

# *Annual Report 2008*



## Key Ratios

	<b>2008</b>
Total sales (CZK m)	9,952
EBITDA (CZK m)	7,899
Operating result (CZK m)	5,337
Profit before taxation (CZK m)	5,721
Profit after taxation (CZK m)	4,508
Investments (CZK m)	179
Number of employees (converted to FTE)	688

RWE Transgas Net, s.r.o. is referred to as “the Company” or “RWE Transgas Net” in this Annual Report.

Photograph (page 1 of the cover)

**Aster or Italian Aster, *Aster amellus***

This perennial, 20–60 cm high plant grows in a relative abundance only in the warmer climatic belts of the Czech Republic. It prefers the sunny slopes of grasslands, steppes and foothills from lowlands up to about 700 m. It derives its name from the stellar arrangement of the flowers in the inflorescence. When in full bloom (from July to October) and in sufficient numbers, they can fill the entire habitat with a subtle vanilla fragrance. The favourite areas of occurrence are found on dry meadows, or under light dry shrubs, white slopes with shallow, light, partially rocky soil rich in carbonates. It tolerates or in fact prefers eroded areas (scree). Level of protection afforded to *Aster amellus* is: Vulnerable.

Photograph (page 5)

**Cowslip; in the old herbals also called Herb Peter or Key flower, *Primula veris***

Cowslip is a well-known symbol of spring. According to the local folklore, the flower sprouted in the same spot where Saint Peter placed his keys on the ground. This perennial, 25 cm high plant blooms in April and May. It is common in Europe and western Asia. It thrives in wet soil in sunny locations. It can be usually found in dappled shade woodlands, light beech woodlands, and scree forests and their edges. It prefers warmer areas of lowland and lower elevation hills, especially on carbonate rock substrate. Cowslip is relatively common in our country. The plant is protected only partially. It is permitted to harvest the stalk with flowers, but not the root. There are, however, a few sub-species that are listed as vulnerable.

Photograph (page 22)

**Spotted Gentian, *Gentiana punctata***

A typical plant of mountainous regions, the name of this perennial herbaceous plant, 20–60 cm high, combines its two characteristic features, taste and appearance. The flowers open up only in the direct sun, but even then the tips of petals remain turned upwards and appear to be opened only partially. During rainfall the flowers remain closed entirely. It blooms in July. The bitter taste of this plant has been well-known for centuries and has been used to produce a great variety of herbal liquors. In the Czech Republic it is found exclusively in the subalpine elevation of Jeseník Mountains. It is protected at the highest level of protection: Critically Endangered.

# Table of Content

<b>1</b>	<b>The CEO's Statement</b>	<b>6</b>
<b>2</b>	<b>Report of the Company's Supervisory Board for 2008</b>	<b>9</b>
<b>3</b>	<b>Management Report for 2008</b>	<b>12</b>
3.1	Results	12
3.2	The Transmission System	14
3.3	Business and Communication Activities	15
3.4	Human Resources	18
3.5	Environmental Protection	19
3.6	Subsequent Events	20
3.7	Outlook	21
<b>4</b>	<b>Financial Part</b>	<b>23</b>
4.1	Financial Statements	23
4.2	Notes to Financial Statements	28
<b>5</b>	<b>Independent Auditor's Report</b>	<b>46</b>
5.1	Auditor's Report on the Financial Statements	46
5.2	Auditor's report on the Annual Report and on the Report on Relations between Related Parties	48
<b>6</b>	<b>Report of RWE Transgas Net, s.r.o. on Relations between Related Parties as at 31 December 2008</b>	<b>50</b>

## *RWE Transgas Net protects nature*

RWE Transgas Net. Blíž přírodě. [RWE Transgas Net. Nearer to Nature.] is a long-term environmental project that the Company launched in 2007. It is running this project together with Český svaz ochránců přírody [a Czech union for nature conservation], Správa Národního parku Podyjí [The Podyjí National Park Administration] and other non-profit organisations whose activities it supports through its own grant scheme.

As the General Partner of Český svaz ochránců přírody, RWE Transgas Net indirectly contributes to care for protected natural sites in the Czech Republic. The purpose of this co-operation is to open major natural landmarks to the public, thereby stimulating interest, primarily at the regional level, in their protection. Before the end of 2008 RWE Transgas Net contributed to the opening of 23 sites where new nature trails and reinforced bridges had been built and a complete information system renewed. Sites such as Votočnice, Kamenec and Mnichovské Hadce welcome thousands of visitors every year.

RWE Transgas Net's systematic approach is also visible through its support for environmental education and care for regional development. As part of the RWE Transgas Net. Blíž přírodě. project the Company has initiated a nature conservation school in Národní park Podyjí. As the General Partner of the Administration of the park it has contributed to the project documentation on a new centre dedicated to environmental education of children and young people. Using the funds allocated to the grant scheme the Company also contributes to the operation of the Lesná educational and recreational facility in Krušné hory and to the Tereza association for its Ekoškola (environmental school) programme.

RWE Transgas Net wants to draw attention to environmental protection also by means of this Annual Report. This is why you will find photographs of Czech flowers illustrating the pages of this report.



# 1 The CEO's Statement



The year 2008 has confirmed that the gas industry is no longer a realm in which time is passing peacefully. The energy sector is developing very dynamically and all those who want to carry on business in it must flexibly respond to the new market conditions.

The volatility of financial markets influenced the attraction of access to the RWE Transgas Net gas transmission system considerably in 2008. To enhance its competitiveness vis-à-vis the other routes in Central Europe, the Company introduced a number of new services to its customers during the year. Customers showed a great interest in a mix of products that differentiate the transit fees for the various transit routes, and also in the offer of higher flexibility in the diversion of gas transmission to a different route and in short-distance transmission. The Company also stimulated traders' demand by reducing the transit fees.

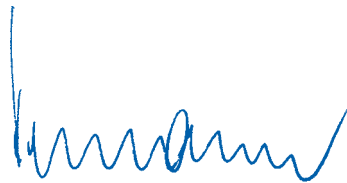
The Company's co-operation with other TSOs was geared towards increasing both customer satisfaction and the efficiency of natural gas transmission between transit countries. The GATRAC project with ONTRAS – VNG Gastransport GmbH continued; it helps to simplify cross-border transmission between the Czech Republic and Germany. Efforts to create an internal European gas market were also supported by an agreement on a further harmonisation of services with TSOs in Austria, Slovakia, Italy, Poland, Romania, Slovenia, Greece and Bulgaria. Broader international coordination of the activities related to the planning of the further development of transmission networks is also expected to increase the security of natural gas supplies to the Czech Republic and Europe.

In this connection, for RWE Transgas Net the priority is the preparations for the construction of the Gazelle gas pipeline. It has been designed to run between the Hora Sv. Kateřiny and Waidhaus border transfer stations, thereby connecting to the German pipeline OPAL and the Baltic pipeline Nord Stream. In the autumn of 2008 the Company received from the Ministry of the Environment an affirmative position as part of environmental impact assessment (EIA) of the project, and started to prepare the documentation for the planning procedure, including all the required permissions.

In addition to development projects and investments, in 2008 RWE Transgas Net focused on optimising its internal structures and processes. With a view to simplifying the management of operating activities and cost control, it prepared the reorganisation of the operation of underground gas storage facilities. The employees who were responsible for their operation, maintenance and development were transferred from RWE Transgas Net to RWE Gas Storage, s.r.o. as of 1 January 2009.

The Company's strategy was also influenced last year by the discussions about the forthcoming amendment to the Energy Act and the need to tackle the issues stemming from the development of EU legislation. Although the proposed measures may also result in a change of some of the fundamental elements of the Company's business, I am nevertheless convinced that nothing will change in RWE Transgas Net's focus on efficiency, customers and innovation. In this respect, a promise for the future lies in both the employees of the Company and its results, which you have just received in this Annual Report.

Prague, on 27 January 2009



**Dr Klaus Homann**

Director, CEO

## ***Directors of the Company as at 31 December 2008***

### ***Dr Klaus Homann***

**Managing Director, CEO**

**Born:** 27 February 1950

**Education:** Ruhr-Universität Bochum and Universität Essen

**Membership of bodies of other companies:** RWE Transportnetz Gas GmbH Director;

Member of the envia Mitteldeutsche Energie AG and Gasline GmbH & Co. KG

Supervisory Boards

**Any other business activities:** None

### ***Jan Nehoda***

**Managing Director**

**Born:** 29 April 1950

**Education:** Brno University of Technology, Faculty of Mechanical Engineering

**Membership of bodies of other companies:** None

**Any other business activities:** None

### ***Thomas Kleefuss***

**Managing Director**

**Born:** 19 December 1963

**Education:** Universität Köln

**Membership of bodies of other companies:** None

**Any other business activities:** None

### ***The Company's Directors – changes in 2008 and at the beginning of 2009:***

As of 28 January 2009, Dr Klaus Homann stepped down as the Company's Director.



## 2 Report of the Company's Supervisory Board for 2008

The Supervisory Board continuously monitored the Company's business activities, its results and the Directors' performance of their powers and responsibilities. At its two meetings held in 2008, the Supervisory Board had a quorum and discussed all matters for which it is responsible under the relevant legal regulations, the Company's Memorandum of Association, and the decisions adopted by the sole member acting in the capacity of the General Meeting, including the documents that the Supervisory Board requested from the Directors as part of its supervisory activity. The Directors commented on these documents when they were discussed by the Supervisory Board.

In performing its supervisory activity the Supervisory Board did not find anything inconsistent with generally applicable legal regulations, the Company's Memorandum of Association, or the decisions of the sole member acting in the capacity of the General Meeting.

On 3 March 2009 the Supervisory Board reviewed the Company's annual financial statements for the period ended on 31 December 2008, and the Directors' proposal for the distribution of profit.

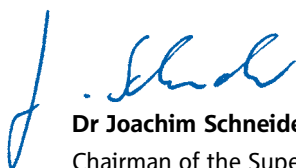
Concurring with the auditor's opinion the Supervisory Board concluded that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2008, its financial performance and its cash flow for the year then ended in accordance with Czech accounting legislation.

The Supervisory Board recommends to the General Meeting to approve the annual financial statements for the period ended on 31 December 2008 and the Directors' proposal for profit distribution.

During the course of 2008 the following changes in the composition of the Supervisory Board were effected. Dr Werner Roos, Chairman of the Supervisory Board, stepped down from the Supervisory Board on 30 June 2008. Effective from 1 July 2008 Dr Joachim Schneider was elected to the Supervisory Board upon a decision adopted by the sole member acting in the capacity of the Company's General Meeting. At its meeting held on 3 September 2008 the Supervisory Board elected Dr Joachim Schneider Chairman of the Supervisory Board of RWE Transgas Net.

The Supervisory Board expresses its gratitude to all employees for their work for the Company in 2008.

Prague, on 3 March 2009



**Dr Joachim Schneider**  
Chairman of the Supervisory Board

## *The Supervisory Board as at 31 December 2008*

### *Dr Joachim Schneider*

**Chairman**

**Born:** 8 March 1964

**Education:** Technische Hochschule Darmstadt and Rheinisch-Westfälische Technische Hochschule Aachen

**Membership of bodies of other companies:** Member of the RWE Energy AG Board of Directors; Chairman of the RWE Gas Storage, s.r.o., RWE Transportnetz Gas GmbH, RWE Transportnetz Strom GmbH Supervisory Boards; Member of the envia Mitteldeutsche Energie AG and SAG Group GmbH Supervisory Boards

**Any other business activities:** None

### *Martin Herrmann*

**Vice-Chairman**

**Born:** 3 July 1967

**Education:** Westfälische-Wilhelms-Universität, Münster, Economics

**Membership of bodies of other companies:** RWE Transgas, a.s. Board of Directors Chairman; Chairman of the Jihomoravská plynárenská, a.s., Severomoravská plynárenská, a.s., Východočeská plynárenská, a.s., Severočeská plynárenská, a.s., Středočeská plynárenská, a.s. and Západočeská plynárenská, a.s. Supervisory Boards; Vice-Chairman of the RWE Gas Storage, s.r.o. and RWE Interní služby, a.s.\* Supervisory Boards; Director of Gasnet, s.r.o. v likvidaci

**Any other business activities:** None

### *Andreas Böwing*

**Member**

**Born:** 11 April 1955

**Education:** Universität Münster, Law

**Membership of bodies of other companies:** Member of the RWE Gas Storage, s.r.o. Supervisory Board

**Any other business activities:** None

**Dirk Simons****Member****Born:** 9 December 1966**Education:** Technische Hochschule Aachen, Economic Sciences**Membership of bodies of other companies:** Vice-Chairman of the RWE Transgas, a.s. Board of Directors; Chairman of the RWE Interní služby, a.s.\* Supervisory Board**Any other business activities:** None**Šárka Vojíková****Member****Born:** 22 September 1967**Education:** Grammar school in Prague, a social law college in Prague**Membership of bodies of other companies:** Member of the RWE Transgas, a.s. and RWE Gas Storage, s.r.o. Supervisory Boards**Any other business activities:** None**Jan Zaplatílek****Member****Born:** 4 July 1963**Education:** Czech Technical University, Faculty of Civil Engineering**Membership of bodies of other companies:** Member of the MERO ČR, a.s. Supervisory Board**Any other business activities:** None

\* As from 1 January 2009 the legal form of this company was changed from a public limited company to a limited liability company

## 3 Management Report for 2008

### 3.1 Results

**Revenues, expenses, and profit.** In 2008 RWE Transgas Net achieved a profit before tax of CZK 5,721 million. Profit after tax amounted to CZK 4,508 million. In 2008 operating result amounted to CZK 5,337 million. The two core business activities, natural gas transit for international customers and inland transmission, contributed to this result. Operating revenues amounted to CZK 10,129 million and operating expenditure was CZK 4,792 million. The financial result ended up in a profit of CZK 384 million.

**Structure of assets.** The Company's total assets were worth CZK 62,446 million in 2008. Fixed assets were worth CZK 51,615 million and accounted for 83% of total assets. Fixed assets mainly included tangible fixed assets worth CZK 51,491 million and intangible fixed assets worth CZK 124 million.

Current and other assets totalled CZK 10,831 million as at 31 December 2008, accounting for 17% of total assets. Short-term receivables accounted for about 99% of current and other assets.

**Structure of shareholders' equity & liabilities.** In 2008 the Company's equity amounted to CZK 52,146 million and accounted for about 84% of the Company's total shareholders' equity and liabilities. In 2008 RWE Transgas Net financed all of its activities using its own resources.

Liabilities totalling CZK 10,299 million were made up of long-term liabilities (in particular deferred tax liability), about 83%, short-term liabilities, about 15%, and provisions, about 2%.

**Risk management.** RWE Transgas Net manages risks in accordance with its internal directives. The Company records each identified risk in a Risk Catalogue. Risks are assessed in terms of the probability of their occurrence and the magnitude of potential damage.

No risks jeopardising the Company's existence were identified in 2008.

The currency risk is one of the most important risks because the Company's income is in foreign currencies. Hedging derivatives help to mitigate this risk.

**Investments.** In 2008 the Company invested CZK 179 million, of which CZK 26 million in intangible assets.

Investments in intangible assets mainly went to projects to improve the reliability of the gas transmission system control. A training simulator for compressor station staff was completed; it simulates various operating and emergency situations. An intelligent system evaluating the risk of small defects on pipelines was also completed.

Investments in tangible assets were channelled to refurbishments of process equipment on pipelines and at compressor stations, innovation of safety elements in operating areas, and development of new interconnections to enhance the gas system's variability. All work was carried out with a view to ensuring safe and reliable supplies of natural gas to contracting partners at all times.

The second part of the system for remote transmission of data from pipeline cathodic protection stations was upgraded. Refurbishment of instruments monitoring gas composition and quality, which influences the accuracy of gas metering, is under way.

On gas pipelines themselves, an interconnecting pipe was erected, which will help to increase the use of the Lobodice underground gas storage facility (hereinafter also "UGS facility") for gas withdrawal for Jihomoravská plynárenská, a.s.

As part of strategic investments, preparations continued for a new gas pipeline between Hora Sv. Kateřiny and Rozvadov and a gas pipeline to connect Dolní Dunajovice and the Břeclav compressor station; and a gas pipeline between the Třanovice UGS facility and Poland is being prepared.

## 3.2 The Transmission System

The RWE Transgas Net transmission system is operated under a licence granted to the Company in accordance with the 30 December 2004 amendment to Act No. 458/2000, the Energy Act. It is composed of the gas transit system and the inland transmission system.

**The transit system.** From the infrastructure point of view, the transit system is comprised of very high-pressure gas pipelines operated under pressures ranging from 6.1 MPa to 8.4 MPa, and with nominal diameters ranging from 800 to 1,400 mm and a total length of almost 2,460 km, including six compressor stations with a total installed capacity of 351 MW. The points of entry into the transit system are border transfer stations at Lanžhot and Hora Sv. Kateřiny in the Czech Republic, and at Olbernhau and Waidhaus in Germany, while the points of exit from the transit system are the border transfer stations at Waidhaus and Hora Sv. Kateřiny.

The RWE Transgas Net transit system has been a reliable part of the European gas transit pipeline network for a long time. The key criteria for the operation and maintenance of the transit system are reliability and safety. Up-to-date methods are employed for diagnosing the condition of the process equipment. As part of PIMS (Pipeline Integrity Management System) an integrated IT system of support for the process of repair of defects on pipelines was prepared for implementation; the RiskExpert module is available for use in Asset Management and the RehabEx module for evaluating in-line inspections of DN 1400 pipelines. The technical condition of the turbine compressors at the compressor stations is assessed by means of diagnostic measurements of their parameters, taken without dismantling the equipment, and the repair method is determined on the basis of such measurements.

In 2008 the following were carried out, among other things: seven (DN 300 to DN 1400) leaking or inoperable closing ball valves were replaced; defects indicated on gas pipes were repaired; and all planned repairs on turbine sets at compressor stations were completed. In-line inspection of DN 1400 gas pipelines was carried out.

All the repairs were carried out on the dates set out in the plan of shutdowns of major process equipment, and in coordination with foreign transmission companies to minimise the implications of these operations for the required natural gas transportation across the Czech Republic.

**Inland transmission system.** The inland transmission system is comprised of high-pressure and very high-pressure gas pipelines operated under nominal pressures ranging from 4.0 MPa to 6.1 MPa, and with nominal diameters ranging from 65 to 700 mm and a total length of almost 1,190 km. The points of entry into the inland transmission system are six transfer stations from the transit system, a transfer station at Mokřý Háj in Slovakia, and transfer stations at underground gas storage facilities. Natural gas is delivered to the respective regional gas companies via 82 inland transfer stations. Smooth and failure-free natural gas transmission and deliveries were ensured throughout the period under review.

Repairs were carried out on the dates set out in the plan of shutdowns in coordination with the regional gas companies without any gas supply interruptions. In 2008 the following were carried out, among other things: one (DN 700) leaking closing ball valve was replaced; defects indicated on gas pipes were repaired; repairs of sleeves and repair of the section of a DN 700 pipeline running under the river Bečva.

Under a contract, RWE Transgas Net operated and maintained six underground gas storage facilities for RWE Gas Storage, s.r.o. at Dolní Dunajovice, Tvrdonice, Štramberk, Lobodice, Třanovice, and Háj. The sufficient withdrawal rate and failure-free operation ensured the required gas deliveries in the winter season.

### 3.3 Business and Communication Activities

**Business activities.** In 2008 RWE Transgas Net charged new fees for natural gas transmission, differentiated by routes, and launched some modern business products. These include “counterflow”, which makes it possible to transport natural gas against the physical flow of gas, and “capacity coupling”, with the help of which transmission capacity on a route can be booked with options to change the direction of transmission.

Another product is “capacity shift”, i.e., a swap of a part or the whole of booked firm transmission capacity on one route for new firm transmission capacity on a different route. “Shorthaul” facilitates natural gas transmission over shorter distances. Another innovation is “wheeling”, which offers an opportunity to deliver gas to the transmission system at a border entry point and simultaneously redeliver it from the transmission system at the same border entry point. To enhance natural gas traders’ comfort, balancing accounts at additional border points were put into operation.

A tendering process for the purchase and sale of flexible gas took place in 2008.

In co-operation with the Energy Regulatory Office, the "2 in 1 model" was prepared, which will further simplify capacity booking for traders. The model will be codified in legislation in 2009 for 2010.

The Company placed emphasis primarily on modern business process management methods conducive to traders' higher comfort and their full flexibility.

**Communication activities.** In 2008 RWE Transgas Net continued to pursue its long-term communication strategy, which is based on its promise to be a reliable natural gas shipper. Priorities of its external communication included support for the Company's business objectives and enhancing its image. In respect of internal communication, the key objective was to increase the employees' motivation and loyalty.

In 2008 RWE Transgas Net launched a broader presentation of its new products and their benefits for customers. In close co-operation with the project team, communication was continuously under way in respect of the preparations for the construction of the Gazelle pipeline. RWE Transgas Net presented the details of the project on its website and in the media. The Company answered the public's questions via a new call centre and during personal meetings with representatives of state administration and local governments. The range of the Company's presentation materials was extended to include new brochures offering information about the Company, the gas transmission system, and the Gazelle pipeline.

Last year the Company continued to implement its long-term sponsorship project, *RWE Transgas Net. Blíž přírodě. [RWE Transgas Net. Nearer to Nature.]*. As the General Partner of Český svaz ochránců přírody [a Czech union for nature conservation] it contributed to the opening of 17 natural landmarks that had not been normally accessible for the public until then. Thanks to the Company's support, new nature trails, compact footpaths and bridges, and a complete information system for visitors of sites such as the Chlum quarry, Biocentrum Mokroš and Vínořský park, were built and developed. In its position of the General Partner, for the second year the Company also supported Národní park Podyjí [The Podyjí National Park] in its management's effort to prepare the construction of a centre dedicated to environmental education of young people.



Part of the *RWE Transgas Net. Blíž přírodě.* project is also a grant scheme to support regional development. Last year the Company broadened the range of areas in which applications for grants can be submitted. In addition to environmental protection, support for young people and education, and integration of the disabled people, RWE Transgas Net has decided to contribute to the development of the infrastructure and employment in places where it operates. Among others, the town of Kouřim and the villages of Dolní Dunajovice and Tvrdonice received financial support from the Company. The Company also paid attention to charitable projects. For example, with the Company's help the Borůvka civic association provided relief service for heavily disabled children and the Halali civic association, based in Ostrava, completed a hospital for disabled children in Osoblažsko.

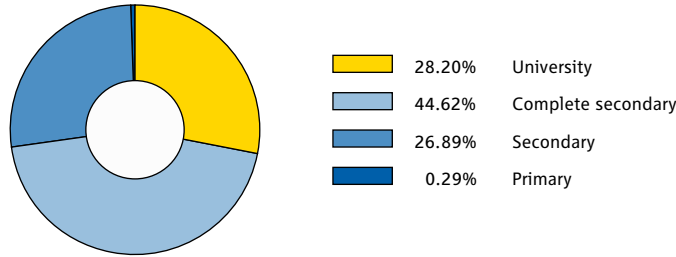
For the first time last year RWE Transgas Net made it possible for its employees to become actively involved in the Company's corporate social responsibility activities; inspired by the model used by its parent RWE Group, it launched the RWE Companius scheme. Its purpose is to support employees' voluntary work where it is most needed in view of the community's interests. This mainly concerns education, art and culture, sport, the environment, and welfare. One of the preconditions for obtaining financial support was the employees' personal involvement in a particular project in their leisure time.

RWE Transgas Net provided regular information about the developments in the Company through a four-page supplement to the company magazine produced by RWE in the Czech Republic; the supplement is called *Team: net.*

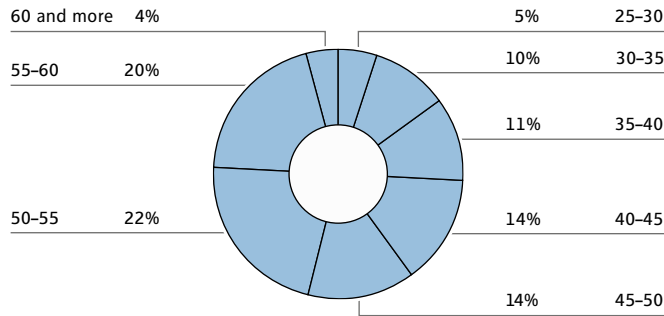
### 3.4 Human Resources

**Information on staffing levels and structure.** During 2008, the Company prepared the transfer of the activities related to underground gas storage facilities from RWE Transgas Net to RWE Gas Storage, s.r.o. The transfer of 180 employees took place with effect as of 1 January 2009.

#### Employee structure by education as at 31 December 2008



#### Employee structure by age as at 31 December 2008



#### Staffing levels as at 31 December 2008

<b>RWE Transgas Net</b>	
Regional operations	481
Prague	207
<b>Total</b>	<b>688</b>
Of whom: Manual	205
Professional	483

**Wages.** In 2008 wages developed in line with the applicable principles of remuneration and the principles agreed in RWE Transgas Net's Collective Agreement.

**Professional training and career development.** In 2008 the Company spent 2.88% of its payroll costs for 2008 (i.e., payroll costs excluding remuneration for the Directors, severance pay, and consideration paid under "agreements to complete a job" or "agreements to perform work") on maintaining and upgrading its employees' qualifications. On the whole, 908 educational events were organised in 2008, which were attended by 4,483 employees. Average annual expenses on education and training amounted to CZK 14,279.

**Social Policy.** The measures adopted by the Company's management focused on maintaining the levels of working and social conditions of employees set out in the Collective Agreement for 2008 and 2009.

### 3.5 Environmental Protection

Environmental protection at RWE Transgas Net is one of the Company's top priorities. It is understood to include both the meeting of legal requirements and, above all, the issue of corporate social responsibility.

In January 2008 the Company's management adopted The Environment Policy.

Environmental protection is reflected in all of the Company's processes and decisions. As part of their responsibilities and competencies, all employees help to create the preconditions for continuous improvement of the environment and adopt measures to prevent risks to eliminate or mitigate them. The Company sets its objectives and target values for environmental protection; these objectives and targets are reviewed and evaluated on a regular basis. The Company's senior management and employees provide information about the results achieved in environmental protection on a regular basis. For the public, the required information is available on the Internet through the integrated pollution register.

The Company continuously enhances the employees' environmental awareness. It helps to educate and train its employees in the area of the applicable legal regulations and RWE Transgas Net's governing documents and also, in particular, the impacts of the Company's business on the environment. With a view to achieving the best possible results, in December 2008 the Company and RWE AG set up an expert commission; the environment manager works actively in the commission as the Company's representative in the field of environmental protection. The Company has pledged to implement, maintain and continuously improve an environmental management system under ISO 14001.

The Company strives to minimise the environmental pollution caused by the operation of its installations, particularly in the following areas: air quality control, greenhouse gas emissions, waste disposal, water management, and disposal of chemical substances and preparations; and maintains its emergency preparedness to prevent serious emergencies. The Company operates compressor stations in accordance with the applicable integrated permissions (IPPC) under Act No. 76/2002, on integrated pollution prevention and control, integrated pollution register and changes to certain laws; meeting these decisions of state administration is a guarantee for the Company's responsible approach to environmental protection.

The new Act No. 25/2008, on the integrated pollution register and system of performing reporting duties and under Regulation (EC) No. 166/2006 of the European Parliament and of the Council concerning the establishment of a European Pollutant Release and Transfer Register, is a major change in respect of the reporting of the required data. The statutory duty in the area of reporting is challenging, but thanks to the employees' responsible approach this task was performed in full.

The relevant authorities did not censure or apply penalising measures to RWE Transgas Net in 2008.

RWE's internal audit has also confirmed that the Company complied with generally binding legal regulations applicable to the Company in respect of environmental protection in 2008.

Work to complete the elimination of old environmental burden continued in 2008. Post-remedial monitoring is continued to check whether or not pollutants are present.

### **3.6 Subsequent Events**

In January 2009 RWE Transgas Net faced the largest shortfall in natural gas supplies from Gazprom export over the time for which the transit gas pipeline has been in operation.

The first major reduction started on 5 January, and on 6 January the volume of transported gas was reduced to the very minimum. During the night from 6 to 7 January gas supplies from Ukraine to Slovakia, and thence to the Czech Republic, were interrupted completely.

Having evaluated all the available sources of natural gas, RWE Transgas Net's specialists immediately started to reconfigure the transit system to enable the maximum take of the gas from Norway and also to adjust the operation of underground gas storage facilities to their full capacity. Reversing the natural gas flow and the gas withdrawn from storage facilities helped to provide trouble-free and full natural gas supplies to domestic customers.

As part of assistance provided to neighbouring Slovakia, RWE Transgas Net subsequently reversed the transit system to enable gas transport in the opposite direction than under normal circumstances, i.e. from the Lanžhot border transfer station to Slovak consumers.

Supplies of Russian natural gas via Ukraine arrived at the Velké Kapušany transfer station in Slovakia on 20 January. On that same day gas began to flow from Lanžhot to the Czech Republic. The transported quantity was increased gradually, and on the following day the RWE Transgas Net gas transmission system was again working as before the crisis.

### 3.7 Outlook

RWE Transgas Net will continue to strive for the harmonisation of access rules with other gas transmission system operators in the region. RWE Transgas Net will engage in negotiations on an extension of the GATRAC platform to include additional transmission system operators.

Together with the yearly and monthly capacity services, a new product will be offered on the GATRAC platform – the daily capacity service. This product comprises daily transmission services ranging from one-day to one-month services. It is only possible to book service for two or more days if these days are in the same calendar year.

The Company's objective is to continue increasing the flexibility of the transmission system so as to be able, in the case of a failure of sources supplying the Czech Republic and/or neighbouring countries, to increase natural gas transmission above the current levels. This will involve, in particular, extension of metering on the border transfer stations in both directions.



## 4 Financial Part

### 4.1 Financial Statements

#### BALANCE SHEET

(in thousand Czech crowns)

Ref.	ASSETS	31.12.2008			31.12.2007
		Gross	Provision	Net	Net
a	b	1	2	3	4
	<b>TOTAL ASSETS</b>	<b>69,360,538</b>	<b>(6,914,929)</b>	<b>62,445,609</b>	<b>64,955,282</b>
<b>B.</b>	<b>Fixed assets</b>	<b>58,530,322</b>	<b>(6,914,929)</b>	<b>51,615,393</b>	<b>53,923,515</b>
<b>B. I.</b>	<b>Intangible fixed assets</b>	<b>269,856</b>	<b>(145,773)</b>	<b>124,083</b>	<b>134,824</b>
B. I. 1.	Research & development	82,150	(42,972)	39,178	49,390
	2. Software	147,841	(100,804)	47,037	64,523
	3. Royalties	4,461	(1,997)	2,464	2,258
	4. Other intangible fixed assets	27,171		27,171	
	5. Intangible fixed assets in the course of construction	8,233		8,233	18,653
<b>B. II.</b>	<b>Tangible fixed assets</b>	<b>58,260,466</b>	<b>(6,769,156)</b>	<b>51,491,310</b>	<b>53,788,691</b>
B. II. 1.	Land	125,618		125,618	126,030
	2. Constructions	52,892,691	(5,253,572)	47,639,119	49,421,527
	3. Equipment	5,120,130	(1,515,584)	3,604,546	4,096,602
	4. Other tangible fixed assets	1,139		1,139	1,139
	5. Tangible fixed assets in the course of construction	120,888		120,888	143,293
	6. Advances paid for tangible fixed assets				100
<b>C.</b>	<b>Current assets</b>	<b>10,821,117</b>		<b>10,821,117</b>	<b>11,025,257</b>
<b>C. I.</b>	<b>Inventories</b>	<b>49,906</b>		<b>49,906</b>	<b>77,620</b>
C. I. 1.	Raw materials	49,906		49,906	77,620
<b>C. III.</b>	<b>Short-term receivables</b>	<b>10,769,868</b>		<b>10,769,868</b>	<b>10,945,557</b>
C. III. 1.	Trade receivables	477,440		477,440	404,956
	2. Receivables – controlling entities/ subsidiaries	9,304,510		9,304,510	9,373,451
	3. Taxes and state subsidies receivable	5		5	
	4. Short-term advances paid	21,805		21,805	21,258
	5. Anticipated assets	846,949		846,949	872,943
	6. Other receivables	119,159		119,159	272,949
<b>C. IV.</b>	<b>Financial assets</b>	<b>1,343</b>		<b>1,343</b>	<b>2,080</b>
C. IV. 1.	Cash in hand	1,220		1,220	1,696
	2. Cash at bank	123		123	384
<b>D.</b>	<b>Other assets</b>	<b>9,099</b>		<b>9,099</b>	<b>6,510</b>
<b>D. I.</b>	<b>Accruals and deferrals</b>	<b>9,099</b>		<b>9,099</b>	<b>6,510</b>
D. I. 1.	Prepaid expenses	289		289	1,088
	2. Accrued revenue	8,810		8,810	5,422

**BALANCE SHEET – continued**

(in thousand Czech crowns)

Ref.	LIABILITIES AND EQUITY	31.12.2008	31.12.2007
a	b	6	7
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>62,445,609</b>	<b>64,955,282</b>
<b>A.</b>	<b>Equity</b>	<b>52,146,191</b>	<b>54,700,929</b>
<b>A. I.</b>	<b>Share capital</b>	<b>46,792,965</b>	<b>46,792,965</b>
A. I. 1.	Share capital	46,792,965	46,792,965
<b>A. II.</b>	<b>Capital contributions</b>	<b>28,732</b>	<b>28,732</b>
A. II. 1.	Other capital contributions	28,732	28,732
<b>A. III.</b>	<b>Reserve fund and other reserves</b>	<b>816,261</b>	<b>445,747</b>
A. III. 1.	Statutory reserve fund	816,261	445,747
<b>A. IV.</b>	<b>Retained earnings</b>		<b>23,221</b>
A. IV. 1.	Retained profits		23,221
<b>A. V.</b>	<b>Profit (loss) for the current period (+/-)</b>	<b>4,508,233</b>	<b>7,410,264</b>
<b>B.</b>	<b>Liabilities</b>	<b>10,299,418</b>	<b>10,254,353</b>
<b>B. I.</b>	<b>Provisions</b>	<b>152,857</b>	<b>219,981</b>
B. I. 1.	Tax-deductible provisions		11,494
2.	Income tax provision	83,547	173,754
3.	Other provisions	69,310	34,733
<b>B. II.</b>	<b>Long-term liabilities</b>	<b>8,575,639</b>	<b>8,848,597</b>
B. II. 1.	Trade payables	4,855	
2.	Other liabilities	200	200
3.	Deferred tax liability	8,570,584	8,848,397
<b>B. III.</b>	<b>Short-term liabilities</b>	<b>1,570,922</b>	<b>1,185,775</b>
B. III. 1.	Trade payables	276,756	248,040
2.	Liabilities to employees	25,578	27,296
3.	Liabilities for social security and health insurance	15,473	17,795
4.	Taxes and state subsidies payable	123,537	80,480
5.	Short-term advances received	848,391	707,597
6.	Anticipated liabilities	60,096	55,063
7.	Other payables	221,091	49,504



## INCOME STATEMENT

(in thousand Czech crowns)

Ref.	DESCRIPTION	Accounting period	
		2008	2007
a	b	1	2
A.	II. Sales of production	9,960,488	10,922,838
	II. 1. Sales of own products and services	9,951,504	10,899,456
	2. Own work capitalised	8,984	23,382
B.	Cost of sales	1,557,975	1,578,342
B.	1. Raw materials and consumables	184,367	161,005
	2. Services	1,373,608	1,417,337
	<b>+ Added value</b>	<b>8,402,513</b>	<b>9,344,496</b>
C.	Staff costs	502,833	587,984
C.	1. Wages and salaries	359,094	455,326
	2. Emoluments of board members	180	180
	3. Social security costs and health insurance costs	120,255	123,081
	4. Other social costs	23,304	9,397
D.	Taxes and charges	31,546	19,709
E.	Depreciation of long-term assets	2,501,986	2,291,291
	III. Sale of long-term assets and raw materials	72,891	7,709
	III. 1. Sale of long-term assets	70,151	6,081
	2. Sale of raw materials	2,740	1,628
F.	Net book value of long-term assets and raw materials sold	80,904	10,559
F.	1. Net book value of long-term assets sold	73,958	9,904
	2. Net book value of raw materials sold	6,946	655
G.	Increase/(decrease) in operating provisions	17,583	(182,524)
	IV. Other operating income	95,667	16,543
H.	Other operating charges	99,252	31,314
	<b>* Operating result</b>	<b>5,336,967</b>	<b>6,610,415</b>
K.	IX. Gain on revaluation of securities and derivatives	866,496	571,752
L.	Loss on revaluation of securities and derivatives	811,484	506,804
	X. Interest income	323,806	216,859
N.	Interest expense	182	
	XI. Other financial income	555,237	110,629
O.	Other financial expense	550,332	247,825
	<b>* Financial result</b>	<b>383,541</b>	<b>144,611</b>
Q.	Tax on profit or loss on ordinary activities	1,212,275	(655,238)
Q.	1. - current	1,490,088	1,826,122
	2. - deferred	(277,813)	(2,481,360)
	<b>** Profit or loss on ordinary activities after taxation</b>	<b>4,508,233</b>	<b>7,410,264</b>
	<b>*** Net profit (loss) for the financial period</b>	<b>4,508,233</b>	<b>7,410,264</b>
	<b>*** Net profit (loss) before taxation</b>	<b>5,720,508</b>	<b>6,755,026</b>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Year ended 31 December 2008**

	Share capital CZK'000	Statutory reserve fund CZK'000	Social fund CZK'000	Retained earnings CZK'000	Other capital funds CZK'000	Total CZK'000
<b>As at 1 January 2007</b>	<b>46,792,965</b>	-	<b>15,909</b>	<b>4,457,436</b>	-	<b>51,266,310</b>
Contribution to reserve fund	-	445,747	-	(445,747)	-	-
Contribution to social fund	-	-	21,609	(21,609)	-	-
Social fund utilization	-	-	(14,297)	-	-	(14,297)
Transfer of social fund	-	-	(23,221)*	23,221*	-	-
Profit distribution paid	-	-	-	(3,990,080)	-	(3,990,080)
Net profit for the current period	-	-	-	7,410,264	-	7,410,264
Contribution of land in fair value	-	-	-	-	28,732	28,732
<b>As at 31 December 2007</b>	<b>46,792,965</b>	<b>445,747</b>	-	<b>7,433,485</b>	<b>28,732</b>	<b>54,700,929</b>
Contribution to reserve fund	-	370,514	-	(370,514)	-	-
Profit distribution paid	-	-	-	(7,062,971)	-	(7,062,971)
Net profit for the current period	-	-	-	4,508,233	-	4,508,233
<b>As at 31 December 2008</b>	<b>46,792,965</b>	<b>816,261</b>	-	<b>4,508,233</b>	<b>28,732</b>	<b>52,146,191</b>

\* Following decision of the Statutory Representatives on 13 December 2007 social fund was transferred into the retained earnings.

## CASH FLOW STATEMENT

### Year ended 31 December 2008

	2008 CZK'000	2007 CZK'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net profit on ordinary activities before tax</b>	<b>5,720,508</b>	<b>6,755,026</b>
A.1 Adjustments for non-cash movements:		
A.1.1 Depreciation of fixed assets	2,501,986	2,291,291
A.1.2 Change in provisions	17,583	(182,524)
A.1.3 Loss from disposal of fixed assets	3,807	3,823
A.1.4 Net interest income	(323,624)	(216,859)
A.1.5 Change in fair value of financial derivatives	326,953	(98,535)
<b>A* Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items</b>	<b>8,247,213</b>	<b>8,552,222</b>
A.2 Working capital changes:		
A.2.1 (Increase)/decrease in receivables and prepayments	2,757,769	(1,762,652)
A.2.2 Increase/(decrease) in short-term payables and accruals	164,148	(492,388)
A.2.3 (Increase)/decrease in inventories	27,714	(4,736)
<b>A** Net cash flow from ordinary activities before tax and extraordinary items</b>	<b>11,196,844</b>	<b>6,292,446</b>
A.3 Interest paid	(182)	-
A.4 Interest received	320,423	213,989
A.5 Income tax on ordinary activities paid	(1,580,294)	(1,693,685)
<b>A*** Net cash flow from ordinary activities</b>	<b>9,936,791</b>	<b>4,812,750</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
B.1 Acquisition of fixed assets	(214,504)	(232,520)
B.2 Proceeds from sale of fixed assets	70,151	6,081
<b>B*** Net cash flow from investing activities</b>	<b>(144,353)</b>	<b>(226,439)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
C.1 Change in long- and short-term liabilities	4,855	-
C.2 Changes in equity:		
C.2.1 Direct payments from reserves	-	(14,297)
C.2.2 Profit distribution paid	(7,062,971)	(3,990,080)
<b>C*** Net cash flow from financing activities</b>	<b>(7,058,116)</b>	<b>(4,004,377)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,734,322</b>	<b>581,934</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>661,531</b>	<b>79,597</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>3,395,853</b>	<b>661,531</b>

## 4.2 Notes to Financial Statements

Year ended 31 December 2008

### 1 General Information

RWE Transgas Net, s.r.o. ("the Company"), was incorporated on 29 June 2005 and has its registered office at Prague 10-Strašnice, V Olšínách 75/2300, Czech Republic. The Company's main business activity is natural gas transportation in accordance with the Act No. 458/2000 Coll., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain decrees. Identification number of the Company is 27260364.

The Statutory Representatives as at 31 December 2008 were as follows:

	Position	Date of appointment
Mr Klaus Homann	Statutory Representative	1 January 2006
Mr Thomas Kleefuss	Statutory Representative	1 January 2006
Mr Jan Nehoda	Statutory Representative	1 January 2006

The members of the Supervisory Board as at 31 December 2008 were as follows:

	Position	Date of appointment
Mr Joachim Schneider	Chairman	3 September 2008 (appointed as a member from 1 July 2008)
Mr Martin Herrmann	Vice-Chairman	16 January 2007 (appointed as a member from 22 December 2006)
Mr Andreas Böwing	Member	22 December 2006
Mr Dirk Simons	Member	18 May 2007
Ms Šárka Vojíková	Member	22 December 2006
Mr Jan Zaplatílek	Member	22 December 2006

During 2008 the following changes in the statutory bodies of the Company were made: Mr Werner Roos resigned from his position of chairman and a member of the Supervisory Board with the effect from 30 June 2008. Following the resolution of the sole shareholder of the Company Mr Joachim Schneider has been elected as a member of the Supervisory Board with the effect from 1 July 2008. Consequently the Supervisory Board have appointed Mr Joachim Schneider as a chairman of the Supervisory Board with the effect from 3 September 2008.

The Company is organized as follows: The general meeting is the supreme body of the Company. Statutory Representatives are the body governing the Company's activities and acting on its behalf. The Supervisory Board is the controlling body of the Company.

Governance of the Company is divided into three departments titled as follows: Capacity & Finance, Asset Management, Operation. These departments are managed by the individual Statutory Representatives.

## 2 Accounting Policies

**a) Basis of preparation.** The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and have been prepared under the historical cost convention except as disclosed below. Derivatives are shown at fair value.

**b) Intangible fixed assets.** All intangible assets with a useful life longer than one year and a unit cost of more than CZK 60,000 are treated as intangible fixed assets.

Purchased intangible fixed assets are recorded at cost, which includes all costs incurred in bringing the assets to their present location and condition. All research costs are expensed. Development costs are capitalised as intangible fixed assets and recorded at the lower of cost and the value of future economic benefits. All other development costs are expensed as incurred.

Intangible fixed assets are amortised applying the straight-line basis over their estimated useful lives as follows: (unless the agreement or licence conditions state shorter or longer period):

Software	3 years
Other intangible fixed assets	6 years

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

Subsequent expenditure on intangible fixed assets in amount over CZK 40,000 per year is capitalised.

Emission rights are accounted for as "Other intangible fixed assets". Emission rights allocated through the National Allocation Plan to the Company free of charge are accounted for as "Other intangible fixed assets" with double entry to the liability account "Taxes and state subsidies payable" upon their being credited to the Czech Register of emission rights. The allocated emission rights are recorded at a replacement cost.

The emission rights liability is released to "Other operating income" to match it with relevant expenses.

Consumption of emission rights is recorded to "Other operating expenses" as at the balance sheet date on the basis of estimate of actual CO<sub>2</sub> emissions in the period. The Company applies first-in-first-out method for the disposals of the emission rights. Sale of emission rights is recorded as other operational revenue and is based on sales price. In case of shortage of emission rights at the year end a provision is established for expected consumption in the following year.

A provision is established when the book value of emission rights exceeds their estimated recoverable amount.

**c) Tangible fixed assets.** All tangible assets with a useful life longer than one year and a unit cost of more than CZK 10,000 are treated as tangible fixed assets.

Acquired tangible fixed assets are recorded at cost, which include all costs incurred in bringing the assets to their present location and condition.

Tangible fixed assets are depreciated applying the straight-line basis over their estimated useful lives as follows:

Buildings and constructions	45–70 years
Plant, machinery and equipment	4–40 years
Furniture and fittings	4–8 years
Motor vehicles	5–8 years

Tangible assets, with a useful life longer than one year and a unit cost higher than CZK 10,000, but lower than CZK 40,000 are depreciated using the straight-line method over their estimated useful life.

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred. Subsequent expenditure relating to tangible fixed assets exceeding CZK 40,000 per year is capitalised.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

**d) Inventories.** Raw materials are mainly spare parts for the gas pipeline network. Inventories are stated at the lower of cost and net realizable amount. The cost includes the appropriate overheads incurred to bring the inventory to its present condition and location (mainly transport, customs duty, etc.). The weighted average cost method is applied for all disposals.

**e) Receivables.** Receivables are stated at nominal value less a provision for doubtful amounts. A provision for bad debts is created on the basis of an ageing analysis and individual evaluation of the recoverability of the receivables. Receivables from related parties have not been provided for.

**f) Cash and cash equivalents.** The Company has prepared a Cash-Flow statement following the indirect method. Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid commercial paper traded in public markets.

The Company uses so-called cash-pooling within the group. A receivable (liability) that arises from cash-pooling and meets the cash and cash equivalents criteria is presented in the Cash Flow statement as a part of the item Cash and Cash equivalents if it is due within three months after the balance sheet date.

**g) Foreign currency translation.** Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Company for the month as at the first day of the period.

Cash, receivables and liabilities balance denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet day. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

**h) Derivative financial instruments.** Derivative financial instruments including foreign exchange contracts are initially recognised on the balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models as appropriate. All derivatives are presented in other receivables or in other payables when their fair value is positive or negative, respectively.

Changes in the fair value of derivatives held for trading are included in the financial result.

**i) Expense and revenue recognition.** The Company recognizes as revenue all income from fees collected for the transit and domestic gas transportation across the Czech Republic. Cost of sales includes mainly the cost of gas transportation. Sales are stated net of discounts and Value Added Tax.

**j) Provisions.** Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are created in the amount of the expected outflow in current terms and their amounts are reviewed and updated on a regular basis. The Company also recognizes tax deductible provisions relating to significant future repairs of fixed assets defined by the Act on Reserves.

The Company recognises an unpaid obligation relating to income tax in the balance of provisions. If advances paid for the income tax are higher than the estimated income tax payable as at the balance sheet date the difference is recognised as a short-term receivable.

**k) Employment benefits.** The Company provides contribution for pension and life insurance to its employees, which is recognized as an expense. Further regular contributions are made to the state to fund the national pension plan. Pension and life insurance contribution is recognised as an expense.

**l) Deferred taxation.** Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.



**m) Related parties.** The Company's related parties are considered to be the following:

- shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and other subsidiaries and associates of these shareholders; and/or
- members of the Company's or parent company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions and outstanding balances with related parties are disclosed in Notes 12 and 13.

**n) Subsequent events.** The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

### 3 Intangible Fixed Assets

#### Cost

	1 January 2008 CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2008 CZK'000
Research & development	76,353	-	7,999	(2,202)	82,150
Software	122,253	-	27,389	(1,801)	147,841
Royalties	3,549	-	1,129	(217)	4,461
Intangible assets in the course of construction	18,653	26,097	(36,517)	-	8,233
Emission rights	-	151,094	-	(123,923)	27,171
<b>Total</b>	<b>220,808</b>	<b>177,191</b>	<b>-</b>	<b>(128,143)</b>	<b>269,856</b>

The Company purchased 4,788 emission rights in April 2008 to cover consumption in 2007. During 2008 the Company sold 94,371 emission rights (type: EUA) and purchased the same amount of another emission rights (type: CER). The Company did not purchase any emission rights in 2007.

## Accumulated amortisation and net book value

	1 January 2008 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2008 CZK'000
Research & development	(26,963)	(17,956)	1,947	(42,972)
Software	(57,730)	(44,771)	1,697	(100,804)
Royalties	(1,291)	(911)	205	(1,997)
<b>Total</b>	<b>(85,984)</b>	<b>(63,638)</b>	<b>3,849</b>	<b>(145,773)</b>
<b>Net book value</b>	<b>134,824</b>			<b>124,083</b>

## Cost

	1 January 2007 CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Research & development	54,028	-	22,325	-	76,353
Software	90,916	-	31,517	(180)	122,253
Royalties	2,150	-	1,399	-	3,549
Intangible assets in the course of construction	11,728	62,166	(55,241)	-	18,653
Emission rights	-	9,898	-	(9,898)	-
<b>Total</b>	<b>158,822</b>	<b>72,064</b>	<b>-</b>	<b>(10,078)</b>	<b>220,808</b>

## Accumulated amortisation and net book value

	1 January 2007 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Research & development	(12,437)	(14,526)	-	(26,963)
Software	(23,350)	(34,560)	180	(57,730)
Royalties	(536)	(755)	-	(1,291)
<b>Total</b>	<b>(36,323)</b>	<b>(49,841)</b>	<b>180</b>	<b>(85,984)</b>
<b>Net book value</b>	<b>122,499</b>			<b>134,824</b>

## 4 Tangible Fixed Assets

### Cost

	1 January 2008 CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2008 CZK'000
Land	126,030	-	2,487	(2,899)	125,618
Constructions	52,875,773	-	33,935	(17,017)	52,892,691
Equipment	4,987,815	-	139,081	(6,766)	5,120,130
Other tangible fixed assets	1,139	-	-	-	1,139
Tangible assets in the course of construction	143,293	153,098	(175,503)	-	120,888
Advances paid for fixed assets	100	398	(498)	-	-
<b>Total</b>	<b>58,134,150</b>	<b>153,496</b>	<b>(498)</b>	<b>(26,682)</b>	<b>58,260,466</b>

### Accumulated depreciation, impairment and net book value

	1 January 2008 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2008 CZK'000
Constructions	(3,434,246)	(1,807,284)	2,458	(5,239,072)
Equipment	(891,213)	(631,064)	6,693	(1,515,584)
Impairment of constructions	(20,000)	(2,600)	8,100	(14,500)
<b>Total</b>	<b>(4,345,459)</b>	<b>(2,440,948)</b>	<b>17,251</b>	<b>(6,769,156)</b>
<b>Net book value</b>	<b>53,788,691</b>			<b>51,491,310</b>

Increased depreciation charge in 2008 in amount of CZK 187,230,000 is a result of the management decision to adjust useful life of selected assets to reflect their expected utilization in the future.

### Cost

	1 January 2007 CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Land	99,480	-	26,763	(213)	126,030
Constructions	52,839,233	-	36,754	(214)	52,875,773
Equipment	4,927,200	-	73,508	(12,893)	4,987,815
Other tangible fixed assets	1,135	-	4	-	1,139
Tangible assets in the course of construction	46,048	234,274	(137,029)	-	143,293
Advances paid for fixed assets	100	116	(116)	-	100
<b>Total</b>	<b>57,913,196</b>	<b>234,390</b>	<b>(116)</b>	<b>(13,320)</b>	<b>58,134,150</b>

**Accumulated depreciation, impairment and net book value**

	1 January 2007 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Constructions	(1,705,952)	(1,728,508)	214	(3,434,246)
Equipment	(385,579)	(518,527)	12,893	(891,213)
Impairment of constructions	(18,900)	(1,100)	-	(20,000)
<b>Total</b>	<b>(2,110,431)</b>	<b>(2,248,135)</b>	<b>13,107</b>	<b>(4,345,459)</b>
<b>Net book value</b>	<b>55,802,765</b>			<b>53,788,691</b>

**5 Receivables**

		31 December 2008 CZK'000	31 December 2007 CZK'000
Trade receivables	- current	477,410	404,866
	- overdue	30	90
		477,440	404,956
Other receivables	- current	9,445,479	9,667,658
Anticipated assets		846,949	872,943
<b>Net book value of short-term receivables</b>		<b>10,769,868</b>	<b>10,945,557</b>

Trade receivables as at 31 December 2008 have not been secured and none of them are due after 5 or more years.

Other receivables as at 31 December 2008 include mainly cash-pooling receivables to RWE Transgas, a.s. (see Note 13 Related party transactions) in the amount of CZK 9,304,510,000 from which (CZK 5,910,000,000 due after 3 months), receivables from derivatives in the amount of CZK 119,148,000 and other receivables in the amount of CZK 21,821,000.

Provision for doubtful receivables was nil as at 31 December 2008 and 2007.

**6 Equity**

The Company is fully owned by RWE Transgas, a.s., incorporated in the Czech Republic, and the ultimate holding company is RWE Aktiengesellschaft, incorporated in Germany.

The statutory reserve fund is created from the profit of the Company according to law and may not be distributed to shareholders, but may be used to offset losses.

The net profit after taxation of CZK 7,410,264,000 for 2007 was approved and distributed based on the resolution of the sole shareholder on 9 April 2008.

## 7 Provisions

	Tax-deductible provisions CZK'000	Other provisions CZK'000	Income tax provision CZK'000	Total CZK'000
<b>Opening balance as at 1 January 2007</b>	<b>45,721</b>	<b>184,130</b>	<b>41,317</b>	<b>271,168</b>
Charge for the year	-	31,193	173,754	204,947
Released in the year	-	(39,061)	-	(39,061)
Used in the year	(34,227)	(141,529)	(41,317)	(217,073)
<b>Closing balance as at 31 December 2007</b>	<b>11,494</b>	<b>34,733</b>	<b>173,754</b>	<b>219,981</b>
Charge for the year	-	65,624	83,547	149,171
Used in the year	(11,494)	(31,047)	(173,754)	(216,295)
<b>Closing balance as at 31 December 2008</b>	<b>-</b>	<b>69,310</b>	<b>83,547</b>	<b>152,857</b>

As at 31 December 2008 the income tax provision in the amount of CZK 1,489,046,000 (2007: CZK 1,817,483,000) was decreased by tax advance payments in the amount of CZK 1,405,499,000 (2007: CZK 1,643,729,000) and classified as Provisions – Income tax provision.

For the analysis of the current and deferred income tax, see Note 10 Taxation.

The Company has created tax-deductible provision to cover the cost of regular inspections of the gas pipeline network as well as repairs of tangible fixed assets in the amount of CZK 11,494,000 (2007: CZK 34,227,000).

Other provisions contain provision for restructuring, employment benefits and share option bonus plan.

## 8 Liabilities

		31 December 2008 CZK'000	31 December 2007 CZK'000
Trade payables	- current	276,756	248,040
Other payables	- current	1,234,070	882,672
Anticipated liabilities		60,096	55,063
<b>Total short-term liabilities</b>		<b>1,570,922</b>	<b>1,185,775</b>
Trade payables		4,855	-
Other long-term payables		200	200
Deferred tax liability*		8,570,584	8,848,397
<b>Total long-term liabilities</b>		<b>8,575,639</b>	<b>8,848,597</b>
<b>Total short-term and long-term liabilities</b>		<b>10,146,561</b>	<b>10,034,372</b>

\* See Note 10 Taxation

Other payables as at 31 December 2008 include mainly prepayments received from RWE Gas Storage, s.r.o. in the amount of CZK 613,947,000 for operation and maintenance of underground gas storages, prepayments received from RWE Transgas, a.s. in the amount of CZK 102,769,000 for gas transit, other prepayments in the amount of CZK 131,675,000, payables from financial derivatives in amount CZK 198,172,000 and other payables in the amount of CZK 187,507,000.

The Company had no overdue liabilities as at 31 December 2008 and 2007.

The Company does not have any overdue payables related to social or health insurance or any other overdue payables to tax authorities or other state institutions.

Trade and other payables have not been secured over any assets of the Company and none of them are due after more than 5 or more years.

## 9 Derivative Financial Instruments

The fair value of derivatives is presented in "Other receivables" if positive, or in "Other payables" if negative.

Forward instruments:

	31 December 2008			31 December 2007		
	Fair value		Notional amount CZK'000	Fair value		Notional amount CZK'000
	Positive CZK'000	Negative CZK'000		Positive CZK'000	Negative CZK'000	
Currency forwards	119,148	(198,172)	6,836,090	272,921	(7,917)	10,170,493

Notional amount represents net presentation of total volume of concluded forward transactions.

Change in a fair value of forward instruments and related gains and losses from financial transactions:

	2008 CZK'000	2007 CZK'000
Changes in fair value of derivative instruments	55,012	64,948
Gains from forward instruments	443,278	81,277
Losses from forward instruments	(445,974)	(154,383)
<b>Total</b>	<b>52,316</b>	<b>(8,158)</b>

Gains and losses are shown in "Other financial income" and "Other financial expense".

Certain derivative transactions, although providing effective economic hedges under the Company's risk management strategies, do not qualify for the hedge accounting under Czech accounting rules. Therefore they are shown above as trading derivatives. Change in the fair value of trading derivatives is recorded in the income statement within the category "financial result".

## 10 Taxation

The income tax expense consists of the following:

	2008 CZK'000	2007 CZK'000
Current tax expense	1,489,046	1,817,483
Deferred tax expense	(277,813)	(2,481,360)
Adjustment of prior year income tax expense based on the actual tax return	1,042	8,639
<b>Total</b>	<b>1,212,275</b>	<b>(655,238)</b>

Current tax can be analysed as follows:

	2008 CZK'000	2007 CZK'000
Net profit before taxation	5,720,508	6,755,026
Non-taxable revenues	(37,323)	(181,607)
Difference between accounting and tax depreciation	1,299,375	938,047
Non-deductible costs	113,685	64,399
Gifts	(5,180)	(2,545)
<b>Net taxable profit</b>	<b>7,091,065</b>	<b>7,573,320</b>
Income tax rate	21%	24%
Corporate taxation	1,489,124	1,817,597
Tax discount	(78)	(114)
<b>Tax to be paid</b>	<b>1,489,046</b>	<b>1,817,483</b>

The deferred tax as at 31 December 2008 is calculated at 20% (the rate enacted for 2009) and 19% (the rate enacted for 2010) depending on the period when temporary difference is expected to crystallise. Deferred tax as at 31 December 2007 was calculated at 21% (the rate enacted for 2008), 20% (the rate enacted for 2009) and 19% (the rate enacted for 2010).

Deferred tax asset/(liability) can be analysed as follows:

	31 December 2008 CZK'000	31 December 2007 CZK'000
Deferred tax liability:		
Difference between carrying value accounting and tax base of fixed assets	(8,583,969)	(8,855,377)
Deferred tax asset:		
Other provisions	13,385	6,980
<b>Net deferred tax liability</b>	<b>(8,570,584)</b>	<b>(8,848,397)</b>

## 11 Revenue Analysis

Sales of own products and services have been generated as follows:

	2008 CZK'000	2007 CZK'000
Transportation		
- transit	6,862,271	7,962,105
- foreign		
- transport	2,424,256	2,247,245
- domestic		
Other	664,977	690,106
<b>Total</b>	<b>9,951,504</b>	<b>10,899,456</b>

Other revenues include mainly operation and maintenance of underground gas storages.

## 12 Employee Analysis

Employee numbers	2008	2007
Members of Statutory bodies who are employees	1	1
Average number of other members of management	6	7
Average number of other staff	681	709
<b>Total</b>	<b>688</b>	<b>717</b>

No employee of the Company was a member of the Supervisory Board in 2008 and 2007.



The Company's management includes Statutory Representative, other directors and senior staff members directly reporting to them.

	Management CZK'000	Other staff CZK'000	Total CZK'000
<b>2008</b>			
Wages and salaries	34,958	324,136	359,094
Bonuses to the members of statutory bodies	180	-	180
Social security costs	2,975	117,280	120,255
Other social costs	215	23,089	23,304
<b>Total</b>	<b>38,328</b>	<b>464,505</b>	<b>502,833</b>
<b>2007</b>			
Wages and salaries	20,216	435,110	455,326
Bonuses to the members of statutory bodies	180	-	180
Social security costs	7,076	110,563	117,639
Other social costs	119	14,720	14,839
<b>Total</b>	<b>27,591</b>	<b>560,393</b>	<b>587,984</b>

Other transactions with the Company's management and Statutory Representatives are described in Note 13 Related party transactions.

### 13 Related Party Transactions

Profit/loss transfer agreement was concluded with RWE Transgas, a.s. on 29 June 2006. Based on this agreement the Company is committed to transfer its annual profit after contribution to statutory reserve fund to its shareholder. The shareholder is required to settle a loss of the Company that could not be settled from the statutory reserve fund or other Company's available funds.

RWE Plynoprojekt, a.s. and RWE Interní služby, a.s. have changed their legal forms from joint-stock company to limited liability company with the effect from 1 January 2009.

The Company was involved in the following related party transactions:

	2008 CZK'000	2007 CZK'000
<b>Purchases:</b>		
RWE Transgas, a.s. (services)	626,997	659,214
RWE Interní služby, a.s. (services)	258,172	175,925
RWE Aktiengesellschaft (financial instruments)	1,257,458	661,187
RWE Plynoprojekt, a.s. (services, fixed assets)	59,653	23,503
Other RWE Group companies	14,200	8,794
<b>Total purchases</b>	<b>2,216,480</b>	<b>1,528,623</b>

	2008 CZK'000	2007 CZK'000
<b>Sales:</b>		
Transportation (transit and domestic transport):		
RWE Transgas, a.s.	7,551,172	8,955,160
Regional distribution operators of the RWE Group	1,109,251	1,029,546
<b>Total sales</b>	<b>8,660,423</b>	<b>9,984,706</b>

	2008 CZK'000	2007 CZK'000
<b>Other sales:</b>		
RWE Transgas, a.s. (services, interests)	330,749	387,661
RWE Energy Aktiengesellschaft (services)	59,057	508
RWE Aktiengesellschaft (financial instruments)	1,309,774	653,029
RWE Gas Storage, s.r.o. (services)	623,426	477,332
Other RWE Group companies	12,122	13,107
<b>Total other sales</b>	<b>2,335,128</b>	<b>1,531,637</b>

All transactions were realized on arm's length basis.

The following related party balances were outstanding as at:

	31 December 2008 CZK'000	31 December 2007 CZK'000
<b>Trade receivables:</b>		
RWE Transgas, a.s.	466,283	393,611
Other RWE Group companies	2,175	1,793
<b>Total trade receivables</b>	<b>468,458</b>	<b>395,404</b>
<b>Advances paid</b>		
RWE Interní služby, a.s.	-	13,721
RWE Plynoprojekt, a.s.	15,600	-
Other RWE Group companies	572	442
<b>Total advances paid</b>	<b>16,172</b>	<b>14,163</b>
<b>Anticipated assets</b>		
RWE Transgas, a.s.	111,578	299,543
RWE Gas Storage, s.r.o.	615,285	475,180
Other RWE Group companies	92,721	92,800
<b>Total anticipated assets</b>	<b>819,584</b>	<b>867,523</b>
<b>Other receivables (from derivatives):</b>		
RWE Aktiengesellschaft	119,148	272,921
Cash-pooling receivables:		
RWE Transgas, a.s.	9,304,510	9,373,451
<b>Total receivables</b>	<b>10,729,003</b>	<b>10,923,462</b>

## Contents

	31 December 2008 CZK'000	31 December 2007 CZK'000
<b>Trade payables:</b>		
RWE Transgas, a.s.	119,347	56,212
RWE Interní služby, a.s.	22,238	19,253
Other RWE Group companies	6,838	10,694
<b>Total trade payables</b>	<b>148,423</b>	<b>86,159</b>
<b>Advances received</b>		
RWE Transgas, a.s.	102,769	109,992
RWE Gas Storage, s.r.o.	613,947	498,470
Other RWE Group companies	92,267	92,752
<b>Total advances received</b>	<b>808,983</b>	<b>701,214</b>
<b>Anticipated payables</b>		
RWE Transgas, a.s.	21,544	7,000
RWE Interní služby, a.s.	5,232	14,020
Other RWE Group companies	948	236
<b>Total Anticipated payables</b>	<b>27,724</b>	<b>21,256</b>
<b>Other payables (from derivatives):</b>		
<b>RWE Aktiengesellschaft</b>	<b>198,172</b>	<b>7,918</b>
<b>Total payables</b>	<b>1,183,302</b>	<b>816,547</b>

Cash-pooling receivables and payables bear interest at market interest rates. Trade receivables and payables arose under the same terms and conditions as with unrelated parties.

Company cars are made available for use by board members and other management in total acquisition costs of CZK 13,395,000 (2007: CZK 12,015,000).

The Company provides foreign members of management with accommodation, in 2008 rent totalled CZK 1,689,000 (2007: CZK 1,769,000).

Share option bonus plan has been provided to the management, in 2008 provision for this plan was created in the amount of CZK 9,210,000 (2007: CZK 7,033,000).

Besides the above disclosed remuneration and benefits, there was no other cash or non-cash consideration provided in 2008 and 2007 to the Company shareholder, members of the Company's boards and management.

## ***14 Fees Paid and Payable to the Company's Auditor***

The information relating to the fees paid and payable for services performed by the audit company PricewaterhouseCoopers Audit, s.r.o. is included in the annual report of the ultimate parent company RWE Aktiengesellschaft of the consolidation unit.

## ***15 Commitments***

Capital commitments contracted by the Company as at 31 December 2008 were at total amount of CZK 16,419,000 (31 December 2007: CZK 4,584,000).

## ***16 Contingent Liabilities***

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2008.

## ***17 Ongoing Volatility on the Global and Czech Financial Markets***

The ongoing global financial crisis which commenced during 2008 has resulted in, among others, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and high volatility on financial markets.

Fair value of financial assets and liabilities:

The fair values of derivative financial instruments are established by the Company using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The valuation techniques reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date.

Management have evaluated all available information and currently does not expect any significant impact of the economic recession on the Company's operation, in particular the Company's liquidity and funding. Management believes that all necessary steps are taken to support the sustainability of the Company's business under the current circumstances.

## 18 Cash Flow Statement

Cash and cash equivalents disclosed in the cash flow statement can be analysed as follows:

	31 December 2008 CZK'000	31 December 2007 CZK'000
Cash on hand and in transit	1,220	1,696
Cash in bank	123	384
Receivable arising from cash-pooling	3,394,510	659,451
<b>Cash and cash equivalents</b>	<b>3,395,853</b>	<b>661,531</b>

## 19 Subsequent Events

Mr Klaus Homann resigned from his position of the Statutory Representative as at 28 January 2009. No further events have occurred subsequent to the year-end that would have a material impact on the financial statements as at 31 December 2008.

11 February 2009



**Thomas Kleefuss**  
Statutory Representative



**Jan Nehoda**  
Statutory Representative

### Translation note

This version of the accompanying documents is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

# 5 Independent Auditor's Report

## 5.1 Auditor's Report on the Financial Statements



**PricewaterhouseCoopers Audit, s.r.o.**  
 Kateřinská 40/466  
 120 00 Prague 2  
 Czech Republic  
 Telephone +420 251 151 111  
 Fax +420 251 156 111

### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF RWE TRANSGAS NET, S.R.O.

We have audited the accompanying financial statements of RWE Transgas Net, s.r.o. ("the Company"), which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

### Statutory Directors' Responsibility for the Financial Statements

The Statutory Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

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**Shareholder of RWE Transgas Net, s.r.o.**

**Independent auditor's report**

**Auditor's Responsibility (continued)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

11 February 2009

*PricewaterhouseCoopers Audit, s.r.o.*

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Petr Šobotník

Auditor, Licence No. 113

**Translation note**

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## 5.2 Auditor's Report on the Annual Report and on the Report on Relations between Related Parties



PricewaterhouseCoopers Audit, s.r.o.  
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Czech Republic  
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Fax +420 251 156 111

### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF RWE TRANSGAS NET, S.R.O.

We have audited financial statements of RWE Transgas Net, s.r.o. ("the Company") for the year ended 31 December 2008 disclosed in the annual report on pages 23–45 and issued the opinion dated 11 February 2009 and disclosed on page 46.

#### Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2008 is consistent with the financial statements referred to above. The Statutory Directors are responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

#### Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

#### Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2008 is consistent, in all material respects, with the financial statements referred to above.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

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## Shareholder of RWE Transgas Net, s.r.o.

### Independent auditor's report

#### Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2008 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

#### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

10 March 2009

*PricewaterhouseCoopers Audit, s.r.o.*

PricewaterhouseCoopers Audit, s.r.o.  
represented by partner

Petr Šobotník  
Auditor, Licence No. 113

#### Translation note

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## **6 Report of RWE Transgas Net, s.r.o. on Relations between Related Parties as at 31 December 2008**

Since RWE Transgas Net, s.r.o. (hereinafter “the Company”) as a controlled person did not enter into any controlling agreement effective in 2008, the Company has, under Section 66a, subsection 9 of Act No. 513/1991, the Commercial Code, as amended, drawn up this Report on Relations between the Company and Controlling Persons and between the Company and Other Persons Controlled by the Same Controlling Persons (hereinafter “Related Parties”) for 2008, to the extent these Related Parties are known to the Company. This Report is an integral part of the Company’s Annual Report for 2008 and the Company’s members will have this Report available by the same time and under the same conditions as the annual financial statements.

### **1 Controlling persons**

Throughout the past accounting period the Company was controlled by the following persons:

#### a) Directly

- RWE Transgas, a.s., registered office at Limuzská 12/3135, Prague 10, 100 98, Company No. 26460815, which was the sole member of the Company and which was directly controlled by its shareholder, RWE Gas International B.V.

#### b) Indirectly

- RWE Gas International B.V., registered office at Diamantlaan 15, 2132 WV Hoofddorp, the Netherlands, which was the sole shareholder of RWE Transgas, a.s.;
- RWE Energy Aktiengesellschaft (hereinafter “RWE Energy AG”), registered office at Rheinlanddamm 24, 44139 Dortmund, Germany, which was the sole member of RWE Gas International B.V.; and
- RWE Aktiengesellschaft (hereinafter “RWE AG”), registered office at Opernplatz 1, 45128 Essen, Germany, which was the sole shareholder of RWE Energy AG.

## ***2 Other Related Parties***

The Company requested the above controlling persons to provide a list of the other persons that were controlled by the same controlling persons in the past accounting period. The Company has drawn up this Report on the basis of the information provided by the controlling persons and other information available to it. The scheme of the relations between and control of companies along the relevant line within the RWE Group as at 31 December 2008 can be found on the last page of this report.

## ***3 Agreements entered into by the Company and Related Parties, and performance provided and accepted***

In the last accounting period, the Company and Related Parties entered into agreements listed in Appendix 1. The Company has not suffered any damage by performing under these agreements, including those entered into in the preceding accounting periods. For this reason, there was no need to secure any compensation for damage or enter into any agreements thereon. The values of the deliverables and the respective payments between the Related Parties in the last accounting period are specified in Note 13 of the Notes to Financial Statements as at 31 December 2008.

## ***4 Other legal acts made in the interest of Related Parties***

On the basis of a decision adopted by RWE Transgas, a.s. as the sole member of the Company and RWE Gas Storage, s.r.o., the operation and maintenance of underground gas storage facilities will be transferred from the Company to RWE Gas Storage, s.r.o. as of 1 January 2009.

## ***5 Measures adopted in the interest or upon suggestion of Related Parties***

The Company did not adopt or carry out any measures in the interest or upon suggestion of Related Parties in the past accounting period.

## 6 *Non-existence of damage*

In the past accounting period the Company did not suffer any damage caused by agreements in place with Related Parties, or other legal acts made in the interest of Related Parties or measures carried out in the interest or upon suggestion of Related Parties, which had been executed or adopted before the past accounting period.

## 7 *Confidentiality*

This Report does not disclose any information that is subject to the Company's trade secret.

## 8 *Conclusion*

This Report was approved by the Directors of the Company on 11 February 2009 and it has been presented for review to the Company's auditor, who reviews the financial statements under a separate law.

Prague, on 11 February 2009



**Thomas Kleefuss**  
Director



**Jan Nehoda**  
Director

## Appendix 1

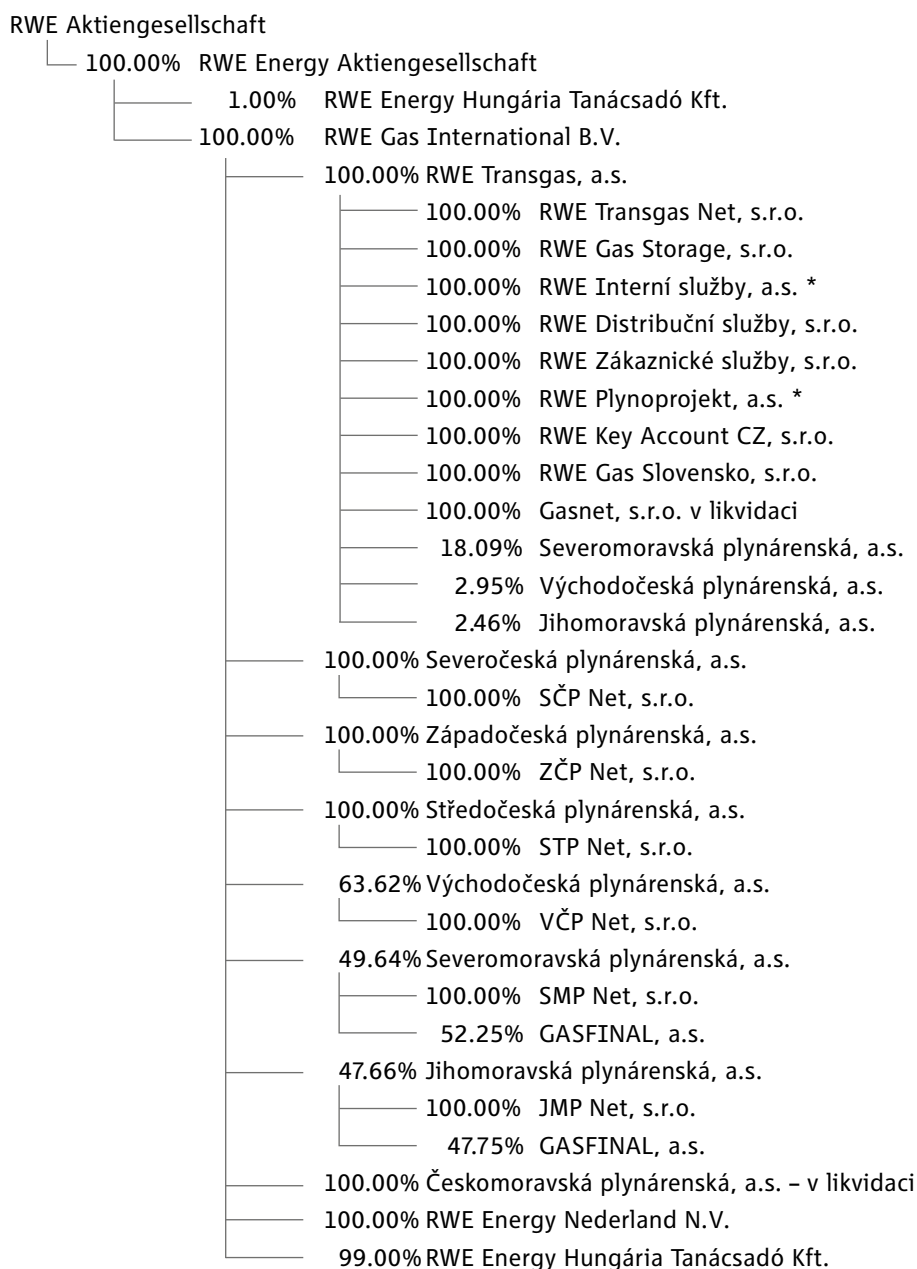
### Agreements entered into by and between the Company and Related Parties in the last accounting period

Contracting party	Type of agreement/Purpose of agreement	Number of agreements
Jihomoravská plynárenská, a.s.	Agreement on the provision of ArGUS consulting services	1
	Natural gas supply agreement	1
Jihomoravská plynárenská, a.s. Severomoravská plynárenská, a.s.	Agreement on the transfer of responsibility for imbalance	1
Jihomoravská plynárenská, a.s.	Gas transmission agreement	5
	Purchase order	4
JMP Net, s.r.o.	Agreement on the provision of the Compliance Officer service - power of attorney	1
	Electricity supply - Bezměrov delivery regulating station	1
	Purchase order	1
RWE Distribuční služby, s.r.o.	Agreement on the provision of ArGUS consulting services	1
RWE Gas Storage, s.r.o.	Natural gas sale and purchase contract	1
	Agreement on investment engineering services	1
	Agreement on the operation and maintenance of the storage system	1
	Agreement on servicing and engineering activities at UGS facilities	1
RWE Interní služby, a.s.	Purchase order	40
	Purchase agreement	2
	Mobile telephone lease	1
	Addendum 2 to an agreement on the provision of electronic communications services	1
	Agreement on the provision of electronic communications services	1
	Commercial space lease agreement	2
	Agreement on the provision of centralised payroll processing services	2
	Agreement on the provision of mobile telephone lease, logistics and clearing services	3
	Agreement on the provision of IT services	2
	Agreement on the provision of transport services	2
	Agreement on the provision of procurement and logistics services	2
	Agreement on the provision of real estate administration services	2
	Agreement on the provision of facility management services	3
	Agreement on the provision of translation and interpreting services	1
	Contract for work	1
Agreement on the provision of user support services	1	
RWE Plynoprojekt, a.s.	Contract for work	5
	Addendum 4 to a mandate agreement	1
	A study	4
	A servicing agreement	1
	Commercial space lease	1
	Purchase order	30
RWE Transgas, a.s.	Gas transit transmission agreement	5
	Master agreement on gas transmission	2
	Agreement on the provision of wheeling	1
	Gas transmission agreement	3
	Flexibility Service Contract 2009	1

## Contents

Contracting party	Type of agreement/Purpose of agreement	Number of agreements
<b>RWE Transgas, a.s. E.ON Energie</b>	Agreement on transmission capacity transfer	1
<b>RWE Transgas, a.s.</b>	Addendum 1 to a natural gas sale and purchase agreement	1
	Commercial space lease	4
	Addendum 2 to an agreement on the provision of accounting services	1
	Addendum 2 to an agreement on the provision of catering services	1
	Agreement on the termination of an agreement on the provision of advisory services	1
	Agreement on the provision of advisory services	1
	Agreement on the provision of Consulting P & O services	2
	Agreement on the termination of an agreement on the provision of internal audit services	1
	Confidentiality agreement	1
	Agreement on the provision of SLA access	1
	Addendum 1 to a loan agreement	1
	Addendum 1 to an agreement on the provision of tax administration services	1
	Termination of a mandate agreement and revocation of the power of attorney	1
	Addendum 1 to an agreement on advice on management	1
	Agreement on the provision of translation and interpreting services	1
	Purchase order	15
<b>Severočeská plynárenská, a.s.</b>	Gas transmission agreement	5
<b>Severočeská plynárenská, a.s. Východočeská plynárenská, a.s.</b>	Agreement on the transfer of responsibility for imbalance	1
	Agreement on transmission capacity transfer	1
<b>Severočeská plynárenská, a.s.</b>	Purchase order	5
<b>SČP Net, s.r.o.</b>	Agreement on the provision of the Compliance Officer service – power of attorney	1
	Agreement on connection to the transmission system	1
	Purchase order	1
<b>Severomoravská plynárenská, a.s.</b>	Gas transmission agreement	3
<b>SMP Net, s.r.o.</b>	Agreement on the provision of the Compliance Officer service – power of attorney	1
<b>Středočeská plynárenská, a.s.</b>	Agreement on transmission capacity transfer	5
	Gas transmission agreement	1
<b>STP Net, s.r.o.</b>	Agreement on the provision of the Compliance Officer service – power of attorney	1
	Agreement on connection to the transmission system	1
	Purchase order	1
<b>Východočeská plynárenská, a.s.</b>	Gas transmission agreement	5
<b>VČP Net, s.r.o.</b>	Agreement on the provision of the Compliance Officer service – power of attorney	1
	Purchase agreement	1
	Purchase order	4
<b>Západočeská plynárenská, a.s.</b>	Gas transmission agreement	5
<b>ZČP Net, s.r.o.</b>	Agreement on the provision of the Compliance Officer service – power of attorney	1
	Purchase order	2

**Scheme of the relations between and control of companies along the relevant line within the RWE Group as at 31 December 2008**



\* As from 1 January 2009 the legal form of this company was changed from a public limited company to a limited liability company

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