

Annual Report 2006



Key ratios for 2006

Total sales (CZK m)	11,099
EBITDA (CZK m)	7,943
Operating result (CZK m)	5,829
Profit before taxation (CZK m)	5,893
Profit after taxation (CZK m)	4,457
Investments (CZK m)	211
Number of employees (converted to FTE)	791

The term Company used in the text refers to RWE Trngas Net, s.r.o.

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Nový Hrádek nad Dyjí. A ruined castle in the Podyjí National Park, on the Czech-Austrian border.

The most beautiful castle built by Jan Jindřich, Margrave of Moravia and brother of Charles IV. This at least is what experts in castle architecture claim. It was built on a high cliff over the Dyje river in 1358 and originally served as a fortified hunting lodge. After the founder's death the castle changed hands many times, which contributed to its gradual dilapidation. The Swedes dealt Nový Hrádek its final blow in 1646 when they destroyed the structure. Only remnants of the bulwark and masonry have been left of this ancient beauty.



1. The CEO's Statement



The year 2006 was a test for us, and this test proved how well RWE Transgas Net had been prepared for starting its independent operation. I am pleased to be able to convey to our customers, employees, and other partners, the message that the Company managed the first twelve months of its existence excellently. After its demerger from RWE Transgas, a.s. as part of the unbundling process, our Company was capable of ensuring – without any outages or crises – the safe and reliable operation of the natural gas transmission system in the Czech Republic.

On 1 January 2006 natural gas purchase and sale was separated from natural gas transmission. RWE Transgas Net is therefore responsible for international natural gas transmission across the Czech Republic to western European countries, for inland gas transmission to meet the Czech Republic's needs, and for the operation of the gas storage system.

Our Company was created with the intention of carrying on all of these activities under equal conditions for third-party access to the Czech gas transmission system. We have therefore drawn up a new TSO Code and a new system for customer service. For example, we had to design a new method of transmission capacity booking and of providing information about capacity availability. In this connection we also started to perform under our Compliance Programme. Its purpose is to provide for non-discriminatory access to the transmission system and to make information available in a non-discriminatory way. In this effort, we worked with the Energy Regulatory Office, which actively oversaw that independent transmission conditions would be put in place.

All of this took place while being aware that from the very beginning we were building the credit of a renowned and trustworthy partner. This was only made possible thanks to considerable investments in a corresponding structure of both infrastructure and manpower capacities. However, at the same time we focused on identifying ineffective processes and their reengineering, while gradually reducing the costs. We have optimised the amount of the Company's assets and prepared a strategy of replacements and refurbishments with a view to the quality of gas supplies.

RWE Transgas Net's preparations for the completion of the Czech natural gas market's liberalisation were accompanied by developing a completely new and flexible model of gas transport at the national level. The model will be based on a separate nomination of input into and output from the transmission system and the introduction of a virtual trading point. From January 2007 these changes will significantly enhance convenience for the traders who use the Czech gas transmission system. At the same time we were making preparations for accepting the powers and obligations of the Gas Market Operator in the Czech Republic, which will take place next year. The great responsibility that is incumbent on this role is borne out by the fact that our Company will newly organise the supplier switching processes, register final customers, and allocate supplies and offtakes to the traders operating in the Czech Republic.

In all respects, 2006 was very challenging for us all. I would therefore like to express my sincere thanks to all the employees and partners for their effort and for the professionalism with which they approached all the tasks and challenges.

Prof Dr Klaus Homann
Director and CEO

The Board of Directors, 31 December 2006

Jan Nehoda

Managing Director

Born: 29 April 1950

Education: Brno Technical University, Faculty of Mechanical Engineering

Membership of bodies of other companies: None

Any other business activities: None

Dr Klaus Homann

Managing Director, CEO

Born: 27 February 1950

Education: Ruhr-Universität Bochum and Universität Essen

Membership of bodies of other companies: RWE Energy Czech Republic, s.r.o. Managing Director; Chairman of the Severočeská plynárenská, a.s. and Západočeská plynárenská, a.s. Supervisory Boards; Member of the Středočeská plynárenská, a.s. Supervisory Board; RWE Transportnetz Gas GmbH Managing Director

Any other business activities: None

Thomas Kleefuss

Managing Director

Born: 19 December 1963

Education: Universität Köln am Rhein

Membership of bodies of other companies: None

Any other business activities: None

2. *Report of the Supervisory Board for 2006*

Supervisory Board members were appointed on 22 December 2006 by a decision passed by the sole shareholder of the Company, RWE Transgas, a.s., acting in the capacity of the General Meeting.

At its first meeting held on 16 January 2007 the Supervisory Board elected Dr Werner Roos as the Chairman and Martin Friedrich Herrmann as the Vice-Chairman of the Supervisory Board.

On 27 March 2007 the Supervisory Board reviewed the Company's annual financial statements as at 31 December 2006 and the Managing Directors' proposal for the distribution of profit. In performing its supervisory activity the Supervisory Board did not find anything at variance with generally applicable legal regulations, the Company's Memorandum of Association, or the decisions of the sole shareholder acting in the capacity of the General Meeting. In keeping with the auditor's opinion the Supervisory Board recommends that these annual financial statements, including the Managing Directors' proposal for profit distribution, be approved.

27 March 2007



Dr Werner Roos

Chairman, Supervisory Board

The Supervisory Board, 31 December 2006

Andreas Böwing

Member

Born: 11 April 1955

Education: Universität Münster, graduated in law

Membership of bodies of other companies:

Vice-Chairman of the RWE Transportnetz Gas GmbH and the RWE Transportnetz Strom GmbH Supervisory Boards

Any other business activities: None

Šárka Vojíková

Member

Born: 22 September 1967

Education: Grammar school in Prague, a social law college in Prague

Membership of bodies of other companies:

RWE Transgas, a.s. Supervisory Board Member

Any other business activities: None

Martin Friedrich Herrmann

Member

Born: 3 July 1967

Education: Westfälische-Wilhelms-Universität, Münster

Membership of bodies of other companies:

Vice-Chairman of the RWE Transgas, a.s. Board of Directors; RWE Energy Czech Republic s.r.o. Managing Director; Chairman of the Severomoravská plynárenská, a.s. and Východočeská plynárenská, a.s. Supervisory Boards; Vice-Chairman of the Severočeská plynárenská, a.s. and Středočeská plynárenská, a.s. Supervisory Boards; Member of the Západočeská plynárenská, a.s. and RWE Energy Customer Services CZ, a.s. Supervisory Boards

Any other business activities: None

Dr Ulrich Jobs

Member

Born: 20 April 1953

Education: Technische Universität Clausthal-Zellerfeld, Mining Engineering

Membership of bodies of other companies:

Chairman of the RWE Transgas, a.s. Board of Directors; RWE Energy Czech Republic, s.r.o. Managing Director; Chairman of the Středočeská plynárenská, a.s. and Jihomoravská plynárenská, a.s. Supervisory Boards; Vice-Chairman of the Západočeská plynárenská, a.s. Supervisory Board; Member of the Severočeská plynárenská, a.s. Supervisory Board

Any other business activities: None

Dr Werner Roos

Member

Born: 3 January 1949

Education: Rheinisch-Westfälische Technische Hochschule Aachen, Electrical Engineering

Membership of bodies of other companies:

RWE Energy AG Board of Directors Member; Vice-Chairman of the EWR AG and Luxempart-Energie S.A. Supervisory Boards; Member of the Cegedel S.A.; Cegedel Net S.A.; Société Electrique de l'Our S.A.; VSE AG and RWE Transgas, a.s. Supervisory Boards

Any other business activities: None

Jan Zaplatílek

Member

Born: 4 July 1963

Education: Czech Technical University, Faculty of Civil Engineering

Membership of bodies of other companies:

Member of the MERO ČR, a.s. Supervisory Board

Any other business activities: None

3. *Management Report for 2006*

3.1 *Results*

Revenues, expenses and profit

In 2006 RWE Transgas Net achieved a profit before taxation of CZK 5,893 million. The two core business activities, natural gas transit for international customers and inland transmission, contributed to the Company's result.

In 2006 RWE Transgas Net's operating result amounted to CZK 5,829 million. Operating revenues amounted to CZK 11,540 million while operating expenditure was CZK 5,711 million.

The financial result ended up in a profit of CZK 64 million.

Structure of assets

The Company's total assets were worth CZK 64,506 million. Fixed assets were worth CZK 55,925 million and accounted for about 87% of total assets. Fixed tangible and intangible assets amounted to CZK 55,803 million and CZK 122 million, respectively.

Current and other assets totalled CZK 8,581 million as at 31 December 2006, accounting for about 13% of total assets.

In total, receivables accounted for 99% and financial assets, inventories and other assets for 1% of current and other assets.

Structure of shareholders' equity & liabilities

The Company's equity amounted to CZK 51,266 million and accounted for about 79% of the Company's total shareholders' equity and liabilities. In 2006 RWE Transgas Net financed all of its activities using its own resources. Liabilities totalling CZK 13,240 million were made up of long-term liabilities (deferred tax liability), about 86%, short-term liabilities, about 12%, and reserves, about 2%.

Risk management

RWE Transgas Net manages risks under its internal directives. The Company records each identified risk in a Risk Catalogue. Risks are assessed in terms of the probability of their occurrence and the magnitude of potential damage. No risks jeopardising the Company's existence were identified in 2006.

The currency risk is one of the most important risks because of the Company's income in foreign currencies. This risk is mitigated through hedging derivatives.

Investments

In 2006 the Company invested CZK 211 million, of which CZK 43 million in intangible assets. These investments went primarily to industrial software for optimising operations, the introduction of the market operator, and the liberalisation of the Czech market.

Investments in tangible assets were channelled to refurbishments of process equipment on pipelines and at compressor stations, innovation of safety elements in operating areas, and upgrades of telemetry and control systems. All refurbishments were carried out with a view to ensuring reliable supplies of natural gas to contracting partners at all times.

The fuel gas inlet into the turbines at the Hostim compressor station and the foam fire extinguishing equipment at the Kouřim compressor station were refurbished. The Company completed the replacement and upgrades of the telemetry system in the entire southern branch and the refurbishment of commercial metering at the Lanžhot, Bylany and Sviňomazy transfer stations. At the same time new hydrocarbon dew point measuring systems were installed at four mainstay transfer stations. New security systems were completed and/or built at seven facilities.

On gas pipelines themselves, a project enabling to clean the Dolní Dunajovice – Němčice gas pipeline in operation was completed. The line-closing valve at Kyselovice was retrofitted and the process equipment and control system at the Hospozín distributing node were refurbished and upgraded. New databases containing operating data, the first stage of an expert system for underground gas storage operation, and a knowledge-based training system for dispatch control were completed.

As part of strategic projects, the route for the gas pipeline between Dolní Dunajovice and the Břeclav compressor station was selected and the Company applied for a planning decision for this route.

In 2006 capital expenditure was also spent on adjusting the employees' working environment at the Company's new head office.

3.2 The transmission system

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

The transit system

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

The RWE TG Net transit system has been a firm part of the European gas transit pipeline network for almost 35 years. The key criteria for the operation and maintenance of the transit system are reliability and safety. Up-to-date methods are employed for diagnosing the condition of the process equipment. In pipeline maintenance, the implementation of PIMS (Pipeline Integrity Management System) was started, in particular for risk assessment. The technical condition of the turbine compressors at the compressor stations is assessed by means of diagnostic measurements of their parameters, taken without dismantling the equipment, and the repair method is determined on the basis of such measurements.

In 2006 the following were carried out, among other things: 67 (DN 300 to DN 1400) leaking or inoperable closing ball valves were replaced; defects indicated on gas pipes were repaired; four heat recovery exchangers were replaced; and all planned repairs on turbine sets at compressor stations were completed.

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

Inland transmission system

The inland transmission system is comprised of high-pressure and very high-pressure gas pipelines operated under nominal pressures ranging from 4.0 MPa to 6.1 MPa, and with nominal diameters ranging from 65 to 700 mm and a total length of almost 1,190 km. The points of entry into the inland transmission system are six transfer stations from the transit system, a transfer station at Mokřý Háj in Slovakia, and transfer stations at underground gas storage facilities. Natural gas is delivered to the respective regional gas distribution companies via 80 inland transfer stations.

Smooth and failure-free natural gas transmission and deliveries were ensured throughout the period under review. The reliability of the inland transmission system is borne out by the fact that in January 2006 it transported the Czech Republic's peak daily demand of 67.6 million cubic meters.

Repairs were carried out on the dates set out in the plan of shutdowns in coordination with the regional gas distribution companies without any gas supply interruptions. In 2006 the following were carried out, among other things: eight (DN 300 to DN 700) leaking or inoperable closing ball valves were replaced; and defects indicated on gas pipes were repaired.

In-line inspection of DN 500 pipelines was undertaken and the condition of non-piggable pipelines was assessed. The data obtained thanks to these inspections is required for PIMS implementation.

Under an agreement with RWE Transgas, a.s., RWE Transgas Net operates and maintains six underground gas storage facilities at Dolní Dunajovice, Tvrdonice, Štramberk, Lobodice, Třanovice, and Háje. The sufficient withdrawal rate and failure-free operation ensured the required deliveries from these facilities mainly in the extremely cold period from January to March 2006.

3.3 *Business and Communication Activities*

Business activities

In 2006 RWE Transgas Net followed business procedures that were in line with the separation of the transmission and commercial functions from RWE Transgas, a.s. A system for imbalance calculation, balancing and billing was put into full operation. Further, the process of handling requests for capacities and capacity booking was fine-tuned. All processes concerning traders were consulted with them, and modified in case of need, with a view to the Company contributing to a harmonious development of the European natural gas market.

From 1 July 2006 Regulation (EC) No 1775 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks was implemented. Based on the benchmarking of the degree to which this implementation was successful, carried out as part of co-operation with ERGEG (European Regulators Group for Electricity and Gas) RWE Transgas Net placed first in the region.

In 2006 gas transit under standardised terms and conditions was started; it attracted new traders, thereby helping to increase revenues from this business line. The number of shippers increased also in national transmission.

During 2006 the Company developed a new market model, which is based on the entry/exit principle with a virtual trading point. This new model was approved by the Energy Regulatory Office and successfully implemented from 1 January 2007.

Two OBA cross-border interconnection agreements were entered into, which facilitate transmission for traders; under these agreements the quantities nominated by traders are deemed to be the quantities delivered.

Communication activities

In 2006 RWE Transgas Net's internal and external communication activities focused on supporting the Company's entry into the domestic and international natural gas market. The launch of the Company's independent business was accompanied by the implementation of a new communication strategy.

The new concept of communication was based on our promise to be a reliable natural gas transporter, and the values professed by the RWE brand.

External communication's primary objective was to introduce the RWE Transgas Net brand on the international market. Our press conference and subsequent media activities focused on informing the public about the safety and reliability with which our Company supplies the Czech and European market with natural gas. At major international conferences and also during numerous personal meetings RWE Transgas Net's officers highlighted the fact that independent access and a level playing field would be continuously guaranteed to all natural gas traders on the market.

Since its establishment RWE Transgas Net has been involved in many regions of the Czech Republic, and it is not only because of the geographical location of the transit and inland transmission systems that the

Company participates in societally beneficial projects too. In the area of charity and education it helps dozens of entities every year. In addition to regionally targeted contributions channelled into education, health and culture, the Company supported, for example, a multimedia project of Nadační fond Český vlak [Czech Train Foundation] dealing with drug prevention, and the activities pursued by the Rozum a cit [Reason and Feeling] foundation for abandoned children. In 2006 the Company also drew up a completely new comprehensive sponsorship strategy. In 2007 giving broader support to the area of environmental protection will be a part of our sponsorship.

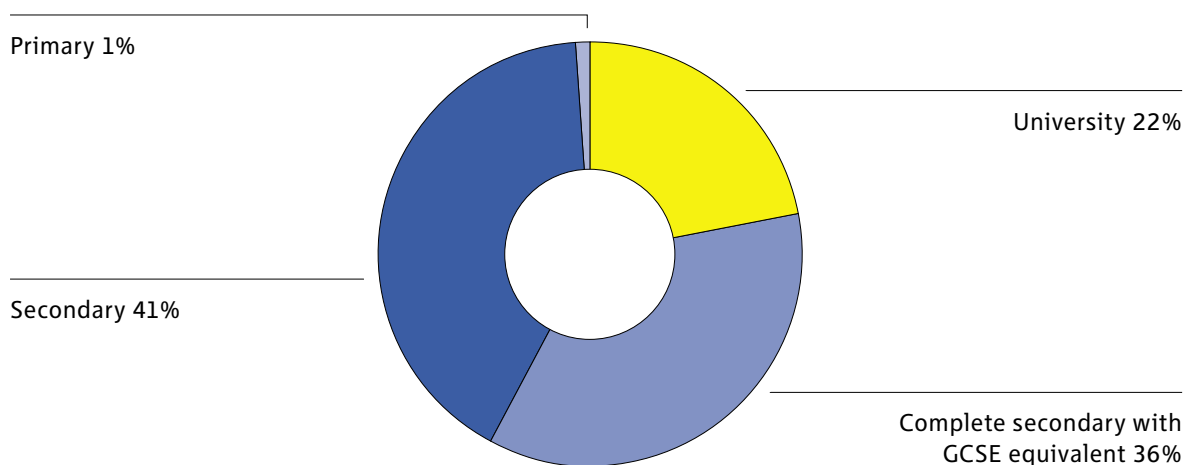
Transferring the values of the RWE brand and firmly securing them in RWE Transgas Net's corporate culture was the objective followed by the Company's internal communication. For this purpose managers' meetings were repeatedly organised within each of the Company's departments. In addition to the management, other employees were motivated to improve the efficiency of internal processes last year. National-level meetings took place, at which everybody was informed about the Company's plans, but also about, for example, the duties stemming from the conditions laid down in the Compliance Programme. The new approach to customers' needs and international co-operation within the entire RWE Group was also underscored in the internal magazine and the Company's intranet.

3.4 Human Resources

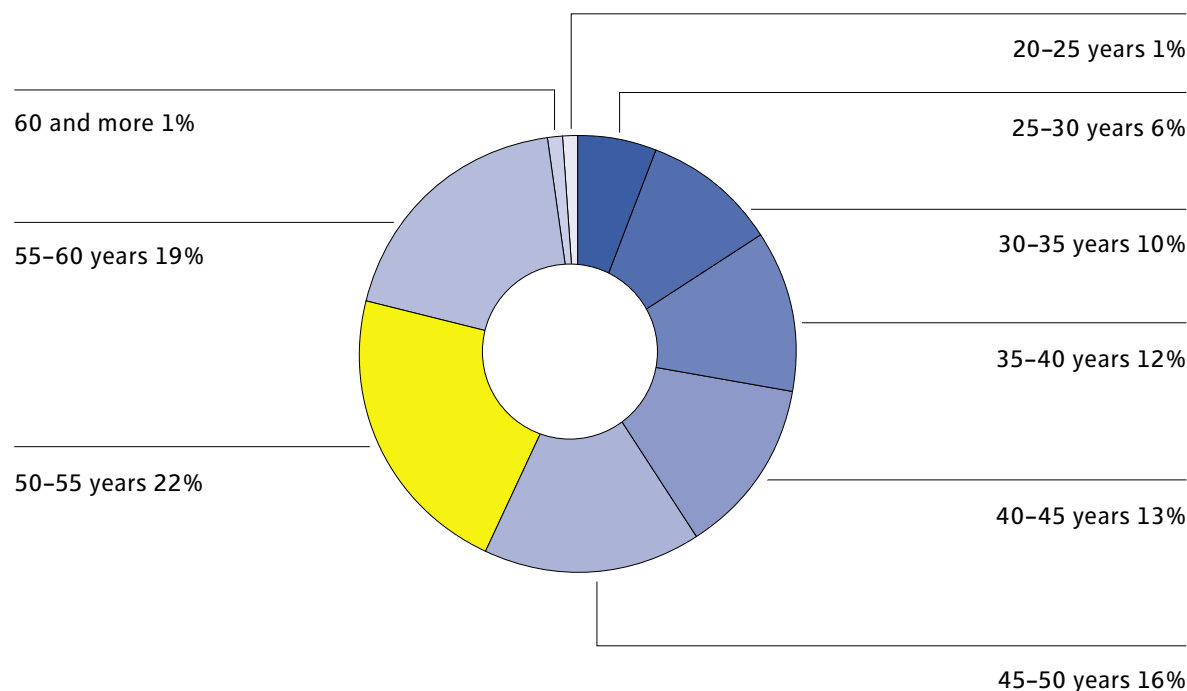
Information on staffing levels and structure

The staffing levels did not change much during 2006.

Employee structure by education as at 31 December 2006



Employee structure by age as at 31 December 2006



Staffing levels as at 31 December 2006

RWE Transgas Net	
Regional operations	590
Prague	200
Total	790
Of whom	
Manual	293
Professional	497

Wages

In 2006 wage levels at the Company developed in accordance with the principles of remuneration and the principles agreed in the RWE Transgas Net Collective Agreement. This development was considerably influenced mainly by the Company's unbundling, associated with the creation of a new organisational arrangement, and the changes in the structure of personnel and professions at the Company.

Personal training and career development

In 2006 the Company spent 3.61% of its 2006 payroll costs on maintaining, broadening and upgrading its employees' skills and qualifications. On the whole, 873 educational events were organised, which were attended by 5,585 employees. Average annual expenses on education and training amounted to CZK 15,164 per employee.

Social policy

Upon agreement with the trade union organisation, the Company management's measures in the social sphere were channelled to support for employee benefits, in particular the employer's contribution to pension fund schemes and life assurance policies. The Company's Collective Agreement for 2006 and 2007 guarantees above-standard conditions also for released employees in the period of continued structural changes in the Company.

3.5 *Environmental protection*

In environmental management RWE Transgas Net ranks among first-class Czech companies. The Company is successful in reducing the impacts on the environment caused by the operation of its process equipment thanks to the support provided by authorised operating staff to standardised corporate processes, checks of the impact of every operating event and capital investment project on the environment, and logistic support for waste collection, sorting and disposal under the plans drawn up for waste management.

Ensuring compliance with the applicable statutory requirements for the reporting and notification obligations and the relevant permissions and decisions issued by local, regional and state administration authorities and inspection authorities was a priority, together with efforts to minimise risks in all aspects of environmental protection. In 2006 RWE Transgas Net, s.r.o. met all of its obligations in this respect.

The relevant authorities did not apply any censuring or penalising measures to RWE Transgas Net. The Company reported and published the actual values of its CO₂ emissions, which were under the limits of the allowances allocated to it.

In 2006 the Company prepared six compressor stations' applications for the issue of integrated permissions (IPPC) under Act No. 76/2002 on integrated pollution prevention and control. By the Regional Authority's relevant decision, three compressor stations have been issued with final integrated permissions, and the remaining compressor stations will be issued with these permissions within the statutory time limit, i.e. by 30 October 2007.

In 2006 substantive work related to the elimination of old environmental burdens was completed successfully. The period to come will see consistent monitoring to check whether or not pollutants are present.

3.6 Outlook

On 1 January 2007 the process of the liberalisation of the natural gas market was completed in the Czech Republic. In the regulated segment of natural gas transmission, RWE Transgas Net stands ready to improve the quality of its services to all customers, in particular regarding the safety and reliability of supplies.

In 2007 RWE Transgas Net will prepare for accepting the market operator's competences, which involves a broad and diversified array of activities ranging from the registration of market participants to the allocation of gas quantities to traders to putting in place the instruments for spot commodity trading. The action plan required for providing for these activities has been prepared. RWE Transgas Net also promotes a further facilitation of cross-border regimes for traders, including continued introduction of interconnection agreements with the balancing account function.

In the area of human resources, in 2007 an independent department will be set up, reporting to a selected Director. The number and structure of employees will be optimised, and preconditions for increasing employees' motivation will be created.



Desolate Nový Hrádek has blended with nature over the centuries

From the early 1950s the ruin found itself in an inaccessible border zone. Today the highly endangered showy mullein (*Verbascum speciosum*) grows in the former courtyard, the cellars are home to bats, and the yellow flowers of the rare golden alyssum (*Alyssum saxatile*) decorate the remains of the walls in spring. The overall impression is enhanced by the view from the castle to the river that meanders deep below. One of the most impressive vistas in the Podyjí National Park, of which RWE Transgas Net is the General Partner, can be seen here.



4. FINANCIAL PART

Company name: RWE Transgas Net, s.r.o.

Identification number: 27260364

Legal form: Limited liability company

Primary business: Transportation of natural gas

Balance sheet date: 31 December 2006

Date of preparation of the financial statements:
12 February 2007

4.1 Financial Statements

BALANCE SHEET

(in thousand Czech crowns)

		31. 12. 2006		31. 12. 2005
Ref.	ASSETS	Gross	Provision	Net
a	b	1	2	3
	TOTAL ASSETS	66,653,058	(2,146,754)	64,506,304
B.	Fixed assets	58,072,018	(2,146,754)	55,925,264
B. I.	Intangible fixed assets	158,822	(36,323)	122,499
	1. Research & development	54,028	(12,437)	41,591
	2. Software	90,916	(23,350)	67,566
	3. Royalties	2,150	(536)	1,614
	4. Intangible assets in the course of construction	11,728		11,728
B. II.	Tangible fixed assets	57,913,196	(2,110,431)	55,802,765
B. II.	1. Land	99,480		99,480
	2. Constructions	52,839,233	(1,724,852)	51,114,381
	3. Equipment	4,927,200	(385,579)	4,541,621
	4. Other tangible fixed assets	1,135		1,135
	5. Tangible assets in the course of construction	46,048		46,048
	6. Advances paid for tangible fixed assets	100		100
C.	Current assets	8,577,606		8,577,606
C. I.	Inventories	72,884		72,884
C. I.	1. Raw materials	72,884		72,884
C. III.	Short-term receivables	8,502,763		8,502,763
C. III.	1. Trade receivables	487,900		487,900
	2. Intragroup receivables	6,777,638		6,777,638
	3. Other advances paid	100,825		100,825
	4. Anticipated assets	968,866		968,866
	5. Other receivables	167,534		167,534
				12

BALANCE SHEET (continued)

				31. 12. 2006	31. 12. 2005
Ref	ASSETS	Gross	Provision	Net	Net
a	b	1	2	3	4
C. IV.	Financial assets	1,959		1,959	1,944
C. IV. 1.	Cash in hand	1,714		1,714	
	2. Cash at bank	245		245	1,944
D.	Other assets	3,434		3,434	10
D. I.	Accruals and deferrals	3,434		3,434	10
D. I. 1.	Prepaid expenses	882		882	10
	2. Accrued revenue	2,552		2,552	

BALANCE SHEET (continued)

Ref.	LIABILITIES AND EQUITY	31. 12. 2006	31. 12. 2005
a	b	6	7
	TOTAL LIABILITIES AND EQUITY	64,506,304	1,966
A.	Equity	51,266,310	1,966
A. I.	Share capital	46,792,965	2,000
A. I.	1. Share capital	46,792,965	2,000
A. III.	Reserve funds, non-distributable reserves and other reserves	15,909	
	1. Statutory and other reserves	15,909	
A. IV.	Retained earnings	(34)	
	1. Accumulated losses	(34)	
A. V.	Profit (loss) for the current period	4,457,470	(34)
B.	Liabilities	13,239,994	
B. I.	Provisions	271,168	
B. I.	1. Tax-deductible provisions	45,721	
	2. Income tax provision	41,317	
	3. Other provisions	184,130	
B. II.	Long-term liabilities	11,329,957	
	1. Other liabilities	200	
	2. Deferred tax liability	11,329,757	
B. III.	Short-term liabilities	1,638,869	
B. III.	1. Trade payables	270,600	
	2. Liabilities to employees	21,665	
	3. Liabilities for social security and health insurance	14,917	
	4. Taxes and state subsidies payable	380,148	
	5. Advances received	800,119	
	6. Anticipated liabilities	147,703	
	7. Other payables	3,717	

INCOME STATEMENT (in thousand Czech crowns)

Ref.	DESCRIPTION	Accounting period	
		2006	2005
a	b	1	2
II.	Sales of production	11,098,738	
II.	1. Sales of own products and services	11,091,503	
	2. Own work capitalised	7,235	
B.	Cost of sales	2,533,529	
B.	1. Raw materials and consumables	628,129	
	2. Services	1,905,400	
+	Added value	8,565,209	
C.	Staff costs	468,148	
C.	1. Wages and salaries	334,710	
	2. Social security costs	122,946	
	3. Other social costs	10,492	
D.	Taxes and charges	23,653	
E.	Depreciation of long-term assets	2,131,435	
III.	Sale of long-term assets and raw materials	103,268	
III.	1. Sale of long-term assets	102,838	
	2. Sale of raw materials	430	
F.	Net book amount of long-term assets and raw materials sold	334,725	
F.	1. Net book amount of long-term assets sold	332,357	
	2. Net book amount of raw materials sold	2,368	
G.	Increase / (decrease) in operating provisions and complex prepaid expenses	181,345	
IV.	Other operating income	337,991	
H.	Other operating charges	38,448	
*	Operating result	5,828,714	
IX.	Gain on revaluation of securities and derivatives	290,432	
L.	Loss on revaluation of securities and derivatives	201,546	
X.	Interest income	80,905	3
XI.	Other financial income	172,893	
O.	Other financial expense	278,842	37
*	Financial result	63,842	(34)
Q.	Tax on profit or loss on ordinary activities	1,435,086	
Q.	1. - current	1,619,857	
	2. - deferred	(184,771)	
**	Profit or loss on ordinary activities after taxation	4,457,470	(34)
***	Net profit (loss) for the financial period	4,457,470	(34)
	Profit or loss before taxation	5,892,556	(34)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Share capital CZK'000	Social fund CZK'000	Retained earnings CZK'000	Total CZK'000
As at 29 June 2005	2,000	-	-	2,000
Net profit/(loss) for the current period	-	-	(34)	(34)
As at 31 December 2005	2,000	-	(34)	1,966
Contribution of part of the business	58,305,492	29,229	(11,514,527)	46,820,194
As at 1 January 2006	58,307,492	29,229	(11,514,561)	46,822,160
Social fund utilization	-	(13,320)	-	(13,320)
Decrease of share capital (redemption of retained loss)	(11,514,527)	-	11,514,527	-
Net profit/(loss) for the current period	-	-	4,457,470	4,457,470
As at 31 December 2006	46,792,965	15,909	4,457,436	51,266,310

CASH FLOW STATEMENT

		Year ended 31 December 2006 CZK'000	Period from 29 June until 31 December 2005 CZK'000
Cash flows from operating activities			
Net profit on ordinary activities before tax		5,892,556	(34)
A.1	Adjustments for non-cash movements:	2,294,924	(3)
A.1.1	Depreciation of fixed assets	2,131,435	-
A.1.2	Change in provisions	181,344	-
A.1.3	(Profit)/loss from disposal of fixed assets	229,519	-
A.1.4	Net interest expense (income)	(80,905)	(3)
A.1.5	Change in fair value of financial derivatives	(166,469)	-
A*	Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items	8,187,480	(37)
A.2	Working capital changes:	494,964	-
A.2.1	(Increase)/decrease in receivables and prepayments	(955,046)	(22)
A.2.2	Increase/(decrease) in short-term payables and accruals	1,437,690	-
A.2.3	(Increase)/decrease in inventories	12,320	-
A**	Net cash flow from ordinary activities before tax and extraordinary items	8,682,444	(59)
A.3	Interest received	78,353	3
A.4	Income tax on ordinary activities paid	(1,578,540)	-
A ***	Net cash flow from ordinary activities	7,182,257	(56)

CASH FLOW STATEMENT (continued)

		Year ended 31 December 2006 CZK'000	Period from 29 June until 31 December 2005 CZK'000
Cash flows from investing activities			
B.1	Acquisition of fixed assets	(494,356)	-
B.2	Proceeds from sale of fixed assets	102,838	-
B***	Net cash flow from investing activities	(391,518)	-
Cash flows from financing activities			
C.1	Change in long- and short-term liabilities – cash pooling	(6,777,638)	-
C.2	Changes in equity:	(13,086)	-
C.2.1	Direct payments from reserves	(13,086)	-
C***	Net cash flow from financing activities	(6,790,724)	-
Net increase/(decrease) in cash and cash equivalents		15	(56)
Cash and cash equivalents at the beginning of the year		1,944	2,000
Cash and cash equivalents at the end of the year		1,959	1,944

4.2 Notes to Financial Statements

1. General information

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

According to the Commercial Register the Company's main business activity in 2005 was rental of real estates, apartments and non-residential space. The expansion of business activities in respect of natural gas transportation was registered in the Commercial Register on 4 January 2006.

The registered office in 2005 was at Praha 10 - Strašnice, Limuzská 12/3135, Czech Republic.
On 4 January 2006 the change was registered to the Commercial Register.

RWE Transgas, a.s. is the sole shareholder of the Company.

The Statutory representatives as at 31 December 2006 were as follows:

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

Mr Vladimír Mikoláš and Mr Pavel Dočekal were registered as statutory representatives in the Commercial Register on 29 June 2005, and their appointment ceased on 4 January 2006.

The members of the Supervisory Board as at 31 December 2006 were as follows:

	Position	Date of appointment
Mr Andreas Böwing	member	22 December 2006
Mr Martin Friedrich Herrmann	member	22 December 2006
Mr Werner Roos	member	22 December 2006
Ms Šárka Vojíková	member	22 December 2006
Mr Ulrich Jobs	member	22 December 2006
Mr Jan Zaplatílek	member	22 December 2006

The Company is organized as follows:

The general meeting of associates is the supreme body of the Company. Statutory representatives are the body governing the Company's activities and acting on its behalf. Supervisory Board is the controlling body of the Company and was established on 22 December 2006.

Governance of the Company is divided into three departments titled as follows:

Capacity, Asset Management, Operation. These departments are managed by the relevant statutory representatives.

2. Contribution of Part of the Business

RWE Transgas, a.s., the sole shareholder of the Company, span-off part of its business activity on 1 January 2006 as requested by the relevant European Union Directive and the amendments to the Energy Act. The Company took over the role of the transit system operator from its shareholder on 1 January 2006.

Share capital of the Company was increased by the contribution of part of the business in the amount of CZK 58,305,492 thousand on 1 January 2006. This contribution was valued by an independent appraiser.

Share capital of the Company was decreased in February 2006 to CZK 46,792,965 thousand based of the sole shareholder's decision in order to compensate the accumulated losses.

The contribution consisted of the following assets and liabilities:

	1 January 2006 CZK '000	Contribution of part of the business CZK '000	Contribution of part of the business CZK '000
	The Company in total	Fair Value	Historical cost (net)
Research & development	41,105	41,105	50,180
Software	39,842	39,842	52,277
Royalties	1,852	1,852	2,767
Intangible assets in the course of construction	33,317	33,317	33,317
Intangible fixed assets	116,116	116,116	138,541
Land	99,239	99,239	37,792
Buildings, halls and constructions	52,752,099	52,752,099	11,029,859
Equipment	4,774,366	4,774,366	1,294,687
Other tangible fixed assets	1,135	1,135	1,140
Tangible assets in the course of construction	122,409	122,409	122,409
Tangible fixed assets	57,749,248	57,749,248	12,485,887
Fixed assets	57,865,364	57,865,364	12,624,428
Raw materials	85,192	85,192	75,824
Advances paid for inventory purchases	12	12	12
Inventories	85,204	85,204	75,836
Short term advances paid	94	94	94
Other receivables	603,361	603,349	603,349
Short term receivables	603,455	603,443	603,443
Cash in hand	234	234	234
Cash at bank	1,944	-	-
Financial assets	2,178	234	234
Current assets	690,837	688,881	679,513
Prepaid expenses	10	-	-
TOTAL ASSETS	58,556,211	58,554,245	13,303,941

	1 January 2006 CZK '000	Contribution of part of the business CZK '000	Contribution of part of the business CZK '000
	The Company in total	Fair Value	Historical cost (net)
Statutory and other reserve funds	29,229	29,229	29,229
Tax deductible provisions	67,407	67,407	67,407
Other liabilities	200	200	200
Deferred tax liability	11,514,527	11,514,527	671,443
Long-term liabilities	11,514,727	11,514,727	671,643
Trade payables	11,793	11,793	11,793
Liabilities to employees	25	25	25
Anticipated liabilities	4,018	4,018	4,018
Other payables	136,081	136,081	136,081
Short-term liabilities	151,917	151,917	151,917
Liabilities	11,734,051	11,734,051	890,967
TOTAL EQUITY AND LIABILITIES	11,763,280	11,763,280	920,196
TOTAL VALUE OF CONTRIBUTION	-	46,790,965	12,383,745

Total value of the investment is lower in comparison to the independent appraiser's value due to recognition of deferred tax liability in the amount CZK 11,514,727 thousand.

3. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and Czech Accounting Standards. The financial statements have been prepared under the historical cost convention except as described further. Derivatives are shown at fair value.

b) Intangible fixed assets

Purchased intangible fixed assets are recorded at cost. All research costs are expensed. Development costs are capitalised as intangible assets and are recorded at the cost. All other development costs are expensed as incurred.

Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives. The Company applies amortization period of 4 years (unless the agreement or licence conditions state shorter or longer period).

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

Intangible assets, with a useful life longer than one year and a unit cost of less than CZK 60 thousand, are expensed upon consumption and are kept in off-balance sheet evidence until the end of their use.

Subsequent expenditure on intangible assets exceeding CZK 60 thousand per year is capitalized.

Emission rights are held under the "Other intangible fixed assets". Emission rights allocated by the National Allocation Plan free of charge to the Company are held under the "Other intangible fixed assets" and also under the "Taxes and state subsidies payable" when entered to the Register of emission rights in the Czech Republic. Emission rights allocated are recorded at replacement cost.

Consumption of emission rights is recorded at the date of preparation of financial statement on the basis of estimate of actual CO₂ emissions in the period to "Other operating charges". The weighted average method is applied by the Company to account for disposals of the emission rights. Sales of emission rights are accounted for within the accounts of other operational revenue and are stated at selling prices. A provision is created for shortage of emission rights at the year end.

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

c) Tangible fixed assets

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

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

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

The Company applies different depreciation rates for accounting and tax purposes.

Repairs and maintenance expenditures relating to tangible assets are expensed as incurred. Subsequent expenditure relating to tangible fixed assets exceeding CZK 40 thousand per year is capitalized.

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

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

d) Inventories

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

e) Receivables

Receivables are stated at the nominal value less a provision for doubtful amounts. A provision for bad debts is created on the basis of an aging analysis and individual evaluation of the recoverability of the receivables. A provision is not established for doubtful amounts from related parties.

f) Cash and cash equivalents

The Company has prepared a cash-flow statement following the indirect method. Cash equivalents represent short-term liquid assets, which are readily convertible for a known amount of cash.

g) Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of transaction.

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank. All exchange gains and losses on monetary assets and liabilities are recorded in the income statement.

h) Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at cost and are subsequently re-measured at their fair value.

Fair value of the derivatives is calculated as present value of the anticipated future cash flows. All derivatives are shown 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 as at 31 December 2006 are included in net profit or loss from financial transactions.

i) Expense and revenue recognition

Expenses and revenues are recognized in the period to which they relate.

The Company recognizes as revenue all income from fees collected for the transit and domestic gas transportation across the Czech Republic and the sale of gas. Cost of sales includes mainly the cost of gas transportation and gas purchases.

j) Provisions

Provisions are recognized when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are also created against the cost of future inspections of the gas pipeline network and for the cost of repairs of fixed assets as defined by the Act on Reserves. Provisions are created in the amount of the expected outflow in current terms and their amounts are reviewed and updated on a regular basis.

k) Taxes and subsidies

Allocated emission rights accounted for as tax and subsidies are classified as other liabilities and are released as other operating revenue applying the matching concept against expenses.

l) Pension and life plans

The Company provides contribution for pension and life insurance to its employees which is recognized as an expense. Further regular contributions are made to the state to fund the national pension plan.

m) Deferred taxation

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

n) Related parties

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

- group companies;
- shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders;
- members of the 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;
- companies with the same member of management.

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

o) Equity

The statutory reserve fund may be only used to cover potential losses of the Company. The Company is required by its Articles of Association and by the Commercial law to transfer 10% of net profit in the first year and 5% of its annual net profits in the following years to the statutory reserve fund until the balance of this reserve reaches 10% of the share capital.

According to its Articles of Association, the Company creates the social fund from net profits in the amount of 6.5% of annual staff costs in the relevant accounting period, including wages compensation and readiness to work rewards.

p) 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 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.

4. Intangible fixed assets

Cost

	1 January 2006* CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2006 CZK'000
Research & development	41,105	-	13,488	(565)	54,028
Software	39,842	-	51,090	(16)	90,916
Royalties	1,852	-	298	-	2 150
Intangible assets in the course of construction	33,317	43,287	(64,876)	-	11,728
Emissions rights	-	331,599	-	(331,599)	-
Total	116,116	374,886	-	(332,180)	158,822

* As at 31 December 2005 the Company did not own any intangible fixed assets. Cost of intangible fixed assets as at 1 January 2006 represents the contribution of part of the business by the shareholder at this date. The contribution is recorded at fair value and it is described in Note 2 – Contribution of part of the business.

The Company did not purchase any emission rights in 2006.

Accumulated amortisation and net book value

	1 January 2006 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2006 CZK'000
Research & development	-	(13,002)	565	(12,437)
Software	-	(23,366)	16	(23,350)
Royalties	-	(536)	-	(536)
Total	-	(36,904)	581	(36,323)
Net book value	116,116			122,499

5. Tangible Fixed Assets

Cost

	1 January 2006* CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2006 CZK'000
Land	99,239	-	241	-	99,480
Buildings, halls and constructions	52,752,099	-	88,276	(1,142)	52,839,233
Equipment	4,774,366	-	155,523	(2,689)	4,927,200
Other tangible fixed assets	1,135	-	-	-	1,135
Tangible assets in the course of construction	122,409	167,679	(244,040)	-	46,048
Advances paid for fixed assets	-	827	(727)	-	100
Total	57,749,248	168,506	(727)	(3,831)	57,913,196

* As at 31 December 2005 the Company did not own any tangible fixed assets. Cost of tangible fixed assets as at 1 January 2006 represents the contribution of part of the business by the shareholder at this date. The contribution is recorded at fair value and it is described in Note 2 - Contribution of part of the business.

Accumulated depreciation and net book value

	1 January 2006 CZK'000	Additions CZK'000	Disposals CZK'000	Provisions CZK'000	31 December 2006 CZK'000
Buildings, halls and constructions	-	(1,707,094)	1,142	(18,900)	(1,724,852)
Equipment	-	(388,268)	2,689	-	(385,579)
Total	-	(2,095,262)	3,831	(18,900)	(2,110,431)
Net book value	57,749,248				55,802,765

6. Inventories

	31 December 2006 CZK'000	1 January 2006 CZK'000
Raw materials	72,884	85,192
Advances paid for inventory purchases	-	12
Net book value	72,884	85,204

As at 31 December 2005 the Company did not own any inventories.

There was no provision for inventories as at 31 December 2006.

No differences were identified based on the inventory stock-counts performed in 2006.

7. Receivables

	31 December 2006 CZK'000	Contribution of part of the business 1 January 2006 CZK'000	31 December 2005 CZK'000
Trade receivables			
current	486,211	-	-
overdue	1,689	-	-
	487,900	-	-
Other receivables			
current	7,045,997	603,443	12
Anticipated assets	968,866	-	-
Net total short-term receivables	8,502,763	603,443	12
Net total receivables	8,502,763	603,443	12

Outstanding receivables have not been secured.

Provision for doubtful receivables was nil as at 31 December 2006 and 31 December 2005.

8. Provisions

	Tax-deductible provisions CZK'000	Other provisions CZK'000	Income tax provision CZK'000	Total CZK'000
Opening balance as at 1 January 2006*	67,407	-	-	67,407
Charge for the year	4,590	184,130	41,317	230,037
Released in the year	(5,757)	-	-	(5,757)
Used in the year	(20,519)	-	-	(20,519)
Closing balance as at 31 December 2006	45,721	184,130	41,317	271,168

* As at 31 December 2005 the Company had no provisions. Opening balance of provisions as at 1 January 2006 represents the contribution of part of the business by the shareholder at this date, specifically a tax-deductible provision for repairs of tangible fixed assets. This contribution unit is described in Note 2. – Contribution of part of the business.

As at 31 December 2006 the income tax provision at amount CZK 1,619,857 thousand was decreased by prepayment for income tax at amount CZK 1,578,540 thousand and classified as Liabilities – Income tax provision.

For the analysis of the income and deferred tax, see Note 12.

The Company has created tax-deductible provision to cover the cost of regular inspections of the gas pipeline network as well as repairs of tangible fixed assets in the amount of CZK 45,721 thousand.

Other provisions contain provision for personnel costs, provision for deficit in emission rights and share option bonus plan. In the year 2005 the Company does not possess any tangible fixed assets and no emission rights were allocated to the Company.

9. Liabilities

	31 December 2006 CZK'000	1 January 2006* CZK'000
Trade payables		
Current	270,600	11,793
Other payables		
Current	1,220,566	136,106
Anticipated liabilities	147,703	4,018
Total short-term payables	1,638,869	151,917
Other long-term payables	200	200
Deferred tax liability	11,329,757	11,514,527
Total short- and long-term liabilities	12,968,826	11,666,644

* The contribution is described in Note 2. – Contribution of part of the business.

As at 31 December 2005 the Company had no liabilities.

Other payables include mainly short-term advances received in the amount of CZK 800,119 thousand, tax liabilities in the amount of CZK 380,148 thousand and liabilities for social insurance and contribution to the state employment policy in the amount of CZK 10,618 thousand, liabilities for health insurance in the amount of CZK 4,299 thousand, tax liabilities payable to the relevant tax authority in the amount of CZK 5,434 thousand.

The Company had no overdue liabilities as at 31 December 2006.

Trade and other payables have not been secured over any assets of the Company.

10. Derivative Financial Instruments

The fair value of derivatives is shown in "Other receivables".

Forward instruments:

		31 December 2006
	Fair value - positive CZK'000	Notional amount CZK'000
Currency forwards	166,469	10,750,978

As at 31 December 2005 the Company had no outstanding forward instruments.

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

The change in a fair value of the above qualifying fair value hedging instruments is recognised in the income statement and the corresponding changes in the fair value of the hedged item (as a result of the hedged risk) are also recognised in the income statement.

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

	2006 CZK'000
Changes in fair value of forward instruments	88,886
Gains from forward instruments	152,974
Losses from forward instruments	204,283
Total	37,577

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

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

11. Income Tax

The income tax expense consists of the following:

	31 December 2006 CZK'000	31 December 2005 CZK'000
Current tax expense	1,619,857	0
Deferred tax expense	(184,771)	0
Total	1,435,086	0

Current tax can be analysed as follows:

	Year ended 31 December 2006 CZK'000	Period from 29 June until 31 December 2005 CZK'000
Net profit before taxation	5,892,556	(34)
Non-taxable revenues	(780)	0
Difference between accounting and tax depreciation	665,084	0
Non-deductible costs	195,910	0
Gifts	(2,816)	0
Taxable income	6,749,954	0
Income tax rate	24%	26%
Corporate taxation at 24%	1,619,989	0
Tax discount	(132)	0
Tax to be paid	1,619,857	0

Deferred tax asset (+) / liability (-) as at 31 December 2006 was calculated using the rate of 24%.

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

	31 December 2006 CZK'000	1 January 2006 CZK'000
Deferred tax liability		
Difference between carrying value accounting and tax base of tangible assets.	(11,367,384)	(11,514,527)
Deferred tax asset		
Other provisions	37,627	0
Net deferred tax asset / (liability)	(11,329,757)	(11,514,527)

As at 31 December 2005 the Company had no deferred tax asset / (liability). As at 1 January deferred tax liability in the amount of CZK 11,514,527 thousand was calculated as difference between fair value of the assets and their tax base (determined based on their original cost).

12. Revenue Analysis

Revenue from ordinary activities has been generated as follows:

	2006 CZK'000
Transportation	
transit	8,362,427
domestic	2,039,549
Other	689,527
Total	11,091,503

No sales of own products and services were realized in 2005.

13. Employee Analysis

Employee numbers	Year ended 31 December 2006 CZK'000	Period from 29 June until 31 December 2005 CZK'000
Average number of employees who are members of management	7	-
Average number of other members of management	3	2
Average number of other staff	784	-
Total	794	2

As at 31 December 2005 the Company had no employees.

As at 1 January 2006 as part of the contribution of part of the business, 781 employees of the Company's shareholder were transferred to the Company and further employees were recruited. All rights and obligations from labour-law relations to these employees passed to the Company.

Management includes Statutory representatives and other directors directly reporting to them.

	Management CZK'000	Other staff CZK'000	Total CZK'000
Year ended 31 December 2006			
Wages and salaries	20,346	314,364	334,710
Social security costs	7,121	109,945	117,066
Other social costs	106	16,266	16,372
Total	27,573	440,575	468,148

Other transactions with the Company's employees are described in Note 14. - Related party transactions.

14. Related Party Transactions

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

The Company was involved in the following related party transactions:

	2006 CZK'000
Purchases	
RWE Transgas, a.s. (gas services, assets)	1,413,538
RWE Energy Customer Services CZ, a.s. (services, assets)	188,464
RWE Plynoprojekt, a.s. (services, assets)	17,431
Other	7,576
Total purchases	1,627,009

	2006 CZK'000
Sales to RWE Transgas, a.s.	
Transportation (transit, domestic)	10,328,520
Other services	734,051
Total	11,062,571

	2006 CZK'000
Other sales	
RWE Energy Aktiengesellschaft (services)	123,683
RWE Aktiengesellschaft (financial assets)	30,428
Other	6,763
Total other sales	160,874

The Company was not involved in related party transactions in 2005.

All transactions were realized on arm's length basis.

The following related party balances were outstanding at:

	31 December 2006 CZK'000
Trade receivables	
RWE Transgas, a.s.	448,629
RWE Aktiengesellschaft	32,889
Other RWE Group companies	162
Total trade receivables	481,680
Advances paid	
RWE Energy Customer Services CZ, a.s.	96,424
Other RWE Group companies	442
Total advances paid	96,866
Unbilled anticipated assets	
RWE Transgas, a.s.	964,010
Total unbilled anticipated assets	964,010
Loans receivable:	
RWE Transgas, a.s.	6,777,638
Total loans receivable	6,777,638
Total receivables	8,320,194

As at 31 December 2005 the Company had no receivables from related parties.

	31 December 2006 CZK'000
Trade payables	
RWE Transgas, a.s.	108,518
RWE Energy Customer Services CZ, a.s.	10,506
RWE Plynoprojekt, a.s.	14,751
Other RWE Group companies	732
Total trade payables	134,507
Advances received	
RWE Transgas, a.s.	798,241
Total advances received	798,241
Unbilled anticipated payables	
RWE Energy Customer Services CZ, a.s.	92,557
Other RWE Group companies	27,239
Total unbilled anticipated payables	119,796
Total payables	1,052,544

As at 31 December 2005 the Company had no payables to related parties.

The loans receivable and payable bear interest at market interest rates. Trade receivables and payables from these transactions arose under the same terms and conditions as with unrelated parties. Receivables from related parties have not been provided for.

Company cars are made available for use by management in total acquisition costs of CZK 27,233 thousand. The Company provides foreign members of management with accommodation, in 2006 rent totalled CZK 2,532 thousand. Share option bonus plan has been provided to the management, in 2006 provision for this plan was created in the amount of CZK 3,540 thousand.

Besides the above stated remuneration and benefits, there was no other consideration provided to the Company's shareholder, members of the Company's boards and management in 2006 and 2005.

15. Commitments

Capital commitments contracted by the Company as at 31 December 2006 were at total amount of CZK 15,504 thousand.

16. Contingent Liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2006.

17. Subsequents Events

No events have occurred subsequent to the year-end that would have a material impact on the financial statements as at 31 December 2006.

Statutory approvals

These financial statements have been approved for submission to the general meeting by the Company's statutory representatives:

12 February 2007



Thomas Kleefuss
Statutory representative



Jan Nehoda
Statutory representative

5. Auditor's Report

5.1 Auditor's opinion on the Financial Statements



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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF RWE TRANSGAS NET, S.R.O.

We have audited the accompanying financial statements of RWE Transgas Net, s.r.o. (the "Company", which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies (the "financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

Statutory Directors' Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2006, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

12 February 2007

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

Petr Šobotník
Auditor, Licence No. 113

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.

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



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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF RWE TRANSGAS NET, S.R.O.

Report on the Annual Report

We have audited the annual report of RWE Transgas Net, s.r.o. (the "Company") for consistency with the financial statements for the year ended 31 December 2006 which are included in this Annual Report on pages 20 - 45. The Statutory Directors are responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit 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 the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2006 is consistent, in all material respects, with the financial statements referred to above.

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 parties and between the Company and the other persons controlled by the same controlling parties for the year ended 31 December 2006 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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.

30 March 2007

PricewaterhouseCoopers Audit, s.r.o.

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

Petr Šobotník
Auditor, Licence No. 113

6. *Report of RWE Transgas Net, s.r.o. on Relations between Related Parties as at 31 December 2006*

Since RWE Transgas Net, s.r.o. (hereinafter "the Company") as a controlled person did not enter into any controlling agreement effective in 2006, the Company has, under Section 66a, subsection 9 of Act No. 513/1991, the Commercial Code, as amended, drawn up this Report on Relations between the Company and Controlling parties and between the Company and Other Persons Controlled by the Same Controlling parties (hereinafter "Related Parties") for 2006, to the extent these Related Parties are known to the Company. This Report is an integral part of the Company's Annual Report for 2006 and the Company's members will have this Report available by the same time and under the same conditions as the annual financial statements.

1. Controlling Parties

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

a) Directly

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

b) Indirectly

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

2. Other Related Parties

The Company requested the above controlling parties to provide a list of the other persons that were controlled by the same controlling parties in the last accounting period. The Company has drawn up this Report on the basis of the information provided by the controlling parties and other information available to it. The details of the ties and the controlling structure between companies within the RWE Group as at 31 December 2006 are specified on the third cover page.

3. Agreements executed between the Company and Related Parties and performance provided and accepted

The Company and Related Parties executed agreements listed in Appendix 1 in the last accounting period. The agreements were executed under arm's length terms and conditions, and the performance and payments under these agreements, and also agreements entered into in previous accounting

periods, reflect customary business relations. For this reason, no damage can be caused to the Company by performing under these agreements. There was therefore no need to secure any compensation for damage or enter into any agreements thereon. The value of performance rendered and payments made between Related Parties in the last accounting period is specified in Note 14 of the Notes to the Financial Statements as at 31 December 2006.

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

The Company completed no legal acts in the interest of Related Parties in last fiscal reporting period.

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

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

6. Non-existence of damage

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

7. Confidentiality

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

8. Conclusion

This Report has been drawn up by the Directors of the Company and approved on 15 February 2007, and it has been presented for review to the Company's auditor, who reviews the financial statements under a separate law.

At Prague, on 15 February 2007

RWE Transgas Net, s.r.o. Directors



Thomas Kleefuss
Director



Jan Nehoda
Director

Appendix:

Agreements executed between the Company and Related Parties in the last accounting period

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
Jihomoravská plynárenská, a.s.	Purchase orders	3
Jihomoravská plynárenská, a.s.	Natural gas offtake agreement	1
JMP Net, s.r.o.	Agreement on the conditions of operation of interconnected gas systems	1
Pražská plynárenská, a. s.	Purchase orders	4
RWE Energy AG	Master agreement - emission rights	1
RWE Energy Customer Services CZ, a.s.	Addenda Nos.1 and 2 to the Agreement on IT Services	2
RWE Energy Customer Services CZ, a.s.	Addendum No. 1 to the Agreement on Electronic Communications Services with a Loan Agreement	1
RWE Energy Customer Services CZ, a.s.	Addendum No. 1 to the Agreement on the services for central payroll processing	1
RWE Energy Customer Services CZ, a.s.	Purchase agreement on PBX	5
RWE Energy Customer Services CZ, a.s.	Purchase orders	53
RWE Energy Customer Services CZ, a.s.	Contract for work - repair of fibre optics distribution boards	1
RWE Energy Customer Services CZ, a.s.	Agreement on Electronic Communications Services with a Loan Agreement	1
RWE Energy Customer Services CZ, a.s.	Agreement on procurement services	1
RWE Energy Customer Services CZ, a.s.	Agreement on User Support Services	1
RWE Energy Customer Services CZ, a.s.	Agreement on the assignment of receivables	1
RWE Energy Customer Services CZ, a.s.	Agreement on the assignment of rights and obligations	2
RWE Energy Customer Services CZ, a.s.	Agreement on the use of the transmission network	1
RWE Plynoprojekt, a.s.	Purchase orders	55
RWE Plynoprojekt, a.s.	Contract for work	24

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
RWE Plynoprojekt, a.s.	Agreement on the delivery of a mobile methanole unit	1
RWE Plynoprojekt, a.s.	Agreement on adherence to safety measures	1
RWE Plynoprojekt, a.s.	Agreement on the general terms and conditions concerning contracts for work	1
RWE Plynoprojekt, a.s.	Agreement on the provision of technical activities	1
RWE Transgas, a.s.	Addendum No. 1 to the Master Agreement on Currency and Commodity Financial Derivatives Transactions	1
RWE Transgas, a.s.	Agreement on financial settlement	1
RWE Transgas, a.s.	Agreement on the assignment of rights and obligations under the lease agreement on the TGN Olšiny building	1
RWE Transgas, a.s.	Mandate agreement - sale of unnecessary areas	1
RWE Transgas, a.s.	Purchase orders	234
RWE Transgas, a.s.	Master agreement on gas transmission	3
RWE Transgas, a.s.	Agreement - consulting services - development of governing documentation	1
RWE Transgas, a.s.	Balancing agreement/Flexibility service agreement	1
RWE Transgas, a.s.	Agreement on corporate communication - consignment agreement	1
RWE Transgas, a.s.	Natural gas sale and purchase agreement	1
RWE Transgas, a.s.	Vehicle lease agreement	1
RWE Transgas, a.s.	Agreement on catering services	1
RWE Transgas, a.s.	Agreement on assignment of a receivable - Tipa 9631/100	1
RWE Transgas, a.s.	Agreement on the delivery of a security certificate	1
RWE Transgas, a.s.	Agreement on gas transmission	5
RWE Transgas, a.s.	Agreement on the transfer of profit	1
RWE Transgas, a.s.	Agreement on selected dispatch control services	1
RWE Transgas, a.s.	Agreement on securing the payment of insurance premium	1
RWE Transgas, a.s.	Agreement on facility management services	1
RWE Transgas, a.s.	Facility Management in Bohemia	1
RWE Transgas, a.s.	Facility Management in Moravia	1
SČP Net, s.r.o.	Agreement on the conditions of operation of interconnected gas systems	1
Severočeská plynárenská, a.s.	Purchase orders	2
Severočeská plynárenská, a.s.	Agreement on natural gas supply to HPS 02	1

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
Severočeská plynárenská, a.s.	Gas supply agreement, Louny	1
Severomoravská plynárenská, a.s.	Purchase orders	1
SMP Net, s.r.o.	Agreement on the conditions of operation of interconnected gas systems	1
STP Net, s.r.o.	Agreement on the conditions of operation of interconnected gas systems	1
Středočeská plynárenská, a.s.	Purchase orders	1
VČP Net, s.r.o.	Agreement on the conditions of operation of interconnected gas systems	1
Východočeská plynárenská, a.s.	Purchase orders	1
ZČP Net, s.r.o.	Agreement on the conditions of operation of interconnected gas systems	1

Photographers

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Scheme

of the relations between companies along the relevant line within the RWE Group.

RWE AG, Essen

100.00% RWE Energy AG

100.00% RWE Gas International B.V.

100.00% RWE Transgas, a.s.

100.00% RWE Transgas Net, s.r.o.

100.00% RWE Energy Customer Services CZ, a.s.

100.00% RWE Plynoprojekt, a.s.

18.09% Severomoravská plynárenská, a.s.

4.28% Západočeská plynárenská, a.s.

2.95% Východočeská plynárenská, a.s.

2.46% Jihomoravská plynárenská, a.s.

1.60% Středočeská plynárenská, a.s.

99.00% RWE Energy Czech Republic, s.r.o.

95.09% Středočeská plynárenská, a.s.

100.00% STP Net, s.r.o.

100.00% Severočeská plynárenská, a.s.

100.00% SČP Net, s.r.o.

47.66% Jihomoravská plynárenská, a.s.

100.00% JMP Net, s.r.o.

47.75% GASFINAL, a.s.

63.62% Východočeská plynárenská, a.s.

100.00% VČP Net, s.r.o.

93.71% Západočeská plynárenská, a.s.

100.00% ZČP Net, s.r.o.

49.63% Severomoravská plynárenská, a.s.

100.00% SMP Net, s.r.o.

52.25% GASFINAL, a.s.

100.00% Českomoravská plynárenská, a.s.

100.00% RWE Energy Nederland N.V.

99.00% RWE Energy Hungária Tanácsadó Kft.

87.00% Gaz Technologia i Energia Sp. z o.o.



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