



Connecting Markets

Annual Report 2011

*For more than 40 years our **net for gas**
has been **connecting energy markets**,
guaranteeing a secure and reliable gas
supply, operational excellence,
and innovative solutions to uphold our
commitments to future generations.*

NET4GAS Connecting Markets

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2011 IN PHOTOGRAPHS



*We want to be your
partner of choice.*



CELEBRATIONS MARKING 40 YEARS OF NATURAL GAS TRANSIT THROUGH THE CZECH REPUBLIC

1 April 2011

1. 4. 2011 5.59 a.m.

Czech TV 24

A PIPELINE THROUGH CZECHOSLOVAKIA



Jolka KRÁSNÁ, Presenter

The first of April this year marks the fortieth anniversary of the first transit of natural gas through the territory of the Czech Republic to the West, thanks to which both the Czech Republic, and before that Czechoslovakia, have enjoyed the status of the backbone of Europe for natural gas transportation.

Good morning. To start off, I wonder if you could explain to us how it was possible back in April 1971, with the Cold War "in full swing", that Russia – or rather the former Soviet Union – decided to supply such a strategic raw material as gas to the West? Was money stronger than ideology?

Jan NEHODA, Managing Director of NET4GAS, s.r.o.

Well, in terms of economics, the Cold War wasn't really quite so cold as all that. The Soviet Union needed foreign currency funds to import Western technology. And on the other side of the wall, the countries of Western Europe, and especially Germany, France, Italy and Austria, had decided to modify their energy base a little, putting a slightly greater emphasis on gas in their primary energy sources. This was the only reason. ...



30. 3. 2011 10.10 a.m.

Czech News Agency

TRANZITNÍ PLYNOVOD PRAHA WAS FOUNDED 40 YEARS AGO



Prague ... The history of the company that is today the Czech Republic's largest business in the field of natural gas began 40 years ago, on 1 April 1971, when the Ministry of Fuel and Energy of the former Czechoslovakia issued a decree founding the national corporation "Transit Pipeline Prague".

... The establishment of Transit Pipeline Prague in 1971 was preceded a year earlier by the signing of an intergovernmental agreement between the former Soviet Union and Czechoslovakia on the transport of Russian gas through Czechoslovak territory to southern, central and western Europe. The governments of Austria and the former East and West Germany also had a part in the agreement.

... Over the years, the gas transmission company has changed its structure several times. In 1990, following the foundation of the state-owned Český plynárenský podnik, the original national corporation became the division Tranzitní plynovod, which was later renamed Transgas.

... As a result of new EU legislation requiring the unbundling of transmission and trading activities on the gas market, from 2006 onwards all the activities relating to the transport of natural gas which had previously fallen within the scope of business of RWE Transgas were transferred to a newly established company RWE Transgas Net. Since last year, this company has been operating under a new name – NET4GAS. ...



OPENING CEREMONY OF THE CZECH-POLISH STORK PIPELINE

14 September 2011

14. 9. 2011

denik.cz

First Czech-Polish gas pipeline STORK commences operation

Karviná district – The gas systems of the Czech Republic and Poland are now connected by the first ever high-pressure gas pipeline between the two countries, known as the “STORK” pipeline. This Wednesday, the prime ministers of both countries, Petr Nečas and Donald Tusk, officially launched the operation of the border transfer station, located at Cieszyn in Poland. At 4.30 this afternoon they are to open the pipeline itself at the site of the shut-off valve in Chotěbuz (Karviná district).



holds an exclusive gas TSO licence in the Czech Republic and operates the country’s backbone pipeline network, construction of the Czech side of the STORK pipeline cost € 7 million, i.e. around CZK 171 million.

Half of those costs are being covered by the European Energy Programme for Recovery (EPRP). ...

The pipeline allows natural gas to be transported in both directions. According to Milan Řepka, spokesman of NET4GAS, which

14. 9. 2011

ct24.cz

NEČAS AND TUSK LAUNCH FIRST CZECH-POLISH GAS PIPELINE



Ostrava – Following an official opening ceremony, the flow of gas was launched today through the first Czech-Polish connection, known as the “STORK” pipeline. This pipeline joins the gas systems of the two countries, thus allowing natural gas supply in both directions. The construction of the ten-kilometre pipeline on the Czech side cost € 7 million (about CZK 171 million), half of which is to be covered by the European Energy Plan for Recovery. The operation of the border transfer station, located at Cieszyn on the Polish side, was officially launched by prime ministers Petr Nečas and Donald Tusk.

The high-pressure STORK pipeline shared by the countries is no giant, though – it measures 10 kilometres in length on the Czech side plus another 22 km in Poland. “The pipeline isn’t very long, but it’s extremely useful,” says STORK project manager Ivo Komorous, explaining its importance. “Many pipelines have already been

built in the east-west direction. Now, though, the great benefits of having interconnectors running north-south are becoming clear.”

In the words of Czech PM Petr Nečas: “This isn’t only about interconnecting the Czech and Polish gas grids, but involves laying the foundation for a north-south connection which will have a whole range of positive, synergic effects for the energy security of countries like the Czech Republic or Poland. In the years to come, the Czech Republic may also have access to sources of liquefied gas on the Adriatic coast.” The ceremonial launch of the pipeline’s operation was attended by both the Czech and Polish prime ministers, Petr Nečas and Donald Tusk. “Gas will start to flow immediately after the opening ceremony. In the beginning, this flow will be from the Czech Republic to southern Poland, but later the pipeline will be used in both directions.” ...



14. 9. 2011 6:47 p.m.

Czech News Agency

CZECH AND POLISH GAS SYSTEMS CONNECTED BY STORK PIPELINE



Chotěbuz (Karviná district) / Cieszyn (Poland) – The gas systems of the Czech Republic and Poland have been connected by the first ever high-pressure gas pipeline between the two countries, known as the “STORK” pipeline. The prime ministers of both countries, Petr Nečas and Donald Tusk, today officially launched the operation of the border transfer station, located at Cieszyn on the Polish side of the border. At the site of the shut-off valve in Chotěbuz (Karviná district), representatives of the gas companies then signed a contract opening the pipeline itself.

In his speech, PM Nečas underlined the benefits the pipeline will bring for the Czech Republic. “This pipeline will increase the energy security of the Czech Republic. It forms the

basis for a pan-European project known as the “North-South Connection”, which in the future will allow the Czech Republic to connect to new pipelines running through south-eastern Europe,” he said. According to the Czech leader, in the years to come the country will also have access to terminals distributing liquefied natural gas to the Czech Republic from both the Baltic and the Adriatic.

... The STORK pipeline will allow two-way gas transport, although in the beginning gas will be flowing from the Czech Republic to southern Poland. The Polish part of the pipeline, built by Gaz-System, is 22 km long. The section on the Czech side is 10 km in length and was built by NET4GAS.

OPENING CEREMONY OF THE NEW DISPATCHING CENTRE

20 September 2011



19. 12. 2011

N4GINFO

THE HEART OF THE CZECH GAS INDUSTRY



Over the forty-year history of managing its transmission system, NET4GAS has installed a number of different dispatching control systems, as well as systems for communications and remote operation. These systems have been progressively upgraded since 1970, and have undergone a whole series of innovations. The culmination of this development was the recent launch of the latest Dispatching Centre based at our company headquarters.

For more than 40 years now, our Dispatching Centre has helped ensure the uninterrupted, secure and reliable operation of the gas transmission system, in cooperation with the operational centres handling compressor stations and sections of pipeline. Its next mission will be to coordinate the transportation of natural gas to our contractual partners abroad.

Meanwhile, until just recently the Dispatching Centre staff not only ensured the operation of our transmission system, but were simultaneously engaged in a major project aimed at physically

relocating the centre and carrying out the overall innovation of its management and control processes and mechanisms.

From typewriters to plasma screens

If you had asked the staff preparing the Dispatching Centre for the management of the Czechoslovak transmission system in 1970 whether they would be able to remotely control transfer stations with immediate data collection, they would probably have thought you were mad. Only when you compare what was considered "normal" then and now does it become clear how much like science fiction today's technologies would seem to them.

Until 1976, our first Dispatching Centre was located at the headquarters of what was then the national corporation Transit Pipeline Prague in Jarov. It had a wide range of means of communication: a telephone exchange, telex machines, tape recorders, and equipment to help the staff draw up diagrams showing the current status of transmission system operation. ...



START OF CONSTRUCTION OF THE HIGH-PRESSURE GAZELLE PIPELINE

4 October 2011

18. 7. 2011

denik.cz

GAZELLE to rescue Czech Republic and Europe from Ukraine



Brandov - If Russia turns off the taps on its gas pipelines in the Ukraine after 1 January 2013 because of some potential local disagreements, this will no longer be such a huge problem for the Czech Republic and Central and Western Europe. By then, the GAZELLE pipeline will be here.

On Monday, the commencement of work on this pipeline was officially announced in Brandov in the Most district by the company NET4GAS. The GAZELLE pipeline is to run underground through the Ústí and Plzeň regions before meeting the German border again at Přimda. Via the German OPAL pipeline, it will connect to the Nord Stream pipeline, which carries the strategic raw material from Russia along the bed of the Baltic.

"The GAZELLE pipeline will contribute to the diversification of transport routes," explains NET4GAS Managing Director Jan Nehoda. "This will increase the security of gas supply, and energy security in general, both for the Czech Republic and for Europe," adds project manager Pavel Nesládek.

... The pipeline is to pass under 66 main roads, 19 sets of railway lines and 51 watercourses, but construction cannot yet go ahead in all locations. "Negotiations with landowners take a long time," Pavel Nesládek explains.

The transmission capacity of the GAZELLE pipeline will allow it to transport several times more gas than the Czech Republic consumes in a year. ...



26. 8. 2011 11:44 a.m. Czech News Agency

Nord Stream and Opal pipelines interconnected, will also bring gas to the Czech Republic

Prague - The Nord Stream pipeline, which carries Russian natural gas to Germany along the bed of the Baltic, has been connected to the German OPAL pipeline ending at the western Czech border. This will now be connected to a new "GAZELLE" pipeline being constructed, which will cross the west of the Czech Republic and in the future also supply the country with gas. The Czech News Agency was informed of this today in a press release from the consortium Nord Stream AG. The GAZELLE pipeline could be particularly useful for supplying gas to the Czech Republic if problems were to arise on the existing route through the Ukraine.

On Thursday 25 August, the last pipe was welded into place at the border transfer station in Lubmin near Greifswald, Germany, where the Nord Stream pipeline comes out of the Baltic Sea. "The pipeline system is now ready to be launched into operation," says Georg Nowack, the head of the Nord Stream project in Germany.

... The new GAZELLE pipeline under construction was already connected to OPAL at the German-Czech border last year. GAZELLE is scheduled for completion next year, after which its primary function will be to transport gas through the Czech Republic to southern Germany, although some gas will go into the Czech gas grid via four connection points as well. The Czech Republic will also generate revenue from transit fees. ...



19. 7. 2011

Havlíčkův Brod daily news

GAZELLE PIPELINE TO BE READY IN TWO YEARS

Workers in Brandov (Most district) are currently finishing work on the border transfer station for the new GAZELLE pipeline, which from 2013 is to cut the Czech Republic's dependence on gas transport via the Ukraine if any problems should arise. From September, two teams will start laying the pipes - one starting from the Ore Mountains in the north, and the other from the Bohemian Forest in the south. The project is being financed by the company NET4GAS, which is part of the RWE Group. The construction costs will total CZK 10 billion, and the pipeline can boast a number of other noteworthy parameters: it will transport 30 billion cubic metres of gas per year - enough to fill the reservoir at Orlik Dam 41 times if it were water - and the pipes alone will weigh the equivalent of 12 Eiffel Towers. ...



OPENING CEREMONY OF BRANDOV BORDER TRANSFER STATION

20 October 2011

20. 10. 2011 12.25 p.m.

Czech News Agency

Czech gas supplies to come not only from the East – Klaus opens new facilities



Brandov (Most district) – Gas now flows to the Czech Republic not only through the former Soviet states, but also north-south from the Baltic. This new development has been allowed by a border transfer station on the ridge of the Ore Mountains, which was officially opened today by President Václav Klaus. This construction, which cost CZK 600 million, connects the old east-west transit network with the new Baltic pipeline Nord Stream. “All the gas flowing through the station is now from Russia, and is on its way to other countries further afield,” the Czech News Agency was informed by pipeline project manager Pavel Nesládek.

Next year, the station will be connected up to the Czech “GAZELLE” pipeline now under construction, which will run from the

Ore Mountains to the Bohemian Forest and will carry natural gas to southern Germany. The total investment is to amount to around ten billion Czech crowns. The pipeline is being built mainly because of fears regarding the political instability of Ukraine and Belarus, through which existing transit pipelines run. “The gas going through the station at the moment is headed to other countries, partly for consumption in Germany,” Nesládek told the CNA.

Gas has already been flowing through the station since September, but President Klaus was invited to carry out the official launch. ... According to President Klaus, the ability to secure energy supplies is of great importance for the Czech Republic. ...

31. 10. 2011

Parlament, vláda, samospráva

Brandov border transfer station now in operation

At a ceremony held on 20 October, President Václav Klaus, the Governor of the Ústí Region Jana Vaňhová and the managing directors of NET4GAS cut a ribbon and signed a section of gas pipeline to officially launch the operation of the Brandov Border Transfer Station. This station forms part of a new pipeline being built to supply Russian gas to Europe via the “Northern Route”.

The Brandov Border Transfer Station connects the Czech Republic's transmission system, which is operated by NET4GAS, with the OPAL high-pressure gas pipeline newly completed in Germany. “This pipeline thus forms the connecting link between the Czech Republic's transmission system and the Nord Stream pipeline. Once the high-pressure “GAZELLE” pipeline across the Czech Republic has been completed at the end of next year, it will be very straightforward to transport sufficient quantities of natural gas to southern Germany and on to France,” said Jan Nehoda, Managing Director of NET4GAS.

“When I spoke at this same location a few weeks ago, I said that upon its launch the Brandov BTS would play a strategic role in energy security – and not only for the Ústí Region, but for the Czech Republic as a whole. Today, that has become a reality. I am glad that at the regional level we have always managed to find ways to support this socially significant project, and thus to facilitate its implementation. It fills me with great pride that today, exactly one year after laying its foundation stone, President Klaus and I are here to launch the operation of this transfer station. And it strengthens my resolve to do everything necessary so that at the end of next year we can return to do the same again for the entire GAZELLE pipeline,” added Jana Vaňhová, Governor of the Ústí Region. ...

21. 10. 2011

Právo

Klaus launches flow of natural gas from the Baltic to the Czech Republic

At a ribbon-cutting ceremony on Thursday morning, President Václav Klaus launched the operation of a branch of pipeline allowing EU countries, including the Czech Republic, to be supplied with natural gas not only via former Soviet states but also from the Baltic. Although gas has already been flowing through the station on a trial basis since last month, yesterday marked the official launch of the 600 million crown technological unit. The station connects the existing east-west transit network with the new Baltic pipeline Nord Stream.

Next year, construction work will commence on the Czech “GAZELLE” pipeline running from the Ore Mountains to the Bohemian Forest, which will be used chiefly for transporting gas to southern Germany. This should put an acceptable limit on the risk involved if politically unstable countries like Ukraine and Belarus were to shut-off the taps on the old transit pipelines.

The station's current capacity is 7.6 billion cubic metres per year. Once GAZELLE is completed it will rise to 33 billion, i.e. four times the consumption of the Czech Republic. “This pipeline increases the country's energy security. Even if there were a problem on the gas supply routes, gas would still flow into our network,” says Jan Nehoda, Managing Director of the investor company, NET4GAS. ...



For the gas industry, developments in 2011 brought a greater role for gas in the energy mix, strengthening the position of NET4GAS similarly.

FOREWORD BY THE CEO

2011 was certainly an exceptional year in the energy field. While the year's developments impacted other sectors differently, for our industry they brought a greater role for gas in the energy mix, strengthening the position of NET4GAS similarly.

2011 was also an exceptional year for us as we celebrated the 40th anniversary of the first transit of gas through the Czech Republic. Meanwhile, our Connecting Markets strategy – aimed at making us the gas turntable of Central and Eastern Europe – has started to take shape and form.

In collaboration with the Polish transmission system operator GAZ-SYSTEM, we constructed and launched the first ever Czech-Polish interconnector at the town of Český Těšín. We joined our transmission system to the Nord Stream/OPAL system at Brandov, and started work on the GAZELLE pipeline. We also made successful investments into reverse flow capacities, particularly in the west-east direction, which have a major impact on the security of gas supplies for the entire CEE region.

Our current annual investments have reached the level of five billion Czech crowns as we undertake our most extensive investment programme for 30 years, and bring individual projects to completion in line with our schedule and budget.

Alongside these investment activities, we have also taken a pro-active role in a variety of initiatives connected with the vision for the EU Gas Target Model. This model now supports the development of market areas or trading regions to establish a European gas market instead of introducing a single European entry-exit system. We have therefore focused our strategy on this line of market development, and

especially on gas infrastructure in our neighbourhood, as we believe that the CEGH in Baumgarten will become the dominant virtual hub in the CEE region.

Germany has shown us just how quickly markets can be connected, and how much benefit functioning markets can derive from these developments. Nonetheless, we must keep our outlook realistic. We cannot underestimate the challenges we will have to overcome as we strive to create functioning cross-border markets in spite of differing national laws and regulations.

Both our investments and our product portfolio in the field of regulation activities support the development of trading regions on a wider scale. "Connecting Markets" is the mission we have set ourselves.

NET4GAS is committed to creating a platform for efficient markets that will guarantee a sustainable and affordable energy strategy, whatever the future energy mix may be.

Thomas Kleefuß
Managing Director & CEO, NET4GAS, s.r.o.

COMPANY PROFILE



*Ensuring safe and reliable gas
supplies to our customers
24/7 is our main goal.*



Our services

International transit of natural gas across the Czech Republic and neighbouring markets (product GATRAC).

Domestic transmission of natural gas to our partners in the Czech Republic.

Operation of a flexible, demand-oriented transmission system, and the provision of associated commercial and technical products and services.



NET4GAS at a glance

Holds an exclusive gas Transmission System Operator (TSO) licence in the Czech Republic.

Is a member of ENTSOG, GIE, EASEE-gas, Marcogaz, the Czech Gas Union and the Czech Gas Association.

Operates more than 3,600 km of pipelines.

Operates three border transfer stations, five compressor stations and nearly a hundred transfer stations to the domestic distribution systems.

Has sufficient transmission capacities to satisfy both domestic and foreign demand.

Guarantees all natural gas traders non-discriminatory and transparent access to its transmission system.

Transports 40 billion m³ of natural gas annually (of which roughly 25 % is for domestic consumption).

Has more than 500 employees.

Is the Czech Republic's largest corporate donor in the field of nature conservation.

Transmission system

3,600 km of pipelines

Annual transported volume of 40 billion m³

5 compressor stations



3 border transfer stations

More than 500 employees

Our strategy

In response to European market trends, our strategy focuses on the diversification of our sources of natural gas, increasing our transmission capacity and its flexibility, expanding our transmission system in the Czech Republic and developing new cross-border interconnectors and capacity products. By these means we play our part in wider efforts to create

a competitive European gas market. Operational excellence is one of our key priorities, and so we place great importance on the constant upgrading of our transmission system, use of state-of-the-art technologies, and taking a pro-active role in the development of the future European Gas Model.



NET4GAS Connecting Markets

Asset Development

New connections and interconnectors, strengthening integration of energy markets

State-of-the-art technology

Innovative Solutions

Fast, flexible and transparent support through innovative and customer-oriented products and services

Market Design

Contribution to the future European gas market design, further enhancing market integration

Operational and commercial excellence for a safe reliable and environmentally friendly transport service

OWNERSHIP AND ORGANISATIONAL STRUCTURE



We all invest our energy into

- *the NET4GAS culture, committed to change, performance and day-to-day cooperation.*



Structure of control and relations among companies in the relevant line of the RWE Group



* as of 31 December 2011

Supervisory Board as of 31 December 2011

Martin Friedrich Herrmann

Member since 22 December 2006
(re-elected 23 December 2011; elected Chairman 3 March 2011, elected Vice-Chairman 16 January 2007)
Date of birth: 3 July 1967
Education: Westfälische Wilhelms-Universität, Münster, Economics

Membership of bodies of other companies:

Chairman of the Board of Directors of RWE Transgas, a.s.; Managing Director of RWE East, s.r.o.; Chairman of the Supervisory Boards of Jihomoravská plynárenská, a.s., Severomoravská plynárenská, a.s., Východočeská plynárenská, a.s., RWE Energie, a.s. and RWE Gas Storage, s.r.o.; Member of the Supervisory Board of RWE Supply & Trading GmbH, Budapesti Elektromos Művek Nyrt. and ÉMÁSz Nyrt.

Other business activities: none

Ing. Jan Zaplatílek

Member since 22 December 2006
Date of birth: 4 July 1963
Education: Czech Technical University in Prague, Faculty of Civil Engineering
Membership of bodies of other companies: none
Other business activities: none

Dr. Martin Muhr

Member since 23 December 2010
Date of birth: 20 May 1965
Education: Ruhr-Universität Bochum, Economics, Doctorate in Economics
Membership of bodies of other companies: Member of the Supervisory Board of Grosskraftwerk Mannheim AG
Other business activities: none

Andreas Böwing

Member since 3 February 2011
Date of birth: 11 April 1955
Education: Universität Münster, graduated in law
Membership of bodies of other companies: Member of the Supervisory Board of SAG Group GmbH
Other business activities: Head of Steering Grid Regulation, RWE Deutschland AG

Peter Terium

Member since 6 October 2011
Date of birth: 26 September 1963
Education: Nederlands Instituut voor Registeraccountants, Amsterdam
Membership of bodies of other companies: Vice-Chairman of the Board of Directors of RWE AG; Chairman of the Board of Directors of Essent N.V.; Member of the Supervisory Boards of RWE Supply & Trading GmbH and N.V. KEMA
Other business activities: none

Radek Hromek

Member since 23 December 2011
Date of birth: 21 October 1973
Education: Secondary Vocational School, Engineering
Membership of bodies of other companies: Member of the European Works Council of RWE AG
Other business activities: none

Changes made on the Supervisory Board in 2011

Martin Friedrich Herrmann was elected the Chairman of the Supervisory Board as of 3 March 2011, and since 23 December 2011 has been acting as a Member of the Supervisory Board. The following were appointed Members of the Supervisory Board: Andreas Böwing as of 3 February 2011, Peter Terium as of 6 October 2011 and Radek Hromek as of 23 December 2011. The following resigned as Members of the Supervisory Board: Jürgen Gröner as of 5 October 2011 and Šárka Vojtková as of 22 December 2011.

Company Management as of 31 December 2011



Thomas Kleefuß

Managing Director & CEO since 1 January 2006
 Date of birth: 19 December 1963
 Education: Universität Köln, Finance and Business Administration
 Membership of bodies of other companies: none
 Other business activities: none



Ing. Jan Nehoda

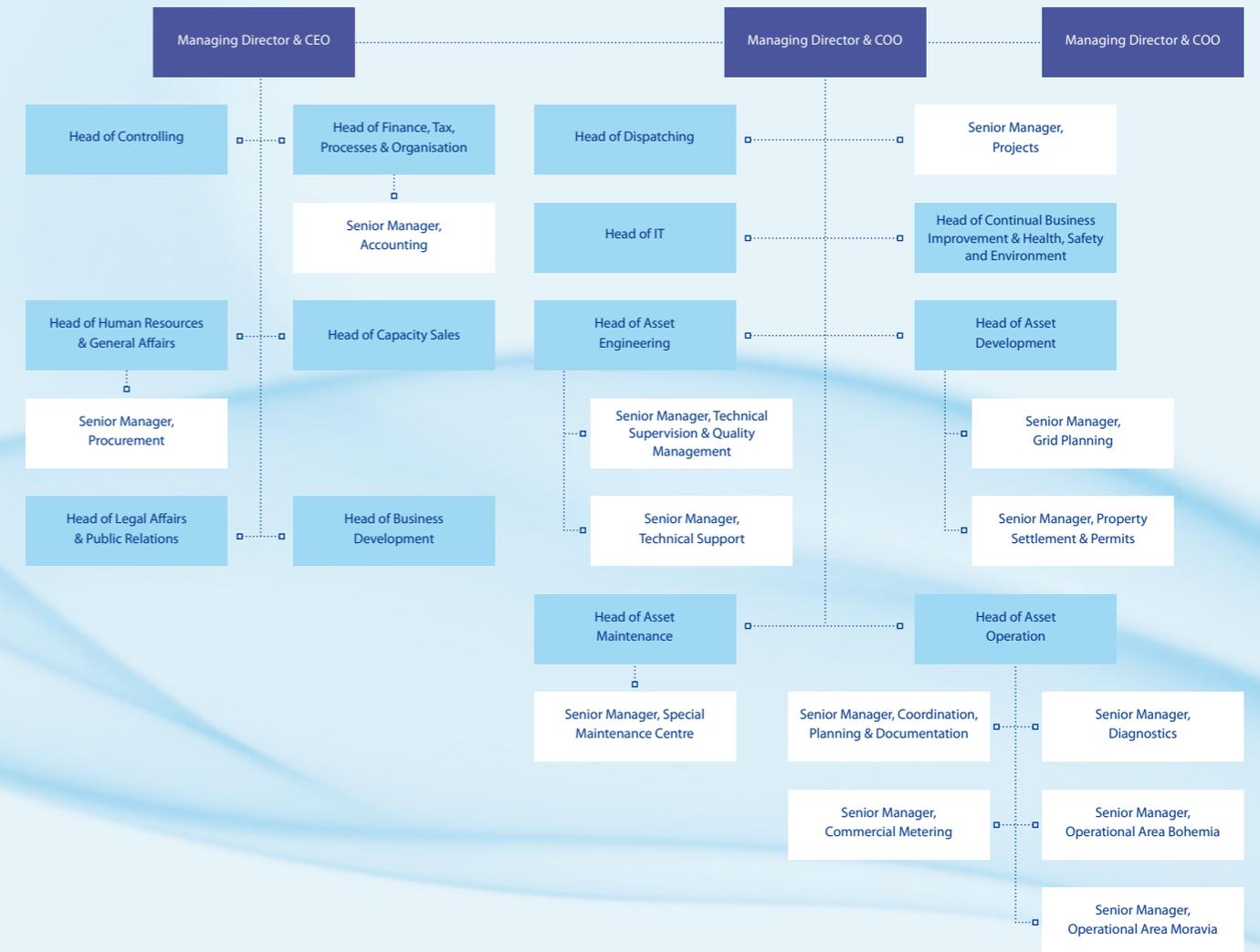
Managing Director & COO since 1 January 2006
 Date of birth: 29 April 1950
 Education: Brno University of Technology, Faculty of Mechanical Engineering
 Membership of bodies of other companies: none
 Other business activities: none



Ing. Radek Benčík, MBA

Managing Director & COO since 1 October 2011
 Date of birth: 2 January 1966
 Education: Brno University of Technology, Faculty of Mechanical Engineering; Nottingham Trent University, MBA
 Membership of bodies of other companies: none
 Other business activities: none

Organisational structure of NET4GAS as of 31 December 201



REPORT ON OPERATIONS



*We are constantly upgrading
our transmission system using
state-of-the-art technologies.*



Key Economic Indicators

Selected indicators

Indicator	2011
Total sales (CZK millions)	9,767
EBITDA (CZK millions)	7,826
Operating profit (CZK millions)	5,667
Profit before taxation (CZK millions)	5,636
Profit after taxation (CZK millions)	5,001
Acquisition of fixed assets (CZK millions)	4,801
Number of employees (converted to FTE)	544

Revenues, costs, result

In 2011, NET4GAS achieved a profit before taxation in the amount of CZK 5,636 million, profit after taxation was CZK 5,001 million, and operating profit amounted to CZK 5,667 million.

The company generated a profit from its core business operations – transit of natural gas for international customers and domestic transmission. Its operating revenues amounted to CZK 9,929 million and operating costs were CZK 4,262 million. Financial result showed a loss of CZK 31 million for the fiscal year.

Asset structure

The company's total assets in 2011 amounted to CZK 59,198 million, of which fixed assets accounted for CZK 50,831 million, representing 86 %. The main components of these assets were tangible fixed assets valued at CZK 50,531 million, intangible fixed assets valued at CZK 299 million and long-term investments valued at CZK 2 million. As of 31 December 2011, current and other assets amounted to CZK 8,366 million, representing 14 % of all assets. Roughly 99 % of current and other assets consisted of short-term receivables.

Investments

The company's total acquisition of fixed assets during 2011 amounted to CZK 4,801 million. These included investments into intangible assets valued at CZK 157 million, most of which were made into its new Dispatching Centre and management and control systems. Following its completion and testing, the new Dispatching Centre was put into operation at the company's headquarters in the third quarter of the year.

The year's main and largest investment was the GAZELLE project, in which CZK 4,349 million was spent mainly on piping material and the construction of the Brandov Border Transfer Station. This investment involved the completion of a new interconnector running to the German border, where it joins the OPAL/Nord Stream pipeline system.

Significant investments amounting to CZK 67 million were also entailed by the process of unbundling the company, which at this stage chiefly involved the division of IT and vehicle assets.

A further CZK 103 million was spent on the completion and launch of a new Czech-Polish interconnector, known as the "STORK" pipeline.

Under the European Energy Programme for Recovery (EEPR) NET4GAS was awarded a grant in the amount of CZK 57 million, and in addition to the STORK pipeline investments were undertaken to enable two-way gas transmission.

For more information about the investment projects, see the chapter "Main Events of 2011".

Liability structure

In 2011, the company's equity amounted to CZK 38,348 million, representing roughly 65 % of its total liabilities and equity. Its liabilities and other liabilities and equity amounted to CZK 20,850 million, of which long-term liabilities (in particular a loan provided by the sole member and its deferred tax liability) accounted for around 89 %, short-term liabilities roughly 10 % and provisions approximately 1 %.

Research and development activities

The company did not make any major expenditures into research and development in 2011.

Organisational units outside the Czech Republic

The company has no organisational units abroad.

Main Events of the Year

We are connecting markets in every direction using cross-border interconnectors, capacity products and our pro-active role in shaping the future European gas market. This enables us to increase energy security and raise supply reliability not just in the Czech Republic but for the whole CEE region.

NET4GAS Connecting Markets

CROSS-BORDER INTERCONNECTION PROJECTS

Launch of operation of the Czech-Polish interconnector STORK

 Co-financed by the European Union
European Energy Programme for Recovery



After almost eight years of planning, NET4GAS and the Polish transmission system operator GAZ-SYSTEM completed the two-year construction of a Czech-Polish interconnector known as the STORK pipeline. This high-pressure pipeline is the first ever link between the gas grids of the Czech Republic and Poland, and is thus a milestone in terms of strengthening Europe's gas infrastructure and the diversification of its supplies. The first gas flowed through the line on 1 September 2011, and the prime ministers of both countries, Petr Nečas and Donald Tusk, officially launched its operation at an opening ceremony on 14 September 2011. The EU co-financed 50 % of the project's eligible costs under the European Energy Programme for Recovery (EEPR).

The STORK pipeline is composed of a 10 km pipeline on the Czech side and a 22 km pipeline plus a border transfer station in Poland. The construction of the Polish section began in 2009, and was followed in 2010 by the boring of a short section of tunnel under the Olza river valley on the Czech side. This work involved the interesting technique of horizontal directional drilling, which was also used for routing the pipeline under the parallel rail and road corridors on both sides of the border. 2011 then saw the completion of work on the Cieszyn Border Transfer Station and approximately 10 km of pipeline on the Czech side, running from the Polish border to the shut-

off valve by the underground gas storage facility at Třanovice. The STORK pipeline from Třanovice (CZ) to Skoczow (PL) has been constructed to handle an anticipated two-way flow of 2-3 billion m³ per year.

Launch of operation of the Brandov Border Transfer Station

On 1 October 2011, NET4GAS launched the operation of its newly built border transfer station (BTS) in Brandov. This event was marked by a ribbon-cutting ceremony on 20 October 2011 attended by the President of the Czech Republic Václav Klaus and the Governor of the Ústí Region Jana Vaňhová. This BTS links the Czech Republic and Germany, meters gas flows in both directions, and is one of the key constructions for the high-pressure GAZELLE pipeline now being built to carry Russian gas to Europe via the "Northern Route".

The Brandov BTS joins the Czech Republic's transmission system to the recently built high-pressure OPAL pipeline in Germany, thereby also connecting it to the Nord Stream pipeline. The completion of the GAZELLE pipeline will make it very straightforward to transport sufficient quantities of natural gas to southern Germany, and even on to France. The construction of the Brandov BTS was completed on schedule, taking just a single year.

The foundation stone of the Brandov BTS was laid on 14 October 2010. It is the first fully automated border transfer station in the Czech Republic, and is the first facility where NET4GAS has installed ultrasonic gas metering. Until the pipeline sections of the GAZELLE system are put into operation, the station's capacity is to be 7.6 billion m³/year. Its maximum

*Thanks to the investment projects of NET4GAS,
the Czech Republic ranks among the key countries
playing a lead role in securing the energy security of the EU.*

capacity will be 30 billion m³/year, and its maximum operating pressure will be 100 MPa.

The final step in this work will be the launch of the station's permanent operation (upon the issuance of a certificate of approval), which is scheduled for 1 April 2012.

Start of construction of the GAZELLE pipeline



On 4 October 2011, work was commenced on the strategic high-pressure GAZELLE pipeline. Construction began on the section running from the town of Pímda (in the Tachov district), followed on 25 October by the section running from Brandov (in the Most district), which is the second end point of the pipeline.

The high-pressure GAZELLE pipeline is part of the new European Energy Policy, whose objectives include significantly increasing energy security through the diversification of energy sources. This is one of the reasons why the GAZELLE pipeline construction is among the main energy projects supported by the Czech government, which named it one of its top priorities in its policy statement of August 2010. Due to its strategic nature, the high-pressure gas pipeline now being built will offer the Czech Republic a new chance to raise its status in the European gas transmission system.

The GAZELLE pipeline will connect to the Nord Stream/OPAL pipelines carrying natural gas to the Czech border via the "Northern Route", thereby changing the main direction

that Russian gas flows through the Czech Republic, i.e. from the currently prevailing east-west direction to north-south. The GAZELLE pipeline will then continue across the Czech Republic as far as the border transfer station at Rozvadov-Waidhaus, where it will connect to the MEGAL transmission system. GAZELLE is one of the ten largest investment projects in the Czech Republic, and the entire investment will be carried out by NET4GAS. Launch of operation is scheduled for 1 January 2013.

Exemption from the requirement to allow regulated third-party access to the GAZELLE pipeline, and exemption from the ownership unbundling obligation for the GAZELLE pipeline

On 28 July 2011, following a prior decision by the European Commission, the Czech Energy Regulatory Office issued a final decision granting the GAZELLE pipeline an exemption from the requirement to allow regulated third-party access under the conditions of the Energy Act of the Czech Republic. This decision came into force on 29 July 2011.

On 2 August 2011, the Energy Regulatory Office issued a further decision, exempting the GAZELLE interconnector from the ownership unbundling obligation according to Article 9 of Directive 2009/73/EC. In line with the procedure laid down in this Directive, the European Commission then issued a decision on 1 December 2011 stipulating additional conditions in regard to the granting of the exemption from the ownership unbundling obligation. The Energy Regulatory Office will give its decision on these additional conditions in subsequent proceedings.

SECURITY AND RELIABILITY OF SUPPLIES

Project: Reverse-flow in direction west-east



In May 2011, NET4GAS completed a project entitled "Reverse-flow in direction west-east" which will greatly increase energy security both for the Czech Republic and for the CEE region as a whole, as well as significantly improving cross-border gas transmission infrastructure. Implementing this project has raised the transmission capacity by 15 million m³ per day in the northwest to east direction, i.e. from the Czech-German border to the Czech-Slovak border, allowing Slovakia, Austria, Hungary and southern Germany (Bavaria) to diversify their gas supplies.

The Reverse-flow project involved six component tasks: 1) Adaptations at Border transfer station Hora Svaté Kateřiny, 2) Adaptations of piping at Junction point Hospozín, 3) Adaptation of piping at Compressor station Kralice nad Oslavou, 4) Adaptation of piping at Junction point Malešovice, 5) Adaptation of the piping system of hall I. of Compressor station Břeclav enabling gas transmission from the Czech Republic to the Slovak Republic and 6) Adaptation of Border transfer station Lanžhot for west-to-east transmission.

Performing these steps has now allowed gas to be transported in the reverse direction across the Czech Republic, while ensuring compliance with all the parameters of commercial metering, i.e. as regards the quality and quantity of the transported gas.

A total of 41 % of the total costs (50 % of the eligible costs) of this project were financed by the European Energy Programme for Recovery (EEPR). The required Final Technical Implementation Report and Financial Statement and a request for the payment of the due part of the eligible costs were submitted in September and approved in November 2011, and NET4GAS received the final balance of payment in December 2011.

Thanks to the many investment projects being undertaken in parallel by the transmission system operator NET4GAS, the Czech Republic now ranks among the key countries playing a lead role in securing the energy security of the European Union. The contribution made by this project to the diversification of energy sources is also one of the reasons it was supported by the EU under its EEPR programme.

Connection to Tvrdonice UGS



A further project that will increase the security of gas supplies involves the construction of a connection to the Tvrdonice Underground Gas Storage facility (UGS facility). A new gas pipeline will be built, enabling the transmission capacity between the Břeclav Compressor Station and the Tvrdonice UGS facility to be increased in both directions. Connecting the Tvrdonice UGS facility directly to the NET4GAS transit system will allow gas to be drawn back from the UGS facility into the transit system, so that its capacity will also be directly available to neighbouring countries.

In 2011, NET4GAS finished preparing the documentation required for building permission, and intensive work was also carried out to secure the land and easements needed for the route of the future pipeline. Tendering procedures were commenced for supplies of materials and for the construction contractor. 45 % of the eligible project costs are to be co-financed by the EU under its European Energy Programme for Recovery (EPR). The project is scheduled for completion in 2013.

Moravia pipeline



NET4GAS is currently planning a new construction project known as the “Moravia pipeline”, which will run between Tvrdonice in the Břeclav district and Libhošť in the Nový Jičín district, and potentially continue to the Czech-Polish border. The project’s main aims are to increase the security of gas supplies in the Czech Republic and other CEE regions (especially Poland and Slovakia), to expand the gas market and to ensure greater flexibility for the operation of domestic gas infrastructure.

The groundwork for the project was laid in 2010, and in 2011 an environmental impact assessment (EIA) was commenced based on target pipe diameters in the DN 700-1200 range. In November 2011 the project was awarded EU funding in the framework of Trans-European Energy Networks (TEN-E) amounting to 31 % of the eligible costs for project preparation. Construction is scheduled for 2016–2017.

MARKET DESIGN, OPERATIONAL EXCELLENCE AND INNOVATIVE SOLUTIONS

Gas Target Model

2011 was marked by the impact of regulation – in particular the European Gas Target Model of the Council of European Energy Regulators (CEER) and the Framework Guidelines on Capacity Allocation Mechanisms for European Gas Transmission Networks of the Agency for the Cooperation of Energy Regulators (ACER) – both on the structures and rules of the gas market and on the pilot versions of the Network Codes of the European Network of Transmission System Operators for Gas (ENTSOG), which are aimed at creating mechanisms for the processes involved in capacity allocation. NET4GAS took an active role in these developments, presenting constructive proposals, most of which were approved. It is also worth noting that the current draft of the Gas Target Model envisages the creation of functioning gas markets by the cross-border interconnection of national wholesale markets based on a Trading Region Model which NET4GAS co-designed. In the company’s view, the territory of Austria-Slovakia-Czech Republic, for example, could become just such a trading region on the basis of underlying transmission system conditions, thus offering further potential for sustainable development.

A single entry-exit system for the Czech Republic

In early 2011, NET4GAS complied with the requirements of EU legislation at the national level by establishing a pure entry-exit system for domestic gas transmission and transit. As well as being a step towards the implementation of the Third Energy Package, this also set up conditions for the creation of cross-border wholesale markets.

GATRAC – hub-to-hub capacity



In order to create a European Energy Market, functioning gas markets must not only be interconnected by sufficient capacities but must also have the requisite potential to access these capacities so that a market environment can be developed. With this fact in mind, in 2010 NET4GAS developed and jointly launched with its partner ONTRAS a capacity product called GATRAC, the first of its kind in Europe, which allows cross-border hub-to-hub transport on the basis of just one transport contract (known as a “train ticket”) with just one TSO (a so-called “one-stop-shop”). In 2011 collaboration on the GATRAC product was expanded to include GRTgaz Deutschland, which means that “train tickets” can now be offered for Czech-German hub-to-hub transport with Gaspool or NetConnect Germany. In 2011 negotiations were also held with the company eustream, a.s. regarding the extension of the GATRAC product to Slovakia and/or the Baumgarten Hub, and in collaboration with the TSOs Open Grid Europe and Wingas Transport foundations were laid for a lean and efficient model of European cooperation aimed at explicit capacity allocation.

Launch of operation of the new Dispatching Centre

In 2011, NET4GAS completed the integration of a new Dispatching Centre into its company headquarters. An opening ceremony to mark the launch of its operation was held in September.

NET4GAS replaced two different dispatching control systems with a single new one, and put it into operation along with a back-up workstation, which ensures that requirements on the secure, reliable and up-to-date management of gas transmission are met. The control system – “HIGH-LEIT” – was designed and installed by its supplier, IDS.

The new Dispatching Centre is fitted with state-of-the-art technology. The control system is flexible, and will also allow the facilities of neighbouring TSOs to be integrated into it when they are connected. The project was begun in November 2008 and was delivered on schedule and on budget, at a total investment cost of CZK 110 million.

Human Resources

TSO UNBUNDLING

On 3 March 2011, Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (part of the "Third Energy Package") came into effect. This directive extends the requirements on the progressive unbundling of transmission system operators from vertically integrated undertakings and increasing their independence. Following this, on 18 August 2011 an amendment to the Energy Act of the Czech Republic came into effect (Act No. 211/2011 Coll., amending Act No. 458/2000 Coll., on the conditions for doing business and the performance of public administration in the energy sectors and amending certain Acts), which transposes the EU Directive into Czech national legislation.

During 2011, NET4GAS continued with the adoption of a series of measures aimed at fulfilling the requirements of this new EU and Czech legislation. As far as the requirement relating to transmission system operator unbundling is concerned, NET4GAS is gradually fulfilling the conditions stipulated by the cited law for an Independent Transmission Operator (ITO). As part of this process, the vast majority of the service level agreements (SLAs) concluded between NET4GAS and the rest of the RWE Group have been terminated. The company now secures the performance of the activities under these SLAs either by means of its own employees or on a contractual basis, using business partners outside the RWE Group.

As of 31 December 2011, NET4GAS had a total of 558 employees. The growth in the company's workforce by 32 new employees compared to 2010 was mainly due to the insourcing of operations as a result of the company's unbundling (see the chapter "TSO unbundling") and an organisational change in the Engineering Division based on the requirements of the Third Energy Package, supplementing lacking capacities in technical professions and reducing the company's dependence on outside firms.

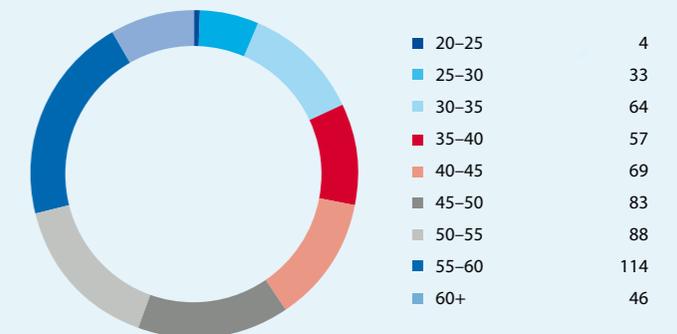
Social policy

The standard of employees' working and social conditions was defined under a Collective Agreement valid for 2010-11. On 15 December 2011, a new Collective Agreement was concluded for the years 2012 and 2013.

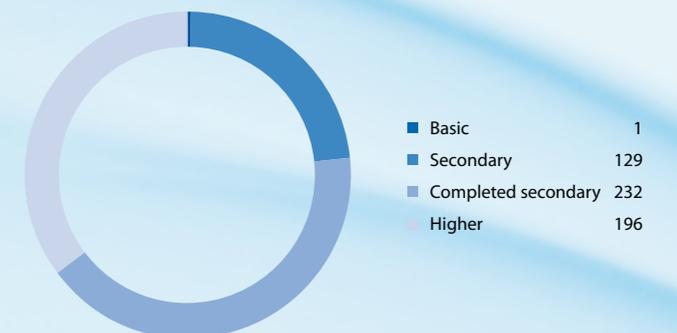
Professional training and career development

In 2011, investment into the professional training of staff accounted for 2.6 % of the company's personnel costs, with an average expenditure per employee of CZK 16,500. On average, each employee spent 12 days at training events.

Employee age structure



Employee education structure



Environmental Protection

Environmental protection is among the very highest priorities of NET4GAS, and is an issue which it perceives as more than just a matter of meeting statutory requirements. Protecting the environment is above all an aspect of the company's corporate social responsibility – towards its suppliers, business partners, employees and all the other stakeholders involved. The company's management has therefore adopted an "Environmental Policy".

Statutory compliance

NET4GAS continually strives to minimise its environmental impact both in its operations and when building new pipelines, whether this means preventing air pollution, reducing greenhouse gas emissions, managing waste and water, handling chemicals and chemical products, or nature conservation and landscape protection. In line with applicable legislation, designated operations have accident and emergency plans prepared in advance in case of any environmental incidents.

No environmental incidents occurred in 2011. All five compressor stations were operated in accordance with their valid integrated permits issued under Act No. 76/2002 Coll., on integrated pollution prevention and control, the integrated pollution register and amending certain Acts. The company's continued compliance with these state-issued permits is a solid guarantee that its approach to environmental protection is correct at all levels.

In 2011 the Czech Environmental Inspectorate carried out an integrated inspection on compliance with the mandatory conditions for operation stipulated in the valid integrated permits for the compressor stations at Kralice nad Oslavou,

Hostim and Břeclav. No infringements of the operator's obligations were found during these checks.

NET4GAS complies with the requirements of Act No. 25/2008 Coll., on the integrated register of environmental pollution and the system for performing reporting obligations, in conjunction with Regulation (EC) No 166/2006 of the EP and of the Council concerning the establishment of a European Pollutant Release and Transfer Register.

NET4GAS was also in compliance with the current legislation on greenhouse gases, and submitted a due report on the carbon dioxide emission allowances consumed at its compressor stations.

No measures were imposed by competent authorities to sanction or censure the company in 2011.

Activities going beyond legislation

NET4GAS has a sense of responsibility for environmental protection during its operations that goes beyond what is required by law. For example, by using a mobile compressor station to pump gas into a neighbouring section of pipeline before repairing a pipe in 2011, the company prevented the discharge of 3,430,966 Nm³ of natural gas into the air, which would otherwise have had to be released for safety reasons.

The company also continued with its grant programme "NET4GAS Closer to Nature", which supports projects aimed at nature conservation and environmental protection (see the chapter "Corporate Social Responsibility").

Health and Safety at Work

Health and safety at work is one of the top priorities of NET4GAS, and the company is proud to say that its standards in this field rank it among the leading companies worldwide. The safety programmes and strategies employed at NET4GAS go beyond the requirements made by legislation, regular audits and inspections, and apply as much to the company's suppliers as to its own employees. For this purpose, NET4GAS introduced a safety management system in 2011 which also covers its partner organisations. Its central aim is for every employee to return home just as healthy as he or she came to work, with NET4GAS giving the same treatment to its partners' employees as it gives to its own. The result of these long-term efforts to create a safe working environment and to ensure the safe conduct of all employees is a zero work accident rate at NET4GAS in 2011.

Post Balance Sheet Events

Martin Friedrich Herrmann was elected the Chairman of the Supervisory Board as of 24 February 2012.

In line with the requirements following the Act No. 458/2000 Coll., on the conditions for doing business and the performance of public administration in the energy sectors and amending certain Acts as amended by the Act No. 211/2011 Coll., the sole member of the company approved the change of the Foundation Deed of NET4GAS, s.r.o., and adopted the Articles of Association of NET4GAS, s.r.o. on 28 February 2012.

No other events occurred after the balance sheet date which would have a significant impact on the financial statements of NET4GAS as of 31 December 2011.

INTERNAL CONTROL PRINCIPLES



Our internal control principles have

- *a preventive effect, helping us achieve better results.*



Our conduct is based on personal responsibility, honesty, loyalty, and respect for others and the environment.

Internal Audit Committee

In 2010, NET4GAS established an Internal Audit Committee (IAC) to act as an advisory body for its management. The IAC's primary tasks are to review and evaluate the internal audit plan, to discuss the results of its activities and to examine the effectiveness of the company's management and control system on the basis of internal audit reports. It also monitors the process of the statutory audit of the financial statements, reviews the independence of the statutory auditor and the audit firm, and in particular the provision of additional services, reviews the proposal for an external auditor and recommends its choice of external auditor to the management, discusses the auditor's findings and assigns them to be elaborated into specific measures.

In 2011 the IAC monitored a total of eleven areas, namely: Human resources usage in line departments; Risk Management; Design and operation of warehouse management systems; Payments; Management of easements and damages payments; Recruitment; Direct procurement without tenders; The revenue hedging programme; Crisis management; Quality control; and Non-conformity and claims procedures. Three audits were also performed beyond the framework of the approved audit plan. Two covered the company's safety processes and quality control in the Kralice project, while the third was a group audit focusing on the arrangement and administration of contracts for consultancy services.

Risk Management Committee

In 2010, NET4GAS established a Risk Management Committee (RMC) to act as an advisory body for its management, and its activities were continued in 2011. The RMC's tasks include approving internal risk management guidelines and regulations, setting and approving limits for specific risks, and discussing and approving risk management strategies,

including the permitted limits for hedging transactions. It also regularly evaluates the risk situation at NET4GAS, and if there is a danger of a risk event occurring it approves coordinated action based on a proposal from the relevant Risk Manager.

NET4GAS manages its risks with due care and diligence, identifying them on an ongoing basis and evaluating the likelihood of their occurrence and the extent of potential damage. Regular risk monitoring is performed, and quarterly reports are prepared on selected risks.

In view of its foreign currency revenues, currency risks continued to be among the company's most significant risks in 2011. The potential impact of these risks is reduced by hedging them with financial derivatives. The RMC has concluded that the overall risks identified do not present a threat to the company's existence.

Regulatory Compliance Officer

In 2011, NET4GAS continued to adhere to its "Programme of measures to ensure that discriminatory conduct towards other gas market participants is excluded, and rules for disclosing information on the operation and development of the transmission system and access to it" (the "Compliance Programme").

These measures to exclude discriminatory conduct towards other gas market participants were consistently applied over the whole period, both in the context of the TSO unbundling of NET4GAS and as regards its internal organisational structure, as well as during the implementation of the management model for a TSO within a vertically integrated undertaking.

The rules for disclosing information on the operation and development of the transmission system and access to it were also consistently applied.

Adherence to the Compliance Programme was systematically checked by a Compliance Officer appointed at NET4GAS for the entire period, whose chief task was to ensure the implementation of the Compliance Programme.

NET4GAS has published a report on its website detailing the measures it has taken and its adherence to the Compliance Programme.

Compliance Officer and the Code of Conduct

In 2011, the Compliance Officer continued to monitor adherence to the company's Code of Conduct, which is one of the fundamental regulations of NET4GAS.

NET4GAS is conscious of its role in society and its responsibility both towards its customers and business partners and towards its owner and employees. It has therefore committed itself to a clear set of principles which form a framework for its activities in the business and social spheres. These are defined for the company and its employees by its Code of Conduct, and are based on personal responsibility, honesty, loyalty, and respect for others and the environment.

NET4GAS focuses its energies primarily on providing its customers with the services they need, and achieving a corresponding level of commercial success. Only by constantly striving for higher quality and performance can the company continue to achieve adequate revenues for its sole member.

NET4GAS is committed to upholding the rules and regulations applying to human rights, labour relations, environmental protection and the fight against corruption. It undertakes to carry out its activities at all times in accordance both with the law and with unwritten social, cultural and ethical codes. It also subscribes to the fundamental principles form-

ing a basis for the United Nations "Global Compact" initiative. It makes every effort to ensure that all of its customers are fairly treated.

The press releases of NET4GAS are always complete, relevant, accurate in their content, comprehensible and up-to-date, and it respects the professional independence of journalists and the media.

In view of its importance for the economy and society, NET4GAS realises the need for dialogue with state authorities and political parties, although the company itself remains politically neutral. At the same time, it seeks dialogue with groups that are affected by its activities, or whose activities have a direct impact on its business.

NET4GAS endeavours to make its actions an example to others that will advance the principles laid down in its Code of Conduct. With this aim in mind, it encourages all its business partners to adopt the Code and consider its rules their own.

Ombudsman and fraud prevention

The ombudsman in this context is an independent position which chiefly involves collecting proposals and information relating to fraudulent activities or to activities which are in conflict with the company's internal regulations or the law. The ombudsman evaluates these submissions before convening an investigation committee, whose role is to make an independent assessment and evaluation and then propose corrective measures. For NET4GAS this position is performed by an outside law firm. In 2011, an electronic notification system was put into operation which is fully unbundled from the systems and processes of RWE.

CORPORATE SOCIAL RESPONSIBILITY



As a good neighbour,
▪ *we target long-term support on local development where we operate.*



We have a strong sense of corporate social responsibility, and therefore continually extend our commitments to sponsorship and corporate philanthropy.

NET4GAS Closer to Nature

NET4GAS pursues a responsible policy aimed at protecting the environment for future generations. This is why it is the Czech Republic's largest corporate donor in the field of nature conservation.

General partner of the CUNC

2011 marked the fifth consecutive year that NET4GAS has been the general partner of the Czech Union for Nature Conservation (CUNC). In 2011 this joint work was continued by making a further eight unique natural locations more attractive and accessible to the public, bringing the total to 47 since 2007.



Name of nature trail	Region / district	What we built
"Na cvičišti"	Zlín / Vsetín	175 m of paved path plus handrails, new information panels, as well as carrying out repairs to panels and their stands
"Střelenská louka"	Ústí nad Labem / Teplice	information panels, a rest spot, adjustments to the entrance and reconstruction of the access road, enclosure of a meadow
"Chlumská hora"	Karlovy Vary / Karlovy Vary	information panels, signs and direction markers, a seating area
"Capartické louky"	Plzeň / Domažlice	information panels, signposts, a plank walkway, benches, interactive wooden elements for children
"Panská skála"	South Moravia / Vyškov	information panels
"Vřesina"	Moravia-Silesia / Ostrava	large and small information panels, benches, a table with two benches, interactive elements for children, signposts with arrows, wooden steps and handrails
"Čech Sv. Víta"	Karlovy Vary / Cheb	a covered viewing point, an Alpine hut for visitors and the location's management, large information panels, a signpost and direction markers, wooden pile bridges, enclosure of an area for grazing sheep and creating watering places
"Litovický rybník"	Central Bohemia / Prague-West	information panels, a lookout for bird watching

General partner of the project

"Ore Mountains peat bog restoration"

The general partnership with the civic association "DAPHNE Czech Republic – Institute for Applied Ecology" on the project "Ore Mountains peat bog restoration" yielded its first fruits in May 2011 when the first restored peat bog at Cínovecký hřbet was opened to the public. In the area surrounding the mountain village of Cínovec (Zinnwald) a total of 150 wooden dams now keep the water in the bog, and a nature trail informs the public about the entire project. Our collaboration in 2011 also focused on environmental-educational activities in the form of specialist publications and conferences both for the expert community and the general public. Two more locations, peat bogs at U jezera and at U Hory Sv. Šebestiána, will follow in 2012.

NET4GAS Closer to Knowledge

At NET4GAS, we strive for operational excellence delivered by a highly trained and qualified team. Permanently sustainable development, which is one of our top priorities, would be impossible without quality education, training, research and development. That is why all of these have a place in our CSR activities, and why we gave our support to more than twenty kindergartens, basic and secondary schools in 2011.

NET4GAS Closer to Regions

NET4GAS has a long-term and targeted commitment to helping all the areas where it operates. In 2011, it entrusted this task to the experts, and became the main partner of the VIA Foundation's programme "The Place Where We Live", which focuses precisely on community development – renovation of public spaces such as parks, town and village squares, playgrounds and sports fields – with the active participation of the inhabitants in the actual planning and implementation of each project. The programme thereby contributes to the sustainable development both of municipalities and of town neighbourhoods, improving the "material" aspect of the community along with its social ties and quality of life. The expert evaluation committee of the VIA Foundation, where NET4GAS has its member, assessed 57 projects in all, of which five were then awarded support: two organisations from the Plzeň Region and one in each of the South Bohemian, Moravian-Silesian and Zlín regions. The projects will be implemented in 2012.

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PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

FINANCIAL STATEMENTS

Persons Responsible for the 2011 Annual Report of NET4GAS, s.r.o.

The undersigned hereby affirm that the disclosures in this Annual Report are true and that no material circumstances have been omitted or distorted.

In Prague, on 9 March 2012



Thomas Kleefuß
Managing Director



Ing. Jan Nehoda
Managing Director



Ing. Radek Benčík, MBA
Managing Director

Financial Statements

Balance Sheet (in thousand Czech crowns)

	31 December 2011			31 December 2010	
	Gross	Provision	Net	Net	
TOTAL ASSETS	72,504,794	(13,307,082)	59,197,712	62,819,560	
B Fixed assets	64,138,210	(13,306,782)	50,831,428	48,052,935	
B I. Intangible fixed assets	470,284	(171,403)	298,881	139,079	
B. I. 1. Research & development	75,978	(52,529)	23,449	27,864	
2. Software	271,832	(117,663)	154,169	32,302	
3. Royalties	3,022	(1,211)	1,811	2,532	
4. Other intangible fixed assets	97,632	–	97,632	58,248	
5. Intangible fixed assets in the course of construction	21,820	–	21,820	18,133	
B. II. Tangible fixed assets	63,665,926	(13,135,379)	50,530,547	47,911,856	
B. II. 1. Land	181,263	–	181,263	176,928	
2. Constructions	53,004,223	(10,355,854)	42,648,369	44,295,063	
3. Equipment	5,204,397	(2,779,525)	2,424,872	2,826,810	
4. Other tangible fixed assets	554	–	554	597	
5. Tangible fixed assets in the course of construction	4,945,888	–	4,945,888	594,535	
6. Advances paid for tangible fixed assets	329,601	–	329,601	17,923	
B. III. Long-term investments	2,000	–	2,000	2,000	
B. III. 1. Investments in controlled entities / subsidiaries	2,000	–	2,000	2,000	
C. Current assets	8,332,466	(300)	8,332,166	14,731,618	
C. I. Inventories	38,827	–	38,827	32,178	
C. I. 1. Raw materials	38,827	–	38,827	32,178	
C. III. Short-term receivables	8,271,421	(300)	8,271,121	14,643,233	
C. III. 1. Trade receivables	480,961	(300)	480,661	262,428	
2. Receivables – controlling entities / subsidiaries	7,075,516	–	7,075,516	13,772,303	
3. Taxes and state subsidies receivable	165,467	–	165,467	1,874	
4. Short-term advances paid	19,033	–	19,033	11,455	
5. Estimated receivables	400,247	–	400,247	539,668	
6. Other receivables	130,197	–	130,197	55,505	
C. IV. Financial assets	22,218	–	22,218	56,207	
C. IV. 1. Cash in hand	231	–	231	2	
2. Cash at bank	21,987	–	21,987	56,205	
D. I. Prepayments and accrued income	34,118	–	34,118	35,007	
D. I. 1. Prepaid expenses	32,485	–	32,485	15,669	
2. Accrued income	1,633	–	1,633	19,338	

	31 December 2011	31 December 2010
TOTAL LIABILITIES AND EQUITY	59,197,712	62,819,560
A. Equity	38,348,105	53,121,877
A. I. Share capital	31,792,965	46,792,965
A. I. 1. Share capital	31,792,965	46,792,965
A. II. Capital contributions	28,732	28,732
A. II. 1. Other capital contributions	28,732	28,732
A. III. Reserve fund and other reserves	1,525,323	1,274,014
A. III. 1. Legal reserve fund	1,525,323	1,274,014
A. V. Profit / (loss) for the current period (+/-)	5,001,085	5,026,166
B. Liabilities	20,835,240	9,681,413
B. I. Provisions	223,286	321,756
B. I. 1. Other provisions	223,286	321,756
B. II. Long-term liabilities	18,607,222	7,981,365
B. II. 1. Trade payables	55,371	3,461
2. Liabilities – controlling entities / subsidiaries	11,000,000	–
3. Deferred tax liability	7,551,851	7,977,904
B. III. Short-term liabilities	2,004,732	1,378,292
B. III. 1. Trade payables	731,375	494,534
2. Liabilities to employees	23,199	22,218
3. Liabilities for social security and health insurance	13,819	12,773
4. Taxes and state subsidies payable	219,116	177,624
5. Short-term advances received	369,489	407,569
6. Estimated payables	336,301	190,420
7. Other payables	311,433	73,154
C. I. Accruals and deferred income	14,367	16,270
C. I. 1. Accruals	9,597	11,500
2. Deferred income	4,770	4,770

Income Statement (in thousand Czech crowns)

		Accounting period	
		2011	2010
II.	Sales of production	9,895,939	10,298,125
II.	1. Sales of own products and services	9,767,410	10,260,848
	2. Own work capitalised	128,529	37,277
B.	Cost of sales	1,436,286	1,518,764
B.	1. Raw materials and consumables	146,190	153,245
	2. Services	1,290,096	1,365,519
+	Added value	8,459,653	8,779,361
C.	Staff costs	497,198	430,978
C.	1. Wages and salaries	353,865	305,478
	2. Emoluments of board members	120	140
	3. Social security and health insurance costs	123,605	105,677
	4. Other social costs	19,608	19,683
D.	Taxes and charges	17,182	25,646
E.	Depreciation of fixed assets	2,329,871	2,240,648
III.	Sale of fixed assets and raw materials	3,651	12,928
III.	1. Sale of fixed assets	3,527	12,890
	2. Sale of raw materials	124	38
F.	Net book value of fixed assets and raw materials sold	6,010	27,474
F.	1. Net book value of fixed assets sold	5,886	27,474
	2. Net book value of raw materials sold	124	-
G.	Increase / (decrease) in operating provisions	(98,338)	48,732
IV.	Other operating income	29,151	32,940
H.	Other operating charges	73,590	70,576
*	Operating result	5,666,942	5,981,175
IX.	Gain on revaluation of securities and derivatives	228,491	290,669
L.	Loss on revaluation of securities and derivatives	402,691	232,352
X.	Interest income	151,941	187,437
N.	Interest expense	11,688	98
XI.	Other financial income	171,465	139,781
O.	Other financial expense	168,730	162,220
*	Financial result	(31,212)	223,217

		Accounting period	
		2011	2010
Q.	Tax on profit or loss on ordinary activities	634,645	1,178,226
Q.	1. – current	1,060,699	1,437,363
	2. – deferred	(426,054)	(259,137)
**	Profit or loss on ordinary activities after taxation	5,001,085	5,026,166
***	Net profit / (loss) for the financial period	5,001,085	5,026,166
***	Net profit / (loss) before taxation	5,635,730	6,204,392

Statement of changes in shareholders' equity

Year ended 31 December 2011

	Share capital	Legal reserve fund	Retained earnings	Other capital funds	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
As at 1 January 2010	46,792,965	1,041,673	4,646,801	28,732	52,510,171
Contribution to reserve fund	-	232,341	(232,341)	-	-
Profit distribution paid	-	-	(4,414,460)	-	(4,414,460)
Net profit for the current period	-	-	5,026,166	-	5,026,166
As at 31 December 2010	46,792,965	1,274,014	5,026,166	28,732	53,121,877
Contribution to reserve fund	-	251,309	(251,309)	-	-
Decrease of share capital	(15,000,000)	-	-	-	(15,000,000)
Profit distribution paid	-	-	(4,774,857)	-	(4,774,857)
Net profit for the current period	-	-	5,001,085	-	5,001,085
As at 31 December 2011	31,792,965	1,525,323	5,001,085	28,732	38,348,105

Cash Flow Statement

Year ended 31 December 2011

CASH FLOWS FROM OPERATING ACTIVITIES		2011	2010
		CZK'000	CZK'000
Net profit on ordinary activities before tax		5,635,730	6,204,392
A.1	Adjustments for non-cash movements:		
A.1.1	Amortisation/depreciation of fixed assets	2,329,871	2,240,648
A.1.2	Change in provisions	(98,338)	48,732
A.1.3	Loss from disposal of fixed assets	2,359	14,584
A.1.4	Net interest expense/(income)	(140,253)	(187,339)
A.1.5	Change in fair value of financial derivatives	236,487	37,239
A*	Net cash flow from operating activities before tax, changes in working capital	7,965,856	8,358,256
A.2	Working capital changes:		
A.2.1	Change in receivables and prepayments and accrued income	6,381,835	(1,513,299)
A.2.2	Change in short-term payables and accruals and deferred income	62,913	224,958
A.2.3	Change in inventories	(6,649)	11,100
A**	Net cash flow from operating activities before tax	14,403,955	7,081,015
A.3	Interest paid	(11,688)	(98)
A.4	Interest received	151,941	207,324
A.5	Income tax on ordinary activities paid	(1,296,601)	(1,296,225)
A***	Net cash flow from operating activities	13,247,607	5,992,016
CASH FLOWS FROM INVESTING ACTIVITIES		2011	2010
		CZK'000	CZK'000
B.1	Acquisition of fixed assets	(4,801,272)	(624,866)
B.2	Proceeds from the sale of fixed assets	3,527	12,890
B***	Net cash flow from investing activities	(4,797,745)	(611,976)
CASH FLOWS FROM FINANCING ACTIVITIES		2011	2010
		CZK'000	CZK'000
C.1	Change in long- and short-term liabilities	11,044,219	718
C.2	Changes in equity		
C.2.1	Decrease in share capital paid to shareholder	(15,000,000)	-
C.2.2	Profit distribution paid	(4,774,857)	(4,414,460)
C***	Net cash flow from financing activities	(8,730,638)	(4,413,742)
Net increase/(decrease) in cash and cash equivalents		(280,776)	966,298
Cash and cash equivalents as at the beginning of the year		5,078,510	4,112,212
Cash and cash equivalents as at the end of the year		4,797,734	5,078,510

Notes to Financial Statements

Year ended 31 December 2011

1. General information

1.1. Introductory information about the Company

NET4GAS, s.r.o. ("the Company") was incorporated on 29 June 2005 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The Company's main business activities 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 Directors as at 31 December 2011:

Name
Ing. Jan Nehoda
Thomas Kleefuß
Radek Benčík

The members of the Supervisory Board as at 31 December 2011 were as follows:

Name	Position
Martin Friedrich Herrmann	Member
Peter Terium	Member
Andreas Böwing	Member
Radek Hromek	Member
Jan Zaplatílek	Member
Martin Muhr	Member

During 2011 the following changes in the statutory bodies of the Company were made:

Radek Benčík was appointed as a Statutory Director effective as of 1 October 2011. Andreas Böwing was appointed as a member of the Company's Supervisory Board effective as of 3 February 2011. Jürgen Gröner resigned from the Supervisory Board on 5 October 2011 and Peter Terium was ap-

pointed as a member of the Supervisory Board effective as of 6 October 2011. Šárka Vojíková resigned from her position of member of Company's Supervisory Board on 22 December 2011 and Radek Hromek was appointed as a member of the Supervisory Board effective as of 23 December 2011. Both changes were registered in the Commercial Register on 19 January 2012. As of 31 December 2011, the position of Chairman of the Supervisory Board was vacant.

The Company is organised 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 two departments titled as follows: Capacity & Finance and Asset Management.

2. Accounting policies

2.1. 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.

2.2. 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 initially recorded at cost, which includes all costs related with its acquisition. All research costs are expensed. Development costs of which results are intended for trading 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 method over their estimated useful lives as follows (unless the agreement or licence conditions state shorter or longer period):

Intangible fixed asset	Estimated useful life
Software	3 years
Other intangible fixed assets	6 years

The amortisation plan is updated during the useful life of the intangible fixed assets based on the expected useful life.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

Technical improvements of intangible fixed assets exceeding CZK 40,000 per year are 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 CO₂ emissions in the period. The Company applies first-in-first method for the disposals of the emission rights. Sales of emission rights are recorded as other operational revenue at a sales price.

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

2.3. 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 initially recorded at cost, which includes all costs related with its acquisition. Own work capitalised is recorded at cost.

Tangible fixed assets, except for land which is not depreciated, are depreciated applying the straight-line method over their estimated useful lives as follows:

Tangible fixed asset	Estimated useful life
Buildings and constructions	45–70 years
Machinery and equipment	4–40 years
Furniture and fittings	4–8 years
Motor vehicles	5–8 years

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life.

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred. Technical improvements of tangible fixed assets exceeding CZK 40,000 per year are capitalised.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

2.4. Subsidies

The Company accounts for the subsidies in the moments of their receipt or if there is absolutely no doubt that the subsidy will be received, e.g. when the Company receives the document which approves the subsidy payment.

The received subsidies for the purchase of fixed assets are classified as change in short-term payables and accruals and deferred income in the Cash Flow Statement.

2.5. Investments in subsidiaries

Investments in subsidiaries represent ownership interests in enterprises that are controlled by the Company ("the subsidiary").

Investments in subsidiaries are recorded at cost less a provision for diminution in value.

2.6. Inventories

Raw materials are mainly spare parts for the gas pipeline network. Purchased inventories are stated at the lower of cost and net realizable amount. Cost includes all costs related with its acquisition (mainly transport, customs duty, etc.). The weighted average cost method is applied for all disposals.

2.7. Receivables

Receivables are stated at nominal value less a provision for bad debts. A provision for bad debts is created on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

2.8. Cash and cash equivalents

The Company has prepared a cash flow statement using 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 debt securities traded in public markets.

The Company uses so-called cash-pooling within the group. A receivable (liability) that arises from cash-pooling 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.

If the liability arising from cash-pooling represents a form of financing then it is not presented in the Cash Flow Statement as a part of the item Cash and Cash equivalents.

Other deposits within the Group if they are due within three months after the balance sheet date are not presented as a part of the item Cash and Cash equivalents.

2.9. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Company as at the first day of the month.

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

2.10. Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on the balance sheet at cost and sub-

sequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing 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 gain or loss on revaluation of securities and derivatives.

2.11. Revenue recognition

The Company recognizes as revenue mainly all income from fees collected for the transit and domestic gas transportation across the Czech Republic. Sales are stated net of discounts and Value Added Tax.

2.12. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet.

2.13. Provisions

The Company recognises provisions relating to probable future obligations or expenditures, when the purpose of the obligations or expenditures is known but the precise amount, or the time when the obligation or expenditure will crystallise, is not known. However, provisions are not created for future operating expenditures or for expenditures directly related to future revenue transactions.

The Company recognises a provision for an unpaid income tax obligation against current tax expense. If advances paid for the income tax are higher than the estimated income tax payable the difference is recognised as a short-term receivable.

2.14. Interest costs

All interest expenses are expensed. Long-term payables are not discounted.

2.15. Employment benefits

Regular contributions are made to the state to fund the national pension plan. The Company also provides contributions to defined contribution plans operated by independent pension funds.

2.16. Deferred tax

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 asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

2.17. Related parties

The Company's related parties are considered to be the following:

- parties, of which the Company is a subsidiary or an associate, directly or indirectly, and other subsidiaries of these parties; 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; and/or
- subsidiaries.

Material transactions and outstanding balances with related parties are disclosed in Notes 13 and 14.

2.18. 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

(CZK'000)	1 January 2011	Additions	Transfers	Disposals	31 December 2011
Cost					
Research & development	74,842	-	6,360	(5,224)	75,978
Software	129,013	-	147,118	(4,299)	271,832
Royalties	5,630	-	311	(2,919)	3,022
Intangible fixed assets in the course of construction	18,133	157,476	(153,789)	-	21,820
Emission rights	58,248	59,658	-	(20,274)	97,632
Total	285,866	217,134	-	(32,716)	470,284
Accumulated amortisation					
Research & development	(46,978)	(10,156)	-	4,605	(52,529)
Software	(96,711)	(25,216)	-	4,264	(117,663)
Royalties	(3,098)	(615)	-	2,502	(1,211)
Total	(146,787)	(35,987)	-	11,371	(171,403)
Net book value	139,079				298,881

(CZK'000)	1 January 2010	Additions	Transfers	Disposals	31 December 2010
Cost					
Research & development	70,848	-	4,582	(588)	74,842
Software	128,788	-	23,784	(23,559)	129,013
Royalties	3,888	-	1,742	-	5,630
Intangible fixed assets in the course of construction	8,833	39,408	(30,108)	-	18,133
Emission rights	24,750	69,609	-	(36,111)	58,248
Total	237,107	109,017	-	(60,258)	285,866
Accumulated amortisation					
Research & development	(37,470)	(9,940)	-	432	(46,978)
Software	(102,585)	(17,406)	-	23,280	(96,711)
Royalties	(2,444)	(654)	-	-	(3,098)
Total	(142,499)	(28,000)	-	23,712	(146,787)
Net book value	94,608				139,079

During 2010 and 2011 the Company did neither purchase nor sell any emission rights.

4. Tangible fixed assets

(CZK'000)	1 January 2011	Additions	Transfers	Disposals	31 December 2011
Cost					
Land	176,928	-	6,619	(2,284)	181,263
Constructions	52,878,560	-	131,999	(6,336)	53,004,223
Equipment	5,098,892	-	115,739	(10,234)	5,204,397
Other tangible fixed assets	597	2	-	(45)	554
Tangible fixed assets in the course of construction	594,535	3,510,914	840,439	-	4,945,888
Advances paid for tangible fixed assets	17,923	1,406,474	(1,094,796)	-	329,601
Total	58,767,435	4,917,390	-	(18,899)	63,665,926
Accumulated depreciation and provision					
Constructions	(8,574,197)	(1,773,870)	-	1,513	(10,346,554)
Equipment	(2,272,082)	(517,440)	-	9,997	(2,779,525)
Provision for constructions	(9,300)	-	-	-	(9,300)
Total	(10,855,579)	(2,291,310)	-	11,510	(13,135,379)
Net book value	47,911,856				50,530,547

(CZK'000)	1 January 2010	Additions	Transfers	Disposals	31 December 2010
Cost					
Land	172,225	–	8,256	(3,553)	176,928
Constructions	52,899,862	–	190,535	(211,837)	52,878,560
Equipment	5,140,489	–	277,274	(318,871)	5,098,892
Other tangible fixed assets	601	–	–	(4)	597
Tangible fixed assets in the course of construction	368,472	631,012	(404,949)	–	594,535
Advances paid for tangible fixed assets	–	89,039	(71,116)	–	17,923
Total	58,581,649	720,051	–	(534,265)	58,767,435
Accumulated depreciation and provision					
Constructions	(7,033,795)	(1,721,269)	–	180,867	(8,574,197)
Equipment	(2,107,055)	(483,618)	–	318,591	(2,272,082)
Provision for constructions	(13,350)	(9,300)	–	13,350	(9,300)
Total	(9,154,200)	(2,214,187)	–	512,808	(10,855,579)
Net book value	49,427,449				47,911,856

Additions of tangible fixed assets in 2011 represent mainly Gazelle pipeline construction.

5. Investments in subsidiaries

As at 31 December 2010 and 2011:

	Number of shares	Nominal value	Cost	Carrying value	% of capital
			(CZK'000)	(CZK'000)	
Czech entity					
BRAWA, a.s.	2,000	CZK 1,000	2,000	2,000	100

BRAWA, a.s., with its registered office at Rubešova 162/8, Praha 2 – Vinohrady, was incorporated based on the notary deed effective as at 27 October 2010. The company was registered in the Commercial Register maintained by the Regional Court in Prague, section B, insert 16622 based on the order of the Regional Court in Prague, which came into force on 10 November 2010. The sole shareholder of the company is NET4GAS, s.r.o. The share capital is CZK 2,000 thousand and was fully paid.

6. Receivables

(CZK'000)		31 December 2011	31 December 2010
Trade receivables	– current	478,822	262,306
	– overdue	2,139	271
Total trade receivables		480,961	262,577
Estimated receivables		400,247	539,668
Other receivables	– current	7,390,213	13,841,137
Provision for bad debts		(300)	(149)
Net book value of short-term receivables		8,271,121	14,643,233

Unsettled receivables have not been secured and none of them are due after more than 5 years.

Other receivables as at 31 December 2011 include mainly Cash-pooling receivables from RWE Transgas, a.s. (see Note 14 – Related party transactions) in the amount of CZK 7,075,516 thousand (as at 31 December 2010: CZK 13,772,303 thousand), from which CZK 2,300,000 thousand (as at 31 December 2010: CZK 8,750,000 thousand) are due after three months, and tax receivables of CZK 165,467 thousand (as at 31 December 2010: CZK 1,874 thousand) and receivables from financial derivatives in the amount of CZK 69,505 thousand (as at 31 December 2010: CZK 49,654 thousand).

7. Equity

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

The legal 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 only.

On 23 March 2011 the sole shareholder approved the financial statements for 2010 and decided about the allocation of profit earned of CZK 5,026,166 thousand.

On 15 June 2011 the sole shareholder approved the decrease in share capital of the Company in the amount of CZK 15,000,000 thousand. The decrease was recorded in the Commercial Register on 9 November 2011 and the settlement was realized on 23 December 2011 through loan provided by the sole shareholder RWE Transgas, a.s. in the amount of CZK 11,000,000 thousand and netting using Cash-pooling in the amount of CZK 4,000,000 thousand.

8. Provisions

(CZK'000)	Total
Opening balance as at 1 January 2010	269,088
Charge for the year	187,282
Released in the year	(36,986)
Used in the year	(97,628)
Closing balance as at 31 December 2010	321,756
Charge for the year	51,618
Released in the year	(69,786)
Used in the year	(80,302)
Closing balance as at 31 December 2011	223,286

For an analysis of the current and deferred income tax, see Note 11 – Income tax.

Provisions include provision for restructuring, employment benefits and provision for severance payments and share option bonus plan.

9. Liabilities and commitments

(CZK'000)	31 December 2011	31 December 2010
Trade payables – current	731,375	494,534
Short-term advances received	369,489	407,569
Estimated payables	336,301	190,420
Other payables – current	567,567	285,769
Total short-term liabilities	2,004,732	1,378,292
Trade payables	55,371	3,461
Liabilities – controlling entities / subsidiaries	11,000,000	–
Deferred tax liability*	7,551,851	7,977,904
Total long-term liabilities	18,607,222	7,981,365
Total short-term and long-term liabilities	20,611,954	9,359,657

* see note 11 – Income Tax

Short-term advances received represent mainly advances received for gas transit.

Other short-term liabilities as at 31 December 2011 included mainly liabilities arising from financial derivatives in the amount of CZK 298,404 thousand (as at 31 December 2010: CZK 42,066 thousand), grants received from the European Commission based on Commission decision concerning the granting of Union financial aid in the field of Regulation (EC) No. 663/2009 for Gas and Electricity Interconnectors. In 2011 the grant in the amount of CZK 60,062 thousand was provided for Action no. EEPR-2009-INTg-RF-CZ-PL – SI2.567654 / SI2.567657 / SI2.567662 and grant in the amount of CZK 17,813 thousand for Action no. EEPR-2009-INTg-RF-CZ-02 – SI2.564516. In 2010 the grant in the amount of CZK 27,633 thousand was provided for Action no. EEPR-2009-INTg-RF-CZ-01 – SI2.568090 / SI2.568097 / SI2.568099 / SI2.568101 / SI2.568105 / SI2.568107 realised in 2011, and CZK 43,616 thousand for Actions no. EEPR-2009-INTg-RF-CZ-02 – SI2.564516; EEPR-2009-INTg-RF-CZ-PL – SI2.567654 / SI2.567657 / SI2.567662. Further other liabilities in the amount of CZK 191,288 thousand (as at 31 December 2010: CZK 172,454 thousand).

As at date of the preparation of the financial statements, the Company recorded the balance of taxes and subsidies in the amount of CZK 92,862 thousand (2010: CZK 53,478 thousand) which represents the emission rights not used until this date.

Long-term trade liabilities arise from long-term retentions in the amount of CZK 55,731 thousand (as at 31 December 2010: CZK 3,461 thousand).

Liabilities – controlling entities / subsidiaries arise from loan in the amount of CZK 11,000,000 thousand provided by the parent company RWE Transgas, a.s. according to the loan agreement dated 21 December 2011. The loan was provided as a settlement related to decrease in the share capital (see also Note 7 Equity). In accordance with the contract the loan is due on 23 December 2021 at the latest and the interest rate for 2011 was 4.22%.

The Company does not have any other overdue liabilities as at 31 December 2011 and 2010.

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.

The above mentioned liabilities were not secured by any fixed assets of the Company and do not have a maturity longer than 5 years except for the loan provided by parent company which is due on 23 December 2021 at the latest.

Total non-cancellable future commitments in respect of operating leases (not recorded in the balance sheet) amounted to CZK 93,756 thousand (as at 31 December 2010: CZK 0 thousand).

10. Derivative financial instruments

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

Trading derivatives:

(CZK'000)	31 December 2011			31 December 2010		
	Fair value		Notional value	Fair value		Notional value
	Positive	Negative		Positive	Negative	
Currency forwards	1,732	(228,407)	89,937	43,349	(39,789)	(2,037,259)
Currency swaps	67,773	(69,997)	(170,426)	6,305	(2,277)	(260,393)
Total trading derivatives	69,505	(298,404)	(80,489)	49,654	(42,066)	(2,297,652)

Notional amount represents net presentation of total volume of concluded transactions. The notional amount of derivatives has been translated into CZK at the exchange rate published by the Czech National Bank as at 31 December 2011.

Changes in fair value of trading derivatives are recorded in the income statement.

Certain derivative transactions, although providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under Czech accounting rules. Therefore, they are presented above as trading derivatives.

11. Income tax

The income tax expense can be analysed as follows:

(CZK'000)	2011	2010
Current tax expense	1,243,073	1,443,886
Deferred tax expense	(426,054)	(259,137)
Adjustment of prior year tax expense based on final CIT return and additional income tax returns	(182,374)	(6,523)
Total income tax	634,645	1,178,226

Current tax can be analysed as follows:

(CZK'000)	2011	2010
Net profit before taxation	5,635,730	6,204,392
Non-taxable revenues	(556,571)	(42,525)
Difference between accounting and tax depreciation/amortisation	1,400,535	1,301,620
Non-deductible costs	83,680	142,298
Gifts	(20,885)	(6,383)
Net taxable profit	6,542,489	7,599,402
Current income tax (19%)	1,243,073	1,443,866

The deferred tax was calculated at 19% (the rate enacted for 2011 and subsequent years).

During 2011 the amount of CZK 110,065 thousand was returned from the financial institution on the basis of additional tax returns for years 2008 and 2009.

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

(CZK'000)	31 December 2011	31 December 2010
Deferred tax liability arising from:		
Difference between accounting and tax value of fixed assets	(7,594,325)	(8,039,038)
Deferred tax asset arising from:		
Other provisions and allowances	42,474	61,134
Net deferred tax liability	(7,551,851)	(7,977,904)

12. Revenue analysis

Revenue from operating activities:

(CZK'000)	2011	2010
Transportation		
– transit – foreign	7,574,624	7,792,139
– transport – domestic	2,113,741	2,407,376
Other – domestic	79,045	61,333
Total sales of own products and services	9,767,410	10,260,848
Own work capitalised	128,529	37,277
Sales of long-term assets and raw materials	3,651	12,928
Other operating income	29,151	32,940
Total revenue from operating activities	9,928,741	10,343,993

13. Employees

	2011	2010
Members of Statutory bodies who are employees	2	1
Average number of other members of management	9	8
Average number of other staff	533	510
Total number of employees	544	519

None of the Company's employees was a member of the Supervisory Board in 2010. During 2011 one employee of the Company was appointed as a member of Supervisory Board.

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

(CZK'000)	Management	Other staff	Total
2011			
Wages and salaries	28,950	324,915	353,865
Emoluments of Board members	120	–	120
Social security costs	6,984	116,621	123,605
Other social costs	129	19,479	19,608
Total staff costs	36,183	461,015	497,198
2010			
Wages and salaries	23,992	281,486	305,478
Emoluments of Board members	140	–	140
Social security costs	5,157	100,520	105,677
Other social costs	212	19,471	19,683
Total staff costs	29,501	401,477	430,978

Other transactions with the Company's management are described in Note 14 – Related party transactions.

14. Related party transactions

All material transactions with related parties are presented in this note.

The 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 legal reserve fund to its shareholder. The shareholder is required to settle a loss of the Company that could not be settled from the legal reserve fund or other Company's available funds. The profit/loss transfer agreement was terminated as of 31 December 2011 and profit transfer for the year 2011 will be realized under the conditions of the agreement.

The Company was involved in the following related party transactions:

(CZK'000)	2011	2010
Purchases/costs:		
RWE Transgas, a.s. (services, interests)	592,436	637,564
RWE Interní služby, s.r.o. (services)	210,761	218,011
RWE Aktiengesellschaft (financial instruments, services)	508,404	330,165
RWE Plynoprojekt, s.r.o. (services, PPE)	6,281	56,623
Other companies within the RWE Group	8,601	6,711
Total purchases	1,326,483	1,249,074
Sales:		
Transportation (transit and domestic transport):		
RWE Transgas, a.s.	7,818,538	8,016,764
Regional distributors within the RWE Group	1,082,544	1,340,884
Total sales	8,901,082	9,357,648
Other sales:		
RWE Transgas, a.s. (services, interests)	151,850	164,575
RWE Aktiengesellschaft (financial instruments)	313,276	368,137
RWE Gas Storage, s.r.o. (services, PPE)	11,895	29,127
Other companies within the RWE Group	25,161	9,609
Total other sales	502,182	571,448

The following related party balances were outstanding as at:

(CZK'000)	31 December 2011	31 December 2010
Trade receivables:		
RWE Transgas, a.s.	460,369	250,453
Other companies within the RWE Group	8,735	1,132
Total trade receivables	469,104	251,585
Advances paid:		
RWE Interní služby, s.r.o.	5,789	–
Other companies within the RWE Group	623	976
Total advances paid	6,412	976
Estimated receivables:		
RWE Transgas, a.s.	222,250	311,740
RWE Gas Storage, s.r.o.	1,619	3,006
Other companies within the RWE Group	108,696	151,430
Total estimated receivables	332,565	466,176
Other receivables:		
RWE Aktiengesellschaft (financial instruments)	69,505	49,654
Receivables arising from cash-pooling:		
RWE Transgas, a.s.	7,075,516	13,772,303
Total receivables	7,953,102	14,540,694

(CZK'000)	31 December 2011	31 December 2010
Trade payables:		
RWE Transgas, a.s.	113,828	144,053
RWE Interní služby, s.r.o.	16,167	39,432
Other companies within the RWE Group	13,458	6,110
Total trade payables	143,453	189,595
Advances received:		
RWE Transgas, a.s.	189,378	188,570
Other companies within the RWE Group	112,759	133,938
Total estimated payables	302,137	322,508
Estimated payables:		
RWE Interní služby, s.r.o.	81	25,210
Other companies within the RWE Group	13,585	362
Total estimated payables	13,666	25,572
Other payables:		
RWE Aktiengesellschaft (financial instruments)	298,404	42,066
RWE Transgas, a.s. (loan)	11,000,000	–
Total payables	11,757,660	579,741

Receivables and payables arising from cash-pooling and received loan bear market interest rate. Trade receivables and payables arose under the same terms and conditions as with third parties.

The Company's cars are made available for use by board members and other management. The total acquisition costs is CZK 13,307 thousand (2010: CZK 11,356 thousand).

The Company provides foreign members of management with accommodation, in 2011 rent totalled to CZK 2,082 thousand (2010: CZK 1,588 thousand).

The Company provides members of management with share option plan for which the provision in the amount of CZK 5,162 thousand was created in 2011 (2010: CZK 5,936 thousand).

Besides the above mentioned remuneration and benefits there was no other consideration provided in 2011 and 2010 to the sole shareholder, members of the Statutory and Supervisory Board and management either in cash or in kind.

15. Fees paid and payable to the audit company

The information relating to the fees paid and payable for services performed by the audit company is included in the consolidated financial statements of the ultimate parent company of the group.

16. Commitments

Capital commitments contracted by the Company as at 31 December 2011 were CZK 2,676,829 thousand mainly related to the construction of Gazelle pipeline (as at 31 December 2010: CZK 4,553,354 thousand).

17. Contingent liabilities

The Company issued guarantees in the amount of CZK 38,929 thousand as at 31 December 2011 (2010: CZK 38,673 thousand).

The management of the Company is not aware of any other significant unrecorded contingent liabilities as at 31 December 2011.

18. Cash flow statement

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

(CZK'000)	31 December 2011	31 December 2010
Stamps and vouchers	231	2
Cash in bank	21,987	56,205
Receivable arising from cash-pooling	4,775,516	5,022,303
Cash and cash equivalents	4,797,734	5,078,510

19. Subsequent events

The change in members of the Supervisory Board is disclosed in Note 1 – General information.

No other events have occurred subsequent to the year-end that would have a material impact on the financial statements as at 31 December 2011.

6 February 2012



Thomas Kleefuß
Statutory Representative



Jan Nehoda
Statutory Representative

SUPERVISORY BOARD REPORT

The Supervisory Board continuously monitored the Company's business activities, its results and the Company's Management performance of their powers and responsibilities. At its two meetings held in 2011, the Supervisory Board had a quorum and discussed all matters for which it is responsible under the relevant legal regulations, the Company's Articles 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 Company's Management as part of its supervisory activity. The Company's Management 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 Articles of Association, or the decisions of the sole member acting in the capacity of the General Meeting.

On 24 February 2012 the Supervisory Board reviewed the Company's annual financial statements for the period ended on 31 December 2011, and the Company's Management proposal for the distribution of profit.

Concurring with the auditor's opinion the Supervisory Board concluded that the annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, its financial performance and its cash flows for the period 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 2011 and the Company's Management proposal for profit distribution.

At its meeting held on 7 November 2011 the Supervisory Board acknowledged the decision of the sole shareholder in June 2011 to decrease the registered capital of NET4GAS, s.r.o. by CZK 15 bn.

During the course of 2011 the following changes in the composition of the Supervisory Board were effected:

Effective from 3 February 2011 Mr. Andreas Böwing was elected to the Supervisory Board. Dr. Jürgen Gröner resigned from the Supervisory Board on 5 October 2011 and effective from 6 October 2011 Mr. Peter Terium was elected to the Supervisory Board. The term of office of Mr. Martin Herrmann, Mr. Jan Zaplatílek and Mrs. Šárka Vojíková, members of the Supervisory Board, ended on 22 December 2011. Mr. Herrmann and Mr. Zaplatílek were re-elected to the Supervisory Board with effect from 23 December 2011 and effective from the same date Mr. Radek Hromek was elected as a new member of the Supervisory Board. With effect from 24 February 2012 the Supervisory Board re-elected Mr. Herrmann as the Chairman.

Resignations and elections occurred upon a decision adopted by the sole member acting in the capacity of the Company's General Meeting.

The Supervisory Board expresses its gratitude to all employees for their work for the Company in 2011.

In Prague, on 24 February 2012



Martin Friedrich Herrmann
Chairman of the Supervisory Board

REPORT ON RELATIONS

In view of the fact that NET4GAS, s.r.o. (hereinafter the "Company") did not enter into any control agreement effective in 2011 under which it would be the controlled entity, the Company has therefore drawn up in accordance with Section 66a(9) of Act No. 513/1991 Coll., the Commercial Code, as amended, the following Report on Relations covering the relations among the Company and controlling entities and among the Company and other entities controlled by the same controlling entities (hereinafter "Related Parties") during 2011 in all cases where the Company is aware of the existence of such Related Parties. This Report on Relations form an integral part of the Company's Annual Report 2011, and are provided to the members of the Company for their review within the same period of time and under the same conditions as the Financial Statements.

1. Controlling entities

For the duration of the entire accounting period the Company was controlled by the following entities:

a) directly

RWE Transgas, a.s., with its registered office at Limuzská 12/3135, Prague 10, 100 98, Czech Republic, ID No. 26460815, as the sole member of the Company.

b) indirectly

RWE Gas International N.V., with its registered office at 5211 AK, s-Hertogenbosch, Willemsplein 4, Kingdom of the Netherlands, as the sole shareholder of RWE Transgas, a.s., and RWE Aktiengesellschaft (hereinafter "RWE AG"), with its registered office at Opernplatz 1, 45128 Essen, Federal Republic of Germany, as the sole shareholder of RWE Gas International N.V.

2. Other Related Parties

The Company requested the above controlling entities to provide a list of any other entities controlled by the same controlling entities during the last accounting period, and the Company has drawn up the present Report on Relations on the basis of the information provided by these controlling entities and the other information available to it. A diagram showing the structure of control and relations among companies in the relevant line of the RWE Group as of 31 December 2011 is provided on the page 26 of the Annual Report.

3. Agreements concluded between the Company and Related Parties, performance provided and counter-performance received

The agreements concluded between the Company and Related Parties during the last accounting period are shown in Annex No. 1. No damage has been incurred by the Company due to the performance of these agreements or agreements concluded in preceding accounting periods, therefore it has not been necessary to secure compensation for damage or to conclude any agreements on such compensation. The values of performance and counter-performance in Related Party Transactions during the last accounting period are shown under Note 14 of the Notes to the Financial Statements as of 31 December 2011.

4. Other legal acts performed in the interest of Related Parties

The Company did not perform any legal acts in the interest or at the instigation of Related Parties during the last accounting period.

5. Measures adopted or carried out in the interest or at the instigation of Related Parties

The Company neither adopted nor carried out any measures in the interest or at the instigation of Related Parties during the last accounting period.

6. No damage

The Company incurred no damage during the last accounting period as a result of agreements with Related Parties, other legal acts performed in the interest of Related Parties or measures carried out in the interest or at the instigation of Related Parties which were concluded or adopted during the last accounting period or in any preceding accounting period.

7. Confidentiality

None of the information contained in this Report on Relations constitutes a trade secret of the Company.

8. Conclusion

This Report on Relations have been approved by the management of the Company and have been submitted for review to the Supervisory Board and to the Company's auditor, who is responsible for verifying the financial statements in accordance with specific legislation.

In Prague, on 15 February 2012



Thomas Kleefuß
Managing Director



Ing. Jan Nehoda
Managing Director



Ing. Radek Benčík, MBA
Managing Director

Annex No. 1
**Agreements concluded between the Company
and Related Parties in 2011**

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
Jihomoravská plynárenská, a.s.	Contract for Work: Objective checking of odourisation of gas at distribution system	1
JMP Net, s.r.o.	Agreement on electricity supply for Velké Němčice	1
	Agreement on gas transmission	1
RWE Distribuční služby, s.r.o.	Contract for Work	1
	Purchase orders	1
RWE GasNet, s.r.o.	Contract for Work	1
	Purchase Agreement	2
	Agreement on the re-invoicing of costs for electricity consumed by regulation station equipment	1
	Agreement on gas transmission	1
RWE Gas Storage, s.r.o.	Addendum No. 1 to an Agreement securing investor activities	1
	Addendum No. 2 Notice of termination of an Agreement securing investor activities	1
	Addendum No. 5 to an Agreement securing service and technical activities at UGS – termination	1
	Addendum No. 4 to an Agreement on the lease of non-residential premises	1
	Addendum No. 5 to an Agreement on the lease of non-residential premises	1
	Agreement on the termination of an Agreement on the provision of dispatching services	1
	Purchase Agreement – Purchase of main shut-off valve – Háje UGS	1
	Lease Agreement for non-residential premises	1
	Notice of termination of a Lease Agreement	1
	Agreement on the sale of gas – additional sale (2011)	1
	Agreement on the sale of gas (2012)	1
	Contract for Work – Warranty testing of Třanovice turbine compressor unit	1

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
RWE Interní služby, s.r.o.	Addendum No. 8 – Agreement on the termination of an Agreement on the provision of facility management services	1
	Addendum No. 3 – Agreement on the termination of an Agreement on car fleet services	1
	Addendum No. 6 – Agreement on the termination of an Agreement on information technology services	1
	Addendum No. 1 – Agreement on the termination of an Agreement on translation and interpretation services	1
	Addendum No. 5 – Agreement on the termination of an Agreement on the provision of mobile telephone and IP telephone leasing, logistics and billing services	1
	Addendum No. 1 – Agreement on the termination of an Agreement on consent to the provision of transmission network services to third parties	1
	Addendum No. 1 – Agreement on the termination of an Agreement on the provision of user support services	1
	Addendum No. 2 to an Agreement on the provision of electronic communications services with a Loan Agreement	1
	Addendum No. 5 to an Agreement on the lease of non-residential premises	1
	Addendum No. 6 to an Agreement on the lease of non-residential premises	1
	Addendum No. 7 to an Agreement on the lease of non-residential premises	1
	Vehicle Rental Agreement	1
	Contract for Work – Implementation of IT systems in the framework of the Black Label project	1
	Addendum No. 1 to a Contract for Work – Implementation of IT systems in the framework of the Black Label project	1
	Contract on assignment of licences	2
	Contract for Work – WAN connection for Brandov BTS	1
	Contract for Work – STORK pipeline telecommunications system	1
	Purchase Agreement – TruconneXion licence transfer agreement	1
	Purchase Agreement – Agreement on assignment of licences to GEOVAP	1
	Purchase Agreement – Purchase of IT assets in the framework of the Black Label project	1
	Purchase Agreement – Telco assets	1
	Purchase Agreement – Purchase of furniture	1
	Agreement on the assignment of rights and the assumption of obligations in regard to software and data files – Rights Transfer Agreement	1
	Agreement on the assignment of an Agreement on maintenance and support of HW	1
	Agreement on the assignment of rights and obligations under an Agreement on the provision of a right to use optical fibres – Multilateral Agreement	1

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
RWE Interní služby, s.r.o.	Agreement on the assignment of rights and obligations – Multilateral Agreement	1
	Agreement on the assignment of rights and obligations – Notice of termination of an Agreement on the provision of services	1
	Agreement on the assignment of rights and obligations – Rights Transfer Agreement	1
	Agreement on the assignment of part of a licence – CORNFLEX	1
	Agreement on the assignment of licences – BENTLEY PROGRAM SELECT EVROPA	1
	Agreement on the assignment of a licence – GE Smallworld	1
RWE Key Account CZ, s.r.o.	Agreement on electricity supplies	1
	Addendum No. 1 to an Agreement on electricity supplies	1
	Addendum No. 2 to an Agreement on electricity supplies	1
RWE Plynoprojekt, s.r.o.	Contract for Work – Addendum No. 2: Construction No. 6105 “High-pressure gas pipeline of dimensions DN 50, PN 63 – Třanovice, Czech/Polish border”	1
	Addendum No. 2 to an Agreement on the lease of non-residential premises	1
	Addendum No. 3 to an Agreement on the lease of non-residential premises	1
	Contract for Work – Addendum No. 1 – Moravia EIA	1
	Contract for Work – Addendum No. 2 – Moravia EIA	1
	Contract for Work – Gazelle – Support for the easement acquisition (NUTS list)	1
	Contract for Work – Construction work: Cleanability of gas pipeline of dimensions DN 700, path: Velké Němčice – Uherčice – Strachotín	1
	Agreement – Moravia EIA – Termination of Confidentiality Agreement	1
	Contract for Work – Digitalisation of Plynoprojekt Technical Archive	1
	Purchase orders	1
RWE Transgas, a.s.	Letter dated 25. 1. 2011 to the Agreement on gas transmission of 1. 1. 2006	1
	Side letter of 20. 1. 2011 in regard to Addendum No. 13 and 14 to agreements on gas transmission of 28. 9. 1994	1
	Side letter of 16. 5. 2011 in regard to Addendum No. 15 to agreements on gas transmission of 28. 9. 1994	2
	Addendum No. 1 to an Agreement on gas transmission	1
	Agreement on gas transmission	1
	Addendum No. 1 to an Agreement on flexibility services for 2012	1

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
RWE Transgas, a.s.	Agreement on flexibility services for 2012	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the provision of reverse notice services	1
	Agreement on the termination of a Consultancy Agreement	1
	Addendum No. 6 to an Agreement on the lease of non-residential premises	1
	Addendum No. 7 to an Agreement on the lease of non-residential premises	1
	Addendum No. 8 to an Agreement on the lease of non-residential premises	1
	Purchase Agreement – Sale of machinery	1
	Vehicle Rental Agreement	1
	Purchase Agreement – Purchase of technology	1
	Framework Loan Agreement	1
	Purchase Agreement – Books from RWE library	1
	Purchase Agreement – Purchase of containers	1
	Agreement on the termination of a Profit Transfer Agreement	1
Agreement on the termination of services provision in the facility management Bohemia	1	
Agreement on the termination of services provision in the facility management Moravia	1	
Agreement on the termination of an Agreement on the lease of vehicles	1	
SMP Net, s.r.o.	Agreement on gas transmission	1
	Agreement on the relocation of gas system equipment and the reimbursement of associated costs	1
VČP Net, s.r.o.	Purchase Agreement	1
	Agreement on the right to undertake construction 3150 – Bartoušov	1
	Agreement on gas transmission	1

Auditor's Report on the Financial Statements



Independent auditor's report to the shareholder of NET4GAS, s.r.o.

We have audited the accompanying financial statements of NET4GAS, s.r.o., identification number 27260364, with registered office at Na Hřebenech II 1718/8, Praha 4 – Nusle (“the Company”), which comprise the balance sheet as at 31 December 2011, 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”).

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

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 of the financial statements that give a true and fair view 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.

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, Prague 2, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

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.



Shareholder of NET4GAS, s.r.o. Independent auditor's report

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

6 February 2012

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

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Note: Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Auditor's Report on the Annual Report and Report on Relations



Independent auditor's report to the shareholder of NET4GAS, s.r.o.

We have audited the financial statements of NET4GAS, s.r.o., identification number 27260364, with registered office at Na Hřebenech II 1718/8, Praha 4 - Nusle ("the Company") for the year ended 31 December 2011 disclosed in the annual report on pages 53–76 and issued the opinion dated 6 February 2012 and disclosed on page 86–87.

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 2011 is consistent with the financial statements referred to above. The Statutory Body is 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 2011 is consistent, in all material respects, with the financial statements.

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, Prague 2, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

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Shareholder of NET4GAS, 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 2011 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual 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.

9 March 2012

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

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Note: Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Abbreviations Used

ACER	Agency for the Cooperation of Energy Regulators
BTS	Border Transfer Station
CEE	Central and Eastern Europe
CEER	Council of European Energy Regulators
CEGH	Central European Gas Hub
CEO	Chief Executive Officer
COO	Chief Operations Officer
CS	Compressor Station
CSR	Corporate Social Responsibility
CUNC	Czech Union for Nature Conservation
CZK	Czech Crown
EASEE-gas	European Association for the Streamlining of Energy Exchange – gas
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
EC	European Commission
EEPR	European Energy Program for Recovery
EIA	Environmental Impact Assessment
ENTSO-G	European Network of Transmission System Operators for Gas
EP	European Parliament
EU	European Union
GATRAC	Gas Transport Cooperation
GIE	Gas Infrastructure Europe
IAC	Internal Audit Committee
ITO	Independent Transmission Operator
OPAL	Die Ostsee-Pipeline-Anbindungs-Leitung / Baltic Sea Pipeline Link
RMC	Risk Management Committee
SLA	Service Level Agreement
TEN-E	Trans-European Energy Networks
TSO	Transmission System Operator
UGS	Underground Gas Storage

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In all matters of interpretation of information, views or opinions, the Czech version of the annual report takes precedence over the English version.

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NET4GAS, s.r.o.

Na Hřebenech II 1718/8
140 21 Prague 4-Nusle
Czech Republic

Tel.: +420 220 221 111
Fax: +420 220 225 498

Email: info@net4gas.cz
Web: www.net4gas.cz