second half of the year.

In order to handle legal changes effectively Bayerngas transferred the technical functions of dispatching, operations and network management to *bayernets* from the 1 February 2011. Additional adjustments will be made when national laws come into force.

Technical service: position strengthened in the market. bayernSERVICES GmbH offers technical service for industrial customers. In the business year 2010, the company jointly owned by Bayerngas and Schandl GmbH achieved its aims in a difficult environment. In particular, maintenance and operation management of biogas plants were products that could be marketed successfully.

Development of the Fully Consolidated Companies of the Group

Bayerngas GmbH

Business development. In the business year 2010 Bayerngas sold 68.749 billion kWh and achieved an annual profit of € 58.9 million. Gas sales were therefore slightly under the record level of around 70 billion kWh in the previous year. The positioning of Bayerngas in new regional markets initiated in 2009 was systematically continued.

Gas sales to industrial customers increase by over 50%

Bayerngas delivered 28.137 billion kWh to municipal shareholder customers. That is 6.6 % less than the previous year (30.117 billion kWh). Sales to regional distributors (including TIGAS – Erdgas Tirol GmbH) decreased significantly from 19.824 billion kWh in 2009 to 14.352 billion kWh (-27.6 %). Sales results to industrial customers were very positive. These increased compared to the previous year by 5.597 billion kWh or 52.0 % to 16.358 billion kWh. Supplies to the customer group Others increased to 9.902 billion kWh (+3.8 %).

Price developments. The procurement portfolio of Bayerngas has been systematically transformed to market-price-based procurement since 2005. For some of the supply contracts, the price level on the oil markets has continued to be significant.

Proportion of quantity procured by Bayerngas Energy Trading increases by 30%

Price levels on the gas trading markets in 2010 were consistently below those of long-term contracts linked to oil prices. Bayerngas countered this development by strengthening its activities on the trading markets. The share of volumes procured by actogas, for example, increased by 30.9 % (from around 13.3 to around 17.4 billion kWh).

Crude oil prices in 2010 fluctuated between \$ 70 and 90 / bbl. This trend could continue in 2011. Depending on worldwide economic developments, however, an increase in crude oil prices to over the \$ 100 mark is also possible. Nevertheless, the future trend in crude oil prices will not only be influenced by supply and demand, but also by political events and especially by further unforeseeable consequences of the financial market crisis.

At the beginning of 2010 the border price for gas stood at around 1.9 cents/kWh. As a result of oil price developments, the border price for natural gas rose continually until the end of the year by approx. 20 % to around 2.3 euro cents/kWh. A further increase to around 2.6 euro cents/kWh is expected for the calendar year 2011.

Sales revenues are down by approx. 11% and expenses for gas procurement are also down by about 10%

Revenues. In addition to the decrease in sales described above, price developments influenced by the trading markets also led to lower revenues. All in all, therefore, turn-over fell in the business year by 11.3 % to around € 1,677.3 million (2009: € 1,890.7 million).

Cost of sales. Expenditure for gas sales (incl. raw, auxiliary and operating materials) fell compared to the previous year by 9.7 % to around € 1,560.6 million (2009: € 1,727.4 million). High procurement costs for oil price linked supply contracts reduced profit margins in the business year.

The Bayerngas annual net profit is 58.9 million euro

Result. Taking into account a consistent income from network leasing as well as a very positive overall result, the annual net income for 2010 amounted to € 58.9 million (2009: € 77.8 million) and allows a dividend payout of 18 % (2009: 18 % plus 5 % bonus) on subscribed capital as well as an appropriation of € 44.7 million (2009: € 59.0 million) to profit reserves.

Bayerngas' management will make a corresponding proposal to shareholders on the allocation of unappropriated profits.

bayernets GmbH

Business development. *bayernets* was able to market its network capacities in the fourth business year since its founding in 2007. In addition, firm capacities arose at the withdrawal station Kiefersfelden/Tyrol and at the storage connection point Wolfersberg in 2010. The available firm withdrawal capacities in the *bayernets* grid to downstream grid operators remained stable in 2010 compared to 2009 and were fully marketed. The newly created counter-flow product at the border crossing point Überackern was used constantly by transport customers on an interruptible basis from 1 April 2010.

bayernets offers a counter-current product at the Überackern Exit border-crossing point

Unbundling. In the course of the 3rd EU Single Market Package, *bayernets* began with the initial implementation of the certification as Independent Transmission Operator (ITO). It was decided to transfer the necessary personnel for the grid operation from the associate company. This step means that *bayernets* is strategically positioned as an internationally operating long-distance network operator and is well equipped to handle constantly growing regulatory and legal requirements.

bayernets positions itself strategically as an internationally active long-distance network operator

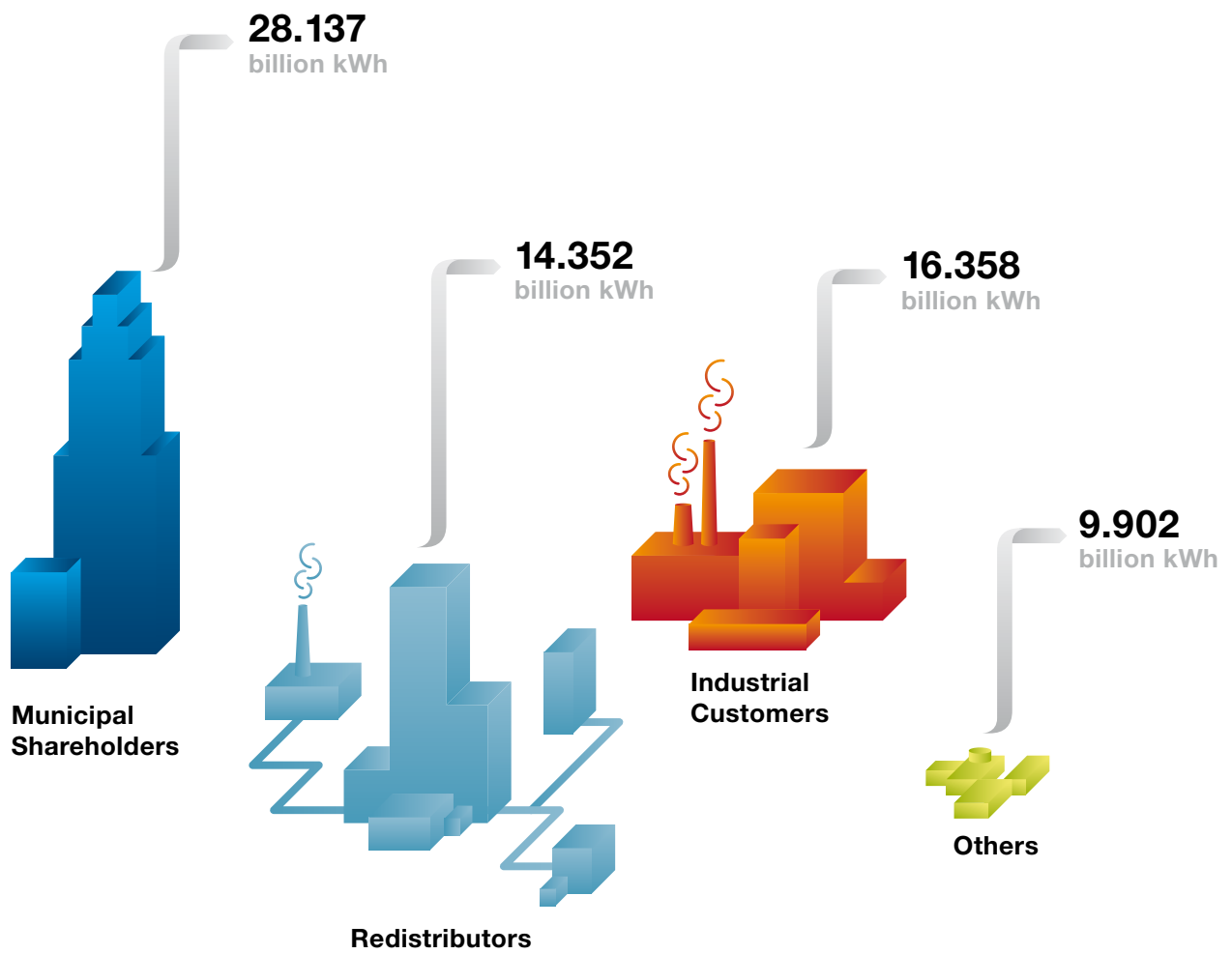
Turnover. *bayernets* achieved revenues to the amount of € 60.7 million which are € 2.2 million under the permissible cost and revenue ceiling stipulated by the ruling of the Federal Network Agency (German: BNetzA). The low revenues are a result of decreased transport revenues and deviations between planned and actual booking scenarios. Taking into account the change in the reserves for the cross-period balancing and the increase in revenues from biogas allocation by € 2.1 million to € 4.4 million, the turnover revenues increased compared to the previous year by € 0.8 million.

Result. After deducting expenditure on services rendered, personnel costs and other operating costs, the EBIT/EBITDA amounted to € -1.405 million. Taking into account the financial result of € -0.239 million and other taxes amounting to € -0.002 million, there is a result of € -1.646 million before the transfer of losses (previous year profit € 10.997 million). Due to the profit and loss transfer agreement with Bayerngas GmbH, the above-mentioned loss was transferred to Bayerngas GmbH resulting in an annual profit of € 0.

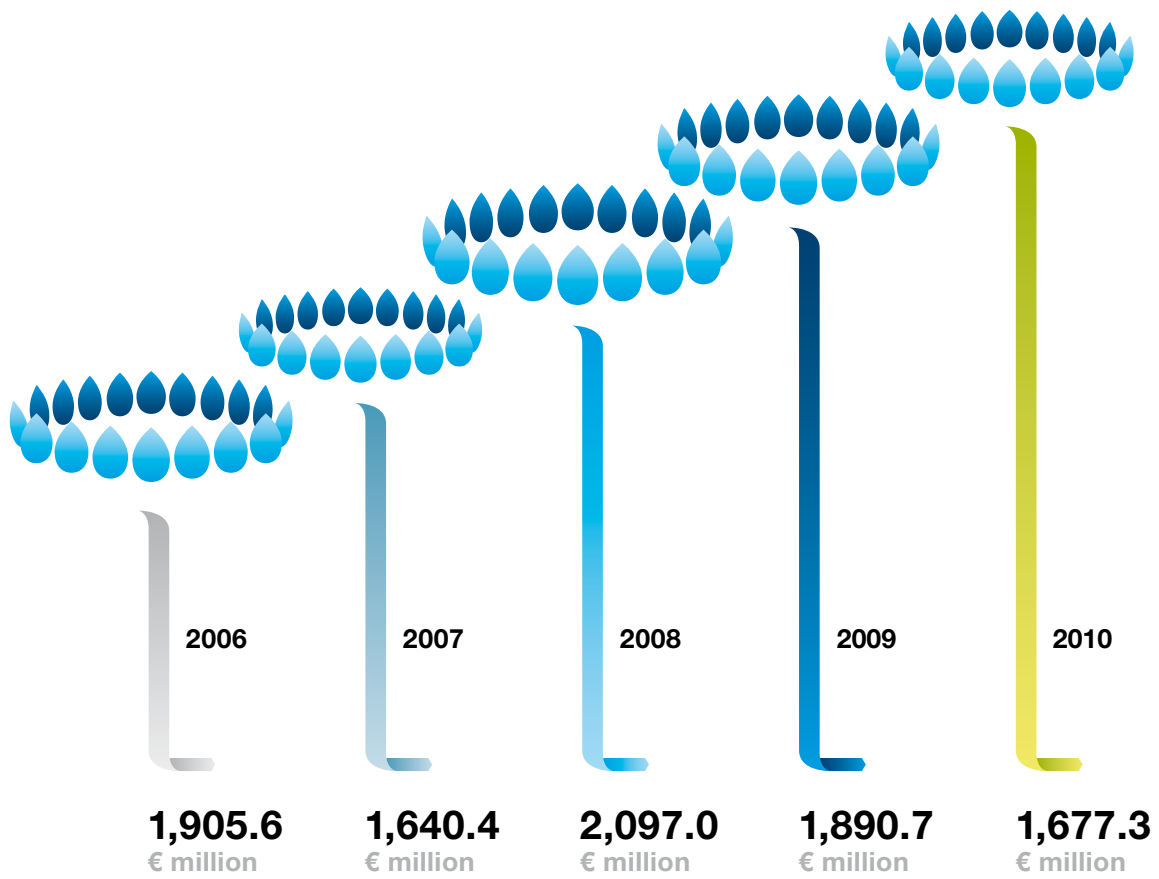
New shareholder structure at NetConnect Germany (NCG). On 11 May 2010 the existing shareholder structure of NetConnect Germany (Open Grid Europe GmbH 74.9 %, *bayernets* GmbH 25.1 %) changed as a result of the shareholder entry of GRTgaz Deutschland GmbH. In the new shareholder structure Open Grid Europe holds a 59.9 %, *bayernets* a 25.1 % and GRTgaz a 15.0 % stake.

NCG is the largest natural gas market area in Germany with a total length of around 14,800 km. It is conceivable that the trading volumes and number of active traders will continue to increase in the future due to the above market area expansions.

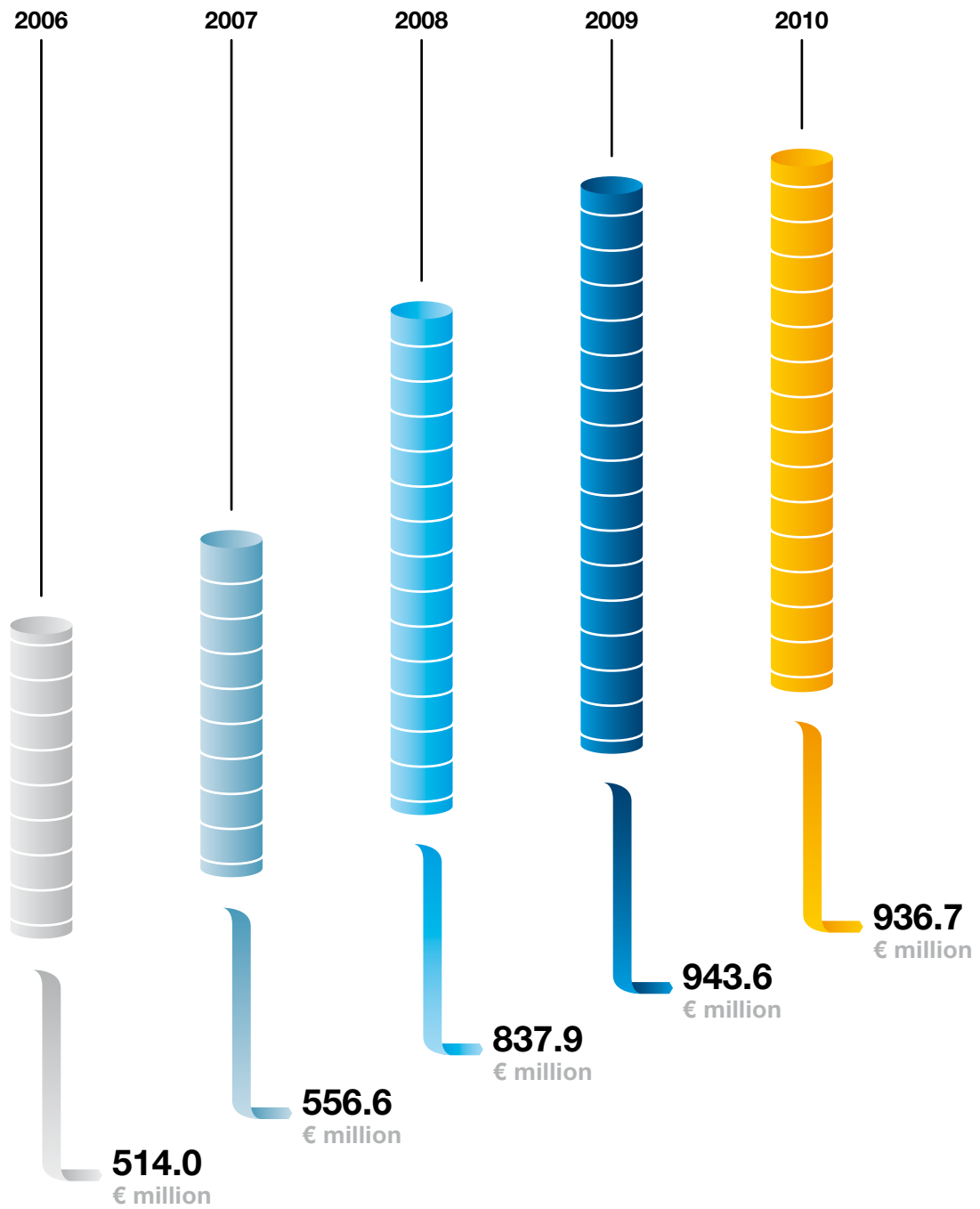
Distribution of Gas Sales Bayerngas GmbH



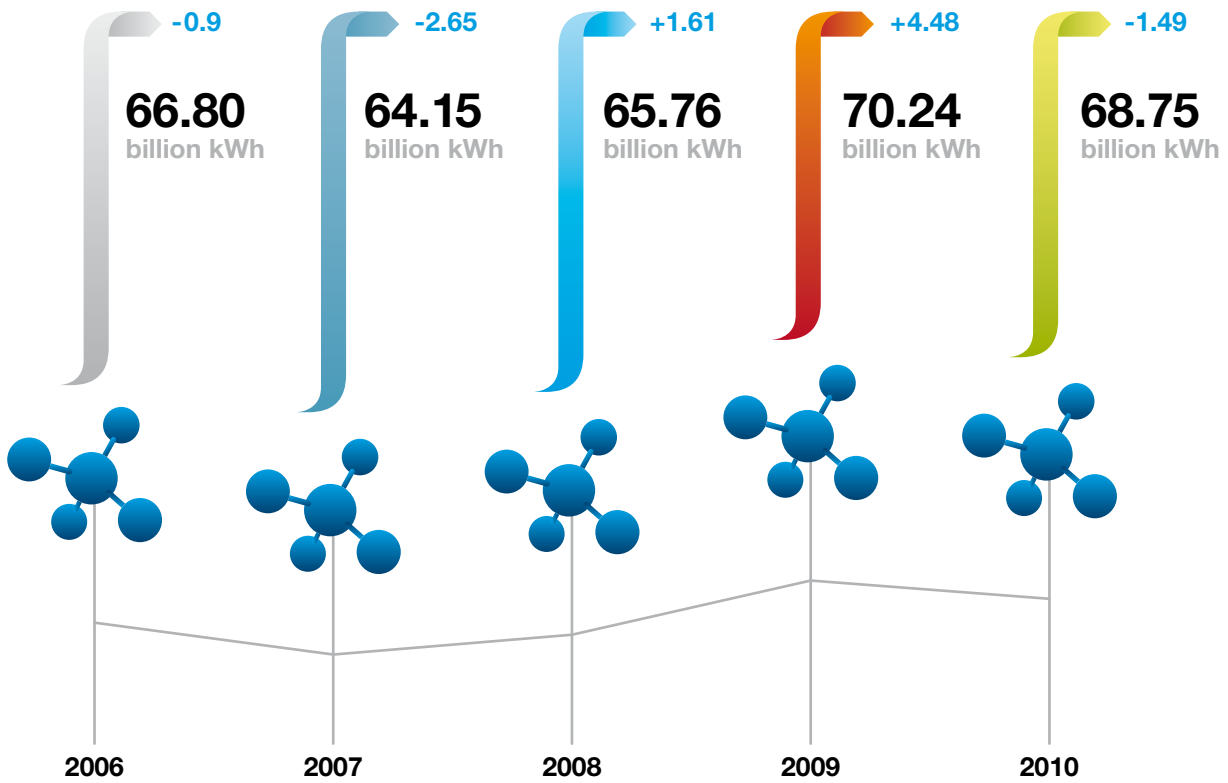
Sales Revenues Bayerngas GmbH



Total Assets Bayerngas GmbH



Development of Sales Volumes



Bayerngas Energy Trading GmbH

Business development. In accordance with the business strategy of Bayerngas Energy Trading (previously actogas), the service business was of primary importance for Bayerngas also in 2010. In general, Bayerngas Energy Trading can look back on a positive business development in the year 2010 whereby the individual business fields developed differently.

Bayerngas Energy Trading: continuous volume growth in the physical gas business

The continued volume increase in the physical gas business is particularly favourable. In the areas of gas procurement, gas trade/origination and optimisation business transactions worth over 30 billion kWh were handled. A development which in connection with increasing liquidity at the trading places shows the growing importance of gas wholesale. Margins in the gas business have returned to normality compared to the year 2009, which was affected by special circumstances.

The financial oil trade, i.e. the price security business for oil-linked gas supplies, is subject to another development. Justified by an observable trend away from the procurement of oil-linked natural gas to TTF or NCG notations or to the procurement of fixed-price natural gas on the German gas market, the share of oil in the overall portfolio is decreasing.

Bayerngas Energy Trading launches new products

In or rather for 2010 Bayerngas Energy Trading developed a series of new products and services which all proved successful. With the offering of TTF indices, the increased employment of structured products, the intensified marketing of flexibility in new products and with the expansion of services especially for core business around the trading for third parties, business segments were opened or further developed which brought favourable results in 2010.

Bayerngas Energy Trading was also active as Market Maker for NCG products at the EEX in 2010. Connected to the increasing liquidity in this market area, there was a noticeable growth in business in Market Making.

Sales and earnings of Bayerngas Energy Trading increased in 2010

Turnover and result. Bayerngas Energy Trading achieved a turnover of € 546.8 million in 2010 (2009: € 465.6 million) and closed the financial year very successfully with an annual profit of € 2.2 million (previous year € 1.8 million).

This result is primarily based on the physical trading of gas. The result from the business segment "Bank and Financial Services" continued to develop favourably. However, the interest and commission result of the company continued to play a subordinate role.

Personnel and organisation. As a result of growing business operations, the continued increase in number of trading transactions and the rising demands based on the permission granted to operate bank business, the company increased the number of employees in the last business year. Including management Bayerngas Energy Trading had a headcount of 34 on the balance sheet date. Expansion and process organisation as well as company recruitment took into account the increased demands to meet minimum risk management requirements.

The Groups' Profit Situation

Turnover, cost of sales. Revenues amounted to € 1,735.6 million and were € 277.2 million under those of the previous year. This is due, on the one hand, to the fact that revenues from the subgroup Bayerngas Norge can no longer be taken into account. Bayerngas Norge's stake was reduced to 31.5 % during the fiscal year and is no longer included in the full consolidation. In addition, the decline in sales and price developments under the influence of the trading markets contributed to the loss in turnover.

Group turnover
down compared
to previous year

Similarly, the cost of sales for the Group decreased by € 172.4 million to € 1,663.4 million. High procurement costs for oil-linked supply contracts also contributed to reducing margins in the fiscal year.

Result. The Group annual net profit amounted to € 55.9 million for the business year 2010 and is therefore significantly higher than that of the previous year (€ 24.5 million). The result from the equity evaluation of the subgroup Bayerngas Norge flowed for the first time with € –6.5 million into the Group result.

Group annual profit
increased from 24.5
to 55.9 million euro

Financial and Assets Position

	31.12.2010		31.12.2009	
	€ million	%	€ million	%
ASSETS				
Fixed assets	410.3	42.5	606.9	43.6
Inventories, receivables etc.	439.2	45.6	485.4	34.9
Liquid assets and securities of the WC	115.2	11.9	298.4	21.5
Total	964.7	100.0	1,390.7	100.0
LIABILITIES				
Equity	294.4	30.5	233.6	16.8
Share minority shareholders	0.0	0.0	-5.1	-0.4
Long-term provisions	9.4	1.0	10.9	0.8
Long-term borrowed funds	224.2	23.2	435.0	31.3
Short-term provisions and liabilities	436.7	45.3	716.3	51.5
Total	964.7	100.0	1,390.7	100.0

Balance sheet total. The balance sheet total fell significantly by 30.6 % compared to the previous year. This was due to the fact that the subgroup Bayerngas Norge was no longer part of the full consolidation in the Group closing accounts due to the reduction of its stake to 31.5 % and should be taken into account as at-equity with proportionate shareholder's capital, increased or reduced by proportionate results and dividend payouts. The transitional consolidation as well as further planned appropriations to reserves led to an increase in the equity capital quota from 16.4% in the previous year to 30.5%. The dividend payout suggested for Bayerngas GmbH is assigned to the respective short-term liabilities.

Equity ratio
increased to 30.5%

Investments. In the business year, the predominant part of investments served once again – as it did in previous years – to expand the upstream business through the Norwegian subgroup. For this reason around € 117.9 million were rendered from the parent company as equity capital and shareholder loans to Bayerngas Norge.

Investments:
continued expansion
of upstream business

Investments in fixed assets to the total amount of around € 11.0 million were made essentially to expand the gas stations Schnaitsee and Forchheim and to expand the gas storage facility Wolfersberg.

Financing. Sources of financing were retained earnings from the previous years, long-term bank loans and medium-term loans from shareholder companies. Furthermore, by issuing loans against a promissory note (German: *Schuldscheindarlehen*) to the total amount of € 84.5 million and terms of 7 and 10 years, short-term liabilities could be turned into long-term debt financing.

HR Report

Bayerngas secures the future of the company group, despite the challenging conflict of interests between energy-political demands, competitiveness and security of supply, through the capabilities, commitment, high performance and high potential of its employees and management.

Growth. In the year 2010 the Group had an average headcount of 222 employees. The change compared to the previous year (2009: 235 employees on average) is due to a changed basis for consolidation. A comparison made on the basis of consolidation of the previous year (195 employees) shows that the Bayerngas Group gained 27 new employees in total. This means an increase of 13.8 %. There were new hires at Bayerngas GmbH, Bayerngas Energy Trading GmbH and *bayernets* GmbH.

Bayerngas Group:
222 employees

HR expenditure. Personnel expenditure amounted to € 19.3 million in the year 2010 compared to € 26.8 million in the previous year. In the personnel expenditure for 2009, expenses to the amount of € 8.2 million are included which fall to companies which are no longer in the scope of the full consolidation in 2010. This means that the comparable personnel expenditure increased by 3.6 %.

HR strategy. The focus of HR strategy was on the development and implementation of the new organisation structures as well as on the further development of the personnel strategy.

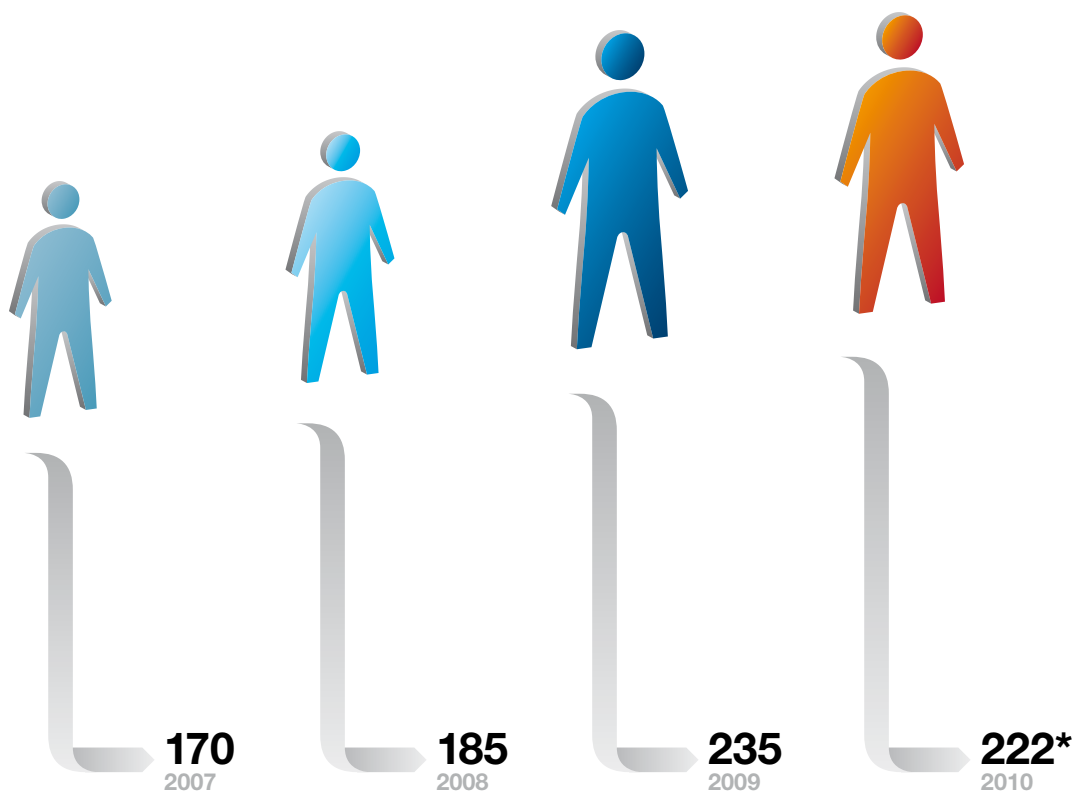
Focal points in HR area
2010: new organisation
structures and further
development of the
personnel strategy

As a medium-sized enterprise which is active on the international gas market, Bayerngas competes as an employer for the best talents in the market. The Bayerngas Group offers its employees a working environment that gives each individual a large degree of responsibility and market orientation. The working conditions are attractive thanks to flexible working hours, individual opportunities for further development and training, flexible compensation components and a modern pension plan. The concepts for further development and training with a purpose to strengthen individual capabilities and competencies were optimised in 2010.

In order to be perceived in the future as an interesting and attractive employer, the personnel marketing activities will be further expanded and intensified with a special focus on college graduates.

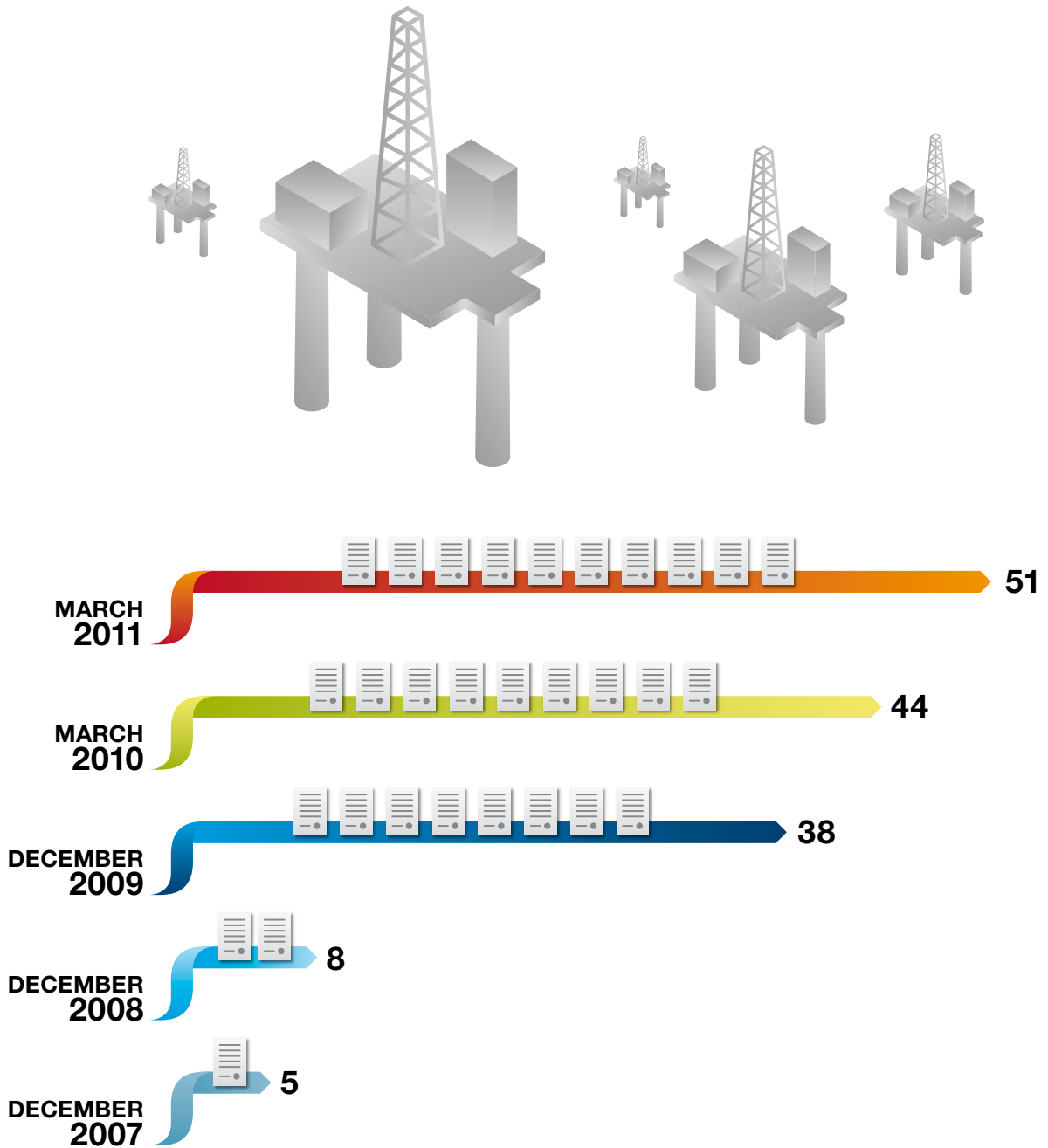
For 2011 the topics competence balance and knowledge management are very much in the foreground. The aim is to strengthen the internal communication platform in order to promote a modern learning culture, efficient cooperation and commitment within the Bayerngas Group.

Development Staff Group



*Fewer employees due to change of the scope of consolidation

Development of Exploration Licenses



Significant Events after Year-End

The Bayerngas Group was restructured at the beginning of 2011:

Transfer of functions
from Bayerngas
GmbH to wholly-
owned subsidiary

- Bayerngas GmbH transferred to the network company *bayernets* GmbH the functions operation, dispatching and network management (new construction) with the corresponding personnel with effect from 1 February 2011. *bayernets* is a 100-percent subsidiary of Bayerngas GmbH.

- actogas GmbH was renamed to Bayerngas Energy Trading GmbH effective as of 1 February 2011. Bayerngas GmbH holds 100 % in the trading company. Within the scope of the restructuring, the business units portfolio management and balancing was transferred from Bayerngas to Bayerngas Energy Trading.

On 22 December 2010, actogas GmbH concluded a profit transfer agreement with Bayerngas GmbH as ruling company.

The listing of Bayerngas Energy Trading GmbH in the Commercial Registry occurred on 31 January 2011; the profits transfer agreement came into effect for the first time in 2011.

Risk Report

No risks have been identified which would endanger the existence of the company.

Risks for Bayerngas Group arise both from its own business activity as well as from the business activities of its subsidiaries and affiliated companies in the respective business sectors.

Bayerngas includes in its risk management the risks of the whole Group pursuant to the Corporate Sector Control and Transparency Act (German: KonTraG). For all business segments within the Group, risks are identified systematically and evaluated with regards to potential damages and probability. At the same time countermeasures are taken in order to prevent or limit risks and are documented. Risks and risks analyses are reported regularly to management.

No risks were identified for Bayerngas in the reporting period which would endanger the existence of the Group.

Prospects

Fiscal year 2011. Bayerngas expects a stable and satisfactory profit and financial situation for the fiscal year 2011.

Legal notice

Published by:

Bayerngas GmbH
Pocistr. 9
80336 Munich, Germany

Phone: +49 (0) 89. 7200-0
Fax: +49 (0) 89. 7200-422

E-mail: info@bayerngas.de
Internet: www.bayerngas.de

Editor:

Dirk Barz
Corporate Communications

Phone: +49 (0) 89. 7200-339
Fax: +49 (0) 89. 7200-448

E-mail: dirk.barz@bayerngas.de

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www.mwimmerdesign.de

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