Jihomoravská plynárenská

ANNUAL REPORT 2008

RWE
The energy to lead

Consolidated Key Ratios (IFRS)

	2008
Total sales (CZK m)	18,323
EBITDA (CZK m)	1,315
Operating result (CZK m)	936
Profit before taxation (CZK m)	910
Profit after taxation (CZK m)	736
Investments (CZK m)	863
Number of employees (FTE)	817

"JMP" or "Company" refers to Jihomoravská plynárenská, a.s.
"JMP Net" or "Subsidiary" refers to JMP Net, s.r.o.
"JMP Group" or "Group" refers to the consolidated venture of Jihomoravská plynárenská, a.s. and JMP Net, s.r.o.

Cover photo: **NYMPHAEA ALBA** (White Water Lily)
A perennial herbaceous water plant from the Nyphaeaceae family. It blooms from June to August. Areas of occurrence are located in central and southern Moravia. Many garden varieties have been produced. It is known to be mildly poisonous and has been used in alternative medicine as a sedative. The level of protection afforded to this species is: Endangered.

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RWE PROTECTS NATURE

Some 60 per cent of the total of 2,550 species and subspecies of the plants that form a part of the Czech Republic's flora are endangered to varying degrees.

RWE's business in the Czech Republic is inseparably associated with natural gas, environmentally the friendliest of all non-renewable resources. Unlike solid fuels, natural gas does not leave any ash after combustion, and it does not pollute the air with harmful combustion products.

Environmental protection is one of the RWE Group companies' priorities. This is evident not only from their investment and everyday operations, but also from their activities related to corporate social responsibility, despite the fact that nature conservation is often erroneously regarded as the State's or the non-profit sector's business.

RWE considers contribution to the preservation of natural wealth in the places where it operates to be its moral obligation. With a view to drawing attention to the importance of environmental protection, the RWE Group companies have selected a theme to accompany their annual reports for 2008. This is why you will find photographs of the rarest indigenous plant species on the pages of these reports.

ASTER LINOSYRIS (Goldilocks Aster)
Perennial herbaceous plant from the Asteraceae family. The height varies from 10 to 50 cm. Blooms from around August to September. Areas of occurrence are scattered in the warmest belts of our country, predominantly in southern Moravia. In suitable locales may be quite abundant. The level of protection afforded to this species is: Vulnerable.

1 THE CHAIRMAN'S STATEMENT

Dear Shareholders, Ladies and Gentlemen,

Before describing the activities and business performance of the JMP Group in 2008, I want to mention that we have been going through a complicated period. Competition among traders on the gas market has been growing, spreading gradually to all customer segments. However, Jihomoravská plynárenská, a.s. has succeeded in retaining its dominant position in our operating territory by preparing new high-quality products and responding to customers' needs in a timely manner.

Overall gas sales were affected by above-average temperatures, especially in the first half of the year. Considering the high number of customers who mainly use gas for heating, we did not meet the planned sales figures. A role was also played by a sharp increase in the import prices of gas, which affected prices charged to end customers, exerting exceptional pressure on savings on the consumption side.

Reliable gas supplies for Jihomoravská plynárenská, a.s. were secured by purchases from RWE Transgas, a.s. and Moravské naftové doly, a.s. (MND). An important step that will guarantee steady future supplies and market stability was the signing of a mid-term contract with MND for the years 2009–2011.

Despite the exceptionally high density of the gas distribution network in South Moravia, the number of our customers increased by an additional 3.5 thousand in 2008. Supplies to all clients were secured in a reliable manner; extraordinary events in the distribution network, mostly caused by third-party activities, were handled professionally by operations staff with no major impact on gas supplies to clients. All customer requests, claims, and complaints were processed in a responsible manner by the applicable deadlines.

At the beginning of the year, we launched Fenix, a large project aimed at improving the quality and increasing the efficiency of all technical operations, implementing cost savings, and creating conditions for ensuring that our services will remain competitive in the long term, particularly with regard to the distribution system operator – our subsidiary JMP Net, s.r.o. All organizational changes in the Network Services Division were completed by the end of 2008. The optimized network operation and maintenance structure will be put into service on 1 April 2009.

Following a call for tenders for the remediation of old environmental pollution in our Brno complex called by the Czech Ministry of Finance, full-scale work on this project has started. The cost will be fully covered by the state budget, where the government will fulfill one of its most important obligations from the period preceding the privatization of the Company in 2002.

To conclude, I want to mention the most important factors that resulted, particularly at the end of 2008, in an overall worsening of the JMP Group's financial performance. Besides the abovementioned reasons (climate, competition, consumption side savings), gas trading results were negatively affected by the impact of the worldwide financial crisis and the weakening of the Czech crown vis-à-vis the American dollar. As a result, gas purchase prices denominated in the Czech currency rose unexpectedly, making it impossible to adequately respond by adjusting prices charged to end customers. Additional negative effect on our financial performance was exerted by the introduction of a new, more precise method for setting the value of unbilled gas. However, realistic expectations show that these unfavorable impacts will be offset by measures planned for 2009.

I want to thank all employees for a job well done and the exceptional effort they made to fulfill their work tasks in 2008. Their effort is a solid basis for the success of the JMP Group in the upcoming period.

Tomáš Tichý
Chairman of the Board of Directors

2 REPORT OF THE SUPERVISORY BOARD FOR 2008

In 2008, the Supervisory Board was composed of nine members who supervised activities carried out by the Board of Directors with regard to JMP's business and verified whether the Board of Directors proceeded in accordance with generally binding regulations, the Articles of Association, and resolutions of JMP's General Meetings.

During the year under review, the Supervisory Board held four regular sessions and formed a quorum on all occasions. The Board of Directors regularly informed the Supervisory Board of JMP's current affairs, economic performance, and financial situation. In doing so, the Board of Directors presented documents that were supplemented by verbal comments of its members during the Supervisory Board's discussions on individual matters.

The oversight activity of the Supervisory Board mainly focused on the following areas:
- financial performance, including the ongoing update of forecasts for 2008;
- monitoring the development of receivables and payables;
- the in-progress corporate restructuring, particularly its effectiveness from the viewpoint of the growing competition on the liberalized gas market in the Czech Republic, economic benefits, and compliance with legal regulations (Labor Code) and the collective agreement;
- the preparation of the General Meeting in 2008, including a review of the Financial Statements of JMP and the Consolidated Financial Statements of the JMP Group as at 31 December 2007 and the Report of the Board of Directors for 2007 compiled in accordance with Section 66a (9) of the Commercial Code.

The Supervisory Board states that all activities of the Board of Directors were carried out in accordance with the Articles of Association and generally binding regulations.

At its meeting held on 29 September 2008, the Supervisory Board approved PricewaterhouseCoopers Audit, s.r.o. as the auditor of JMP's annual financial statements as at 31 December 2008.

On 26 March 2009, the Supervisory Board reviewed the Report of the Board of Directors compiled in accordance with Section 66a(9) of the Commercial Code and stated no objections regarding the completeness and content of this report. At the same meeting, the Supervisory Board discussed and reviewed JMP's annual financial statements and the consolidated financial statements of the JMP Group as at 31 December 2008, including the Auditor's Report and the Profit Distribution Proposal for 2008.

Like the auditor, the Supervisory Board concluded that the submitted financial statements and the consolidated financial statements provide an accurate and faithful depiction of the financial position of JMP and the JMP Group as at 31 December 2008 as well as their economic performance and cash flow in 2008 in accordance with the International Financial Reporting Standards, as approved by the European Union.

The Supervisory Board recommends to the General Meeting to approve the annual financial statements as at 31 December 2008 and the Profit Distribution Proposal for 2008 submitted by the Board of Directors.

The Supervisory Board extends its thanks to all employees for their work in 2008.

Prague, 26 March 2009

Martin Herrmann
Chairman of the Supervisory Board

3 MANAGEMENT REPORT FOR 2008

3.1 JMP Group Profile

The JMP Group was created as a consolidated undertaking following the legal unbundling of natural gas trading and transmission activities in connection with the requirements of the European Union and an amendment to the Energy Act. The JMP Group consists of Jihomoravská plynárenská, a.s., as the consolidating company, and JMP Net, s.r.o., as the consolidated company.

JMP Net, s.r.o. was established as the distribution system operator, and it assumed its role on 1 January 2007. Additional information on the consolidated companies is included in Section 5.2 of this Annual Report.

3.2 Results

Revenues, Expenses, Profit

In 2008, the JMP Group earned CZK 736 million in net profit, a year-on-year decrease by CZK 429 million (36.8%).

In the reported year, profit before taxes amounted to CZK 910 million, CZK 505 million, i.e. 35.7%, less than in 2007. Financial performance in 2008 was negatively affected mainly by a lower gas sale margin due to decreased gas sales and an unfavorable development of purchase prices in the last quarter. In addition, the results show the negative effect of the revaluation of commodity derivatives as at 31 December 2008 in connection with fixed-price gas sale agreements signed with some Key Account (Industrial) customers for the years 2009 and 2010.

Sales of natural gas and other services increased by CZK 2,944 million year-on-year (from CZK 15,379 million to CZK 18,323 million) mainly thanks to the growing price of gas.

Assets and Liabilities

The total balance of assets of the JMP Group as at 31 December 2008 amounted to CZK 10,455 million, a year-on-year increase by CZK 949 million. Investments into fixed assets, process facilities in particular, accounted for the most important part of the increase (CZK 476 million).

Investments

During the year under review, the JMP Group executed investment projects in accordance with the approved investment plan. We acquired assets worth CZK 863 million. This sum was invested into the reconstruction (CZK 437 million) and development (CZK 361 million) of the distribution system. The highest sum, CZK 341 million, was spent on the acquisition of pipeline networks.

The JMP Group executed all investment projects in the Czech Republic and financed them using its own resources.

The amount of funds allocated to planned investments has been optimized from the viewpoint of needs and resources until the year 2011. Projects foreseen in the approved mid-term plan mainly include investments into the expansion and reconstruction of process facilities. All investments will be made in the Czech Republic. According to IFRS, the average annual value of planned investments into assets during 2009 to 2011 amounts to approximately CZK 784 million.

Research and Development

JMP is not developing and has not developed new products in the past three years.

Organizational Units of JMP

According to its incorporation data recorded in the Commercial Register, JMP does not have any organizational units in the Czech Republic or abroad.

3.3 Gas Business

Gas Purchase

Reliable gas supplies for JMP were secured by purchases from RWE Transgas, a.s. and Moravské naftové doly, a.s. (MND). An important step that will guarantee steady future supplies and market stability was the signing of a mid-term contract with MND for the years 2009–2011.

In 2008, JMP purchased 19,703,884 MWh of natural gas, a year-on-year decrease by 5.3%. For the first time in the reported year, the effect of the liberalized natural gas market in the Czech Republic was manifested considerably with regard to other suppliers of this commodity. Several customers, mostly from the Key Account (Industrial) segment, used the opportunity to switch to a different natural gas supplier, which translated into lower natural gas sales to end customers in 2008.

Gas Sale

JMP sold 19,685,618 MWh of natural gas. As mentioned above in the “Gas Purchase” section, a significant year-on-year decline of natural gas sales was mainly caused by departures of large customers to other suppliers. The table below shows that close to 99% of the year-on-year decrease occurred in the Key Account (Industrial) segment, where customers most often switched to a new natural gas supplier in the course of 2008.

Consumption in the Small Business and Household segments was comparable to the year 2007. In like manner, the first and fourth quarters of 2008 were marked by above average temperatures similarly as 2007.

Sales and Purchases of Natural Gas (MWh)

		2008	2007
Purchase		19,703,884	20,813,209
Sales	Key Account (Industrial)	9,316,900	10,422,111
	Small Business	2,772,642	2,935,971
	Households	7,596,076	7,449,003
Total sales		**19,685,618**	**20,807,085**

Customers

As at 31 December 2008, JMP had 637,846 customers. Despite the relatively high density of the gas distribution system in our region, JMP connected more than 9,000 new offtake points to the network in 2008. Taking into account contracts cancelled by clients, the resulting balance was very favorable and amounted to a net increase by 3,547 customers, which is practically the same result as in 2007 (3,903 customers).

Development of the Number of Customers

	2008	2007
Key Account (Industrial)	1,932	2,008
Small Business	40,660	40,046
Households	595,254	592,545
Total	**637,846**	**634,599**

3.4 Business, Marketing and Communication Activities

Marketing

In 2008, JMP’s product portfolio and customer communication were standardized in accordance with the marketing strategy of the RWE Group in the Czech Republic. The group is now presented in a uniform manner under a single trademark – RWE.

In 2008, we continued to expand and develop the portfolio of products offered to individual customer segments. Increased attention was paid to pricing products intended for the Key Account segment, such as Fixed Price, Foreign Currency Payment, and Two-Year Contract. We also created new products for the Business and Retail segments, such as RWE online services, thermo-imaging, and regional gas appliance servicing.

As a member of the RWE Group in the Czech Republic, JMP was among the first to subscribe to the energy efficiency concept in 2007. An extensive communication campaign focused on energy savings was carried out by JMP in the framework of the RWE Group in 2008. In cooperation with selected business partners, all customers from the Retail segment were offered high discounts for the purchase of building insulation or replacement windows. The high interest of customers in topics related to energy savings is evidenced by the 500,000 people who have visited the www.setrimenergii.cz website.

In conducting all marketing activities, we paid close attention to monitoring and analyzing the needs of all customers in individual market segments. The result was a marketing strategy more precisely aimed at selected target groups.

Sponsorship

In 2008, JMP provided financial support for various important events and projects in such areas as culture, sports, and social services both in our operating territory and throughout the Czech Republic.

As to national activities, JMP co-financed the projects *RWE – The Energy of Czech Film* and *RWE – The Energy of Czech Skiing*.

For a sixth year in a row, JMP was the general partner of the Blue Days Festival, which aims to prevent pathological social phenomena among young persons. In addition, we continued our official partnership with the world-renowned music festival Moravian Autumn, the second largest classical music showcase in the Czech Republic. JMP also took part in organizing the Summer Film School in Uherské Hradiště as an extension of our support for the *RWE – The Energy of Czech Film* project. Other activities included the long-term general partnership with the Extra League volleyball team JMP Volleyball Brno and financial backing for the JMP Volleyball Project, which focuses on young volleyball players in the South Moravian Region.

Strategy

Like other member companies of the RWE Group in the Czech Republic, JMP actively pursued the strategy of differentiating products and services offered to individual customer segments throughout 2008. To strengthen the ability to respond flexibly to customer needs, we restructured the Sales Division to align its organization with the main customer segments: Key Account, Business, and Retail.

The priority of business activities conducted in 2008 was to succeed in selling gas in the highly competitive segment of large industrial customers. We created and marketed attractive products with the aim to meet the individual needs of clients in this category. The outcome of the sales campaign conducted has confirmed that our strategy has been successful.

As to the Business and Retail segments where competition is expected to increase significantly in the upcoming period, 2008 was marked by fine-tuning the mid-term strategy based on an analysis of customer comportment in the liberalized marketplace. Like in other areas of our business, we paid close attention to creating a portfolio of high-quality products and services for these segments, which will differentiate JMP from our competitors.

In response to the current financial crisis, we implemented risk management measures in order to prevent undesirable impact on JMP's economic position.

The current trend of product portfolio expansion will continue into 2009 to offset, among other factors, the expected increase in the intensity of activities conducted by our competitors. Close attention will be paid to improving the quality of customer service in all customer segments, whether provided to clients who are served on an individual basis or those who receive regular customer care.

3.5 Natural Gas Distribution

Distribution System

The JMP Net distribution system was operated based on Gas Distribution License No. 220604931 issued on 31 December 2006 by the Energy Regulatory Office in accordance with Act No. 458/2000 Coll., as amended.

As regards the operation of the distribution system, 2008 was a year with no extraordinary events. Mild temperatures during the winter period did not uncover any major deficiencies in the distribution capacity of existing pipelines.

Only one extraordinary operation-related event occurred in 2008. On 31 May 2008, a high-pressure DN 200 pipeline near the municipality of Bílany was damaged by third-party construction machinery, resulting in a massive leak of gas and a fire. Gas supply to hundreds of customers in all segments was not interrupted thanks to timely and coordinated action on the part of RC Kroměříž emergency staff. The standard parameters for restoring gas distribution following an accident were complied with.

Operated Gas Facilities

			2008	2007	2006
Length of operated pipelines	Local lines	km	14,730	14,671	14,551
	Service lines	km	3,106	3,083	3,043
	Service lines	qty	413,333	407,000	401,620
	Long-distance lines	km	3,171	3,172	3,173
Transfer and VVTL regulation stations		qty	9	9	9
VTL regulation stations		qty	953	951	952
STL regulation stations		qty	428	429	427
Municipalities connected to the distribution system		qty	1,359	1,356	1,355

Investments

In the reported year, JMP Net invested CZK 450 million into reconstruction of gas facilities. Investments into the construction of new facilities amounted to CZK 20 million. CZK 342 million was invested into purchases of leased pipelines. As part of CZK 3 million invested into gas facilities, CZK 815 million was spent on establishing easements on gas facilities. We reconstructed 78 kilometers of pipelines and ten regulation stations.

Metering

Similarly as in preceding years, we continued to modify the business metering system for end customers in response to legislative requirements for the fully liberalized market and changes in the offtake at specific offtake points.

Continuous metering with online data transfer was installed for all end customers with gas offtake in excess of 52,500 MWh/year (5,000 thousand m^3/year) in compliance with effective laws. In addition, gas meters with gas volume converters are being installed for all customers with gas offtake above 2,100 MWh/year (200 thousand m^3/year).

Network Construction

As part of reconstructing and building new process facilities, JMP provides engineering services for the preparation and execution of projects to JMP Net. In 2008, the preparation of more than 90 projects was completed, and close to 120 projects of small and large scope were executed. In addition, JMP supervised the construction of process facilities financed by other investors. In 2008, we standardized the process for preparing and executing projects with the provider of the relevant services – RWE Distribuční služby, s.r.o. The aim of this change is to reduce the organizational unit's operating costs and to improve the efficiency of the process of preparing and executing network construction projects.

3.6 Human Resources

Employees

In 2008, the average headcount (full-time equivalent) in the JMP Group was 817, a decrease by 166 employees from 2007.

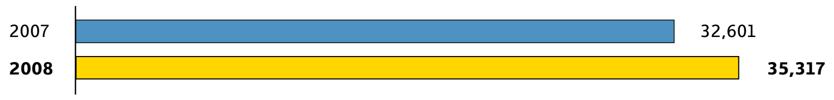
In the reported year, JMP placed third in the "2008 Employer of the Region" contest in the South Moravian Region.

Wages

In 2008, wages developed in accordance with the JMP Group's business strategy and the remuneration principles and wage increases agreed in the Collective Agreement.

Average Wage Development (CZK) JMP

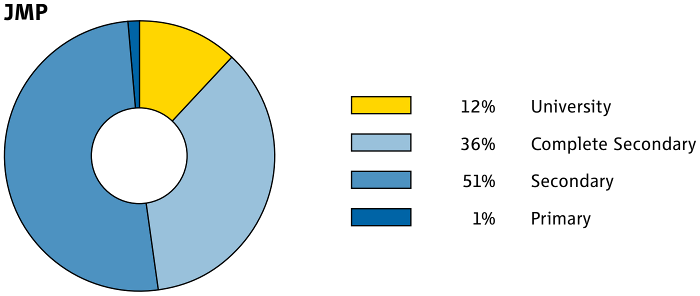
Average Wage Development (CZK) JMP Net



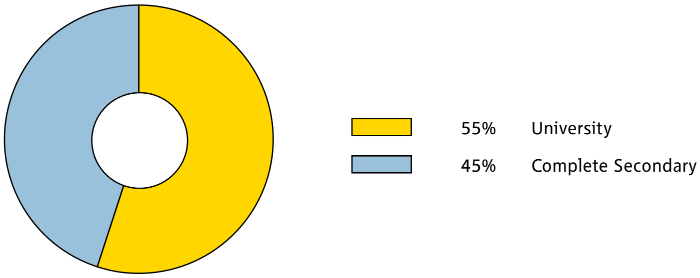
Employee Training and Career Development

Employee Structure by Qualification in 2008

JMP



JMP Net



Employee Training and Career Development

In 2008, close attention was paid to employee training, obligatory legislative and gas-sector training in particular. In addition, we focused on improving language proficiency, management skills, technical abilities, and IT knowledge, including the use of development centers and modern experience-based learning methods. JMP allowed employees to increase and deepen qualifications through part-time study programs.

For the past five years, employees with a potential to grow have had the opportunity to participate in Perspectives, a two-year program that flexibly responds to new trends in training for young managers. JMP has executed a pilot program aimed at identifying and training external instructors and established close cooperation with selected schools and universities.

Social Policy

JMP developed and supported its social program for employees. Using the Social Fund's personal accounts, we disbursed contributions for individual recreation, cultural and sporting events, healthcare, and education. JMP offered employees and their family members the possibility to use our own recreational facilities. In 2008, we increased the employer contribution for the retirement savings program and modified the disbursement rules. At the end of the year, JMP provided employees with free vitamins and flu vaccination as part of the Healthcare Prevention Program.

3.7 Information Technologies

IT services are outsourced to RWE Interní služby, a.s. The main IT activity in 2008 was a SAP ECC 6.0 upgrade (SAP Classic, HR, IS-U, IS-U - BW). This project has been successfully completed.

In the SAP central system, administration services for the Small Business and Household segments are secured by specialists from RWE Zákaznické služby, s.r.o. We launched a self-serve web portal for RWE customers in Key Account (Industrial), Business, Small Business, and Household segments with the aim to improve customer service.

The IT security policy has been fully implemented throughout JMP.

Based on the outcome of the 2007 Services project, mobile and IP telephony services were centralized under the TELCO service in cooperation with RWE Interní služby, a.s.

As part of the Fenix project, central systems for organizational changes and workflow processes were defined for JMP. We reviewed locally operated SW, where emphasis was put on its future optimization and standardization. HW and SW requirements for the conduct of work tasks at individual workstations were defined throughout JMP.

3.8 Environmental Protection

In 2008, JMP began implementing the ISO 14 001 environmental management system. JMP approved its environmental protection policy in January 2008, subscribing to a proactive approach to the continuing alleviation of the impact of the operation and maintenance of the natural gas distribution system on the environment. Since environmental protection is one of our main priorities, we have declared our determination not only to comply with legislative requirements, but also to improve the diffusion of information to our employees and to promote the use of environment-friendly technologies. Another objective is to pass JMP's positive attitude to ecology on to our suppliers and to create conditions that enable them to protect the environment to the maximum extent.

As to remediation of old environmental pollution, work has continued at a locality in Prostějov. In August, we began cleanup at the second of six sites where significant pollution caused by former coal gas production has been detected. The work will include removing contaminated soil and structures at JMP's head office complex in Brno. The remediation will last about two years and involve excavation up to depths of 12 meters and in-situ cleanup, which will rely on a system of sub-horizontal wells drilled to remove contamination below Building K2. The remediation work was performed by a consortium of HOCHTIEF CZ a.s. and EKOSYSTEM spol. s r.o.

There were no extraordinary events relating to the operation and maintenance of the natural gas distribution system, which would result in environmental damage. No inspection by a state environmental supervision authority was carried out in JMP in 2008.

3.9 Subsequent Events

In January 2009, the Czech Republic faced the most extensive reduction of Russian supplies of natural gas during the entire period for which the transit pipeline has been in operation.

Gas supplies began to decrease considerably on 5 January 2009 and fell to a minimum as early as on the following day. During the night from 6 to 7 January 2009, gas supplied from Ukraine to Slovakia and the Czech Republic was shut off completely.

To secure uninterrupted distribution on the domestic market, our supplier, RWE Transgas, a.s., negotiated alternative natural gas supplies through the so-called northern transmission route via the Czech-German border, considerably reducing dependence on gas transmitted from Ukraine. In addition, extraction of gas from underground storage facilities was increased.

During this period, JMP had gas supplies fully covered by RWE Transgas, a.s. and negotiated an increase in supplies from MND. Despite the decreased natural gas supplies from abroad and extremely low temperatures in the first decade of January, JMP did not have to resort to any reduction of gas supplies to its customers.

3.10 Outlook

Considering the current recession, reaching all the planned figures in 2009 will require an exceptional effort with regard to both gas sales and all other activities. In 2009, we expect the first positive effects of JMP's corporate restructuring process in improved quality of customer service and cost savings.

The JMP Group's long-term objectives are to maintain the traditionally strong position on the liberalized gas market, to improve customers' trust in the reliability of natural gas supplies and distribution, and to strengthen partnerships that are valuable for the development of the regions in which we conduct business.

ASTRAGALUS DANICUS (Purple Milk-vetch)

A perennial hairy herbaceous plant from the Fabaceae family. It grows to the height of 5–20 (30) cm. Blooms in May and June. Areas of occurrence are scattered in the warmest regions of the country, predominantly in southern and south-eastern Moravia. The level of protection afforded to this species is: Vulnerable. It is also listed in the Red Book of Vascular Plants of the Czech Republic.

4 ABOUT THE ISSUER

4.1 General Information

Company name: Jihomoravská plynárenská, a.s.
Registered office: Plynárenská 499/1, 657 02 Brno
Company No.: 49970607
Legal form: Public limited company

JMP's Establishment and Inception

JMP was founded in accordance with the law of the Czech Republic, namely Section 172(2)(3) and Section 171(1) of Act No. 513/1991 Coll., the Commercial Code (Article 1 of JMP's Articles of Association). JMP was founded on 12 October 1993 under a single act completed by the National Property Fund of the Czech Republic, as the sole founder, with its registered address at Rašínovo nábřeží 42, Prague, based on a Memorandum of Association having the form of a notarial deed. JMP was incorporated on 1 January 1994 by registration in the Commercial Register administered by the Brno Regional Court under Section B, Entry 1246.

4.2 JMP Shareholders and Securities

Share Capital

The share capital was paid on the day JMP was incorporated by means of the contribution referred to in the Memorandum of Association and appraised in the approved privatization project for Český plynárenský podnik, a state-owned enterprise with its registered address at Belgická 26, Prague 2.

The share capital in the amount of CZK 2,687,482,800 is divided into 1,493,046 shares, each with a nominal value of CZK 1,800. During the preceding two years, there were no changes in the value of JMP's share capital.

The conditions for increasing or reducing the share capital are outlined in JMP's Articles of Association.

Securities

The shares were issued in connection with the incorporation of JMP on 1 January 1994, and they are JMP's common shares. As at 31 December 2008, the shares were not listed on the official stock market pursuant to Act No. 256/2004 Coll. on Conducting Business on the Capital Market.

Effective as of 18 August 2008, JMP's bearer shares (ISIN CZ0005078956) were withdrawn from trading on the official stock market organized by RM-Systém, a.s.

Effective as of 1 September 2008, JMP's bearer shares (ISIN CZ0005078956) were withdrawn from trading on the official regulated stock market of Burza cenných papírů Praha, a.s. (Prague Stock Exchange). The last trading day was 29 August 2008.

Type	Common share	Common share
Form	Bearer share	Registered share
Kind	Uncertificated	Uncertificated
Volume	985,409	507,637
ISIN / SIN / SIN	CZ0005078956	770950000438/770950000446
Total value	CZK 1,773,736,200	CZK 913,746,600
Nominal value per share	CZK 1,800	CZK 1,800
Taxation of revenues from the securities in the country of the issuer's domicile	Revenues from the securities are taxed in accordance with Act No. 586/1992 Coll. on Income Tax, as amended.	
Payer of tax deducted from revenues from the securities	Issuer	Issuer
Security transfer	Shares are transferred through the Securities Center	
Limitations of transferability	None	None
Trading on regulated markets in the Czech Republic	The shares are not listed	The shares are not listed
Trading on regulated markets abroad	The securities have not been accepted for trading on any foreign market	
Name and registered office of the bank or financial institution through which security holders can exercise their ownership rights related to the securities, in particular through which revenues from the securities are paid	Dividends are paid by JMP using the services of ADMINISTER, spol. s r.o. with its registered address at Husova 109, 284 01 Kutná Hora	
Net revenues to the issuer derived from the issue	None	

Shareholders as at 31 December 2008

Name	Registered office	Stake in share capital (%)
RWE Gas International B.V.	Diamantlaan 15, WV Hoofddorp, Netherlands	47.66
RWE Transgas, a.s.	Limuzská 12/3135, 100 98 Prague 10-Strašnice, Czech Republic	2.46
E.ON Czech Holding AG	Denisstrasse 2, 803 35 Munich, Germany	43.73
Other legal persons		5.10
Natural persons		0.56
Municipalities		0.49

Based on the value of their stake in the share capital, the above shareholders exercise voting rights at the General Meeting. As at 31 December 2008, JMP was a part of the RWE Group. As at that date, RWE Aktiengesellschaft indirectly held a 50.12% stake in JMP's share capital. RWE Aktiengesellschaft controlled RWE Gas International B.V. and RWE Transgas, a.s. The ties and control structure of companies associated under the RWE Group as at 31 December 2008 are described on the third page of the cover as an annex to the Report of the Jihomoravská plynárenská, a.s. Board of Directors on Relations between Related Parties as at 31 December 2008 (Chapter 7). JMP is not aware of the structure of indirect shares in voting rights with regard to other shareholders.

Right to a Dividend and Time Limit for Dividend Payout

Unless otherwise specified by the General Meeting, the record date is the day of the General Meeting that makes a decision to pay dividends. Unless otherwise decided by the General Meeting, dividends are payable within three months after the day on which the General Meeting makes a decision to distribute profit. The right to the payment of a dividend expires after a four-year limitation period.

Investor's Timetable

General Meeting – 11 May 2009

Contact Details for Shareholders

Matters concerning Jihomoravská plynárenská, a.s. shareholders are handled by the Corporate Office.

Contact person: Andrea Hrvolová
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Plynárenská 499/1
657 02 Brno

4.3 JMP Governing and Supervisory Bodies

The Board of Directors as at 31 December 2008

Tomáš Tichý
Chairman of the Board of Directors, CEO
Born: 31 March 1947
Education: Czech Technical University, Prague, Faculty of Mechanical Engineering
Membership of bodies of other companies: Chairman of the Supervisory Board – JMP Net, s.r.o., Member of the Supervisory Board – GASFINAL, a.s., Executive – RWE Distribuční služby, s.r.o.
Any other business activities: None

Dušan Jurečka
Member of the Board of Directors, CCO
Born: 10 May 1969
Education: University of Western Bohemia, Faculty of Mechanical Engineering
Membership of bodies of other companies: None
Any other business activities: None

The term of office of members of the Board of Directors is five years. Members of the Board of Directors are appointed and discharged by the Supervisory Board. JMP has not implemented any special rules for appointing and discharging members of the Board of Directors.

Changes in the JMP Board of Directors during 2008 and at the Beginning of 2009

At its meeting held on 29 September 2008, the Supervisory Board of JMP discussed the resignation of Patrik Choleva from the position of a member and the Vice-Chairman of the Board of Directors as of 31 October 2008. At its meeting held on 15 December 2008, the Supervisory Board of JMP reappointed Tomáš Tichý a member of the Board of Directors for another term and appointed Dušan Malý a new member of the Board of Directors effective as of 1 January 2009.

At its meeting held on 5 January 2009, the Board of Directors of JMP appointed Tomáš Tichý the Chairman of the Board of Directors and Dušan Malý the Vice-Chairman of the Board of Directors effective as of 6 January 2009.

The Supervisory Board as at 31 December 2008

The Supervisory Board has nine members. Six are elected by the General Meeting and three by JMP's employees.

Martin Herrmann

Chairman of the Supervisory Board
Born: 3 July 1967
Education: Westfälische-Wilhems-Universität, Münster, Economics
Membership of bodies of other companies: Chairman of the Board of Directors – RWE Transgas, a.s., Chairman of the Supervisory Board – Severomoravská plynárenská, a.s., Východočeská plynárenská, a.s., Severočeská plynárenská, a.s., Středočeská plynárenská, a.s. and Západočeská plynárenská, a.s., Vice-Chairman of the Supervisory Board – RWE Transgas Net, s.r.o., RWE Gas Storage, s.r.o. and RWE Interní služby, a.s.*, Executive – Gasnet, s.r.o. v likvidaci
Any other business activities: None

Vladimír Vurm

Vice-Chairman of the Supervisory Board
Born: 19 September 1946
Education: Czech Technical University, Prague, Faculty of Mechanical Engineering
Membership of bodies of other companies: Vice-Chairman of the Supervisory Board – Severomoravská plynárenská, a.s., Východočeská plynárenská, a.s., Severočeská plynárenská, a.s., Středočeská plynárenská, a.s. and Západočeská plynárenská, a.s., Executive – Gasnet, s.r.o. v likvidaci
Any other business activities: None

Holger Carl

Member of the Supervisory Board
Born: 8 October 1964
Education: Fachhochschule Münster - Steinfurt, Supply Technology
Membership of bodies of other companies: Member of the Supervisory Board – Mestio Consulting, a.s. and RWE Plynoprojekt, a.s.*
Any other business activities: None

Michael Fehn

Member of the Supervisory Board
Born: 16 December 1958
Education: Technische Universität München, Electrical Engineering
Membership of bodies of other companies: Chairman of the Board of Directors – E.ON Czech Holding AG, Executive – E.ON Czech Holding Verwaltungs GmbH and E.ON Česká republika, s.r.o., Chairman of the Supervisory Board – Pražská plynárenská, a.s., E.ON Energie, a.s. and E.ON Trend, s.r.o., Vice-Chairman of the Supervisory Board – Pražská plynárenská Holding, a.s., E.ON Distribuce, a.s. and Schmack Biogas AG
Any other business activities: None

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

Dr Arnošt Thon
Member of the Supervisory Board
Born: 30 October 1940
Education: Jan Evangelista Purkyně University, Brno, Faculty of Natural Sciences
Membership of bodies of other companies: Executive and member – A. T. PLYN s.r.o.
Any other business activities: Consulting

Karel Henc
Member of the Supervisory Board
Born: 16 January 1948
Education: Masaryk University, Brno, Faculty of Natural Sciences
Membership of bodies of other companies: None
Any other business activities: None

Tomáš Varcop
Member of the Supervisory Board
Date of birth: 15 April 1965
Education: Technical University, Brno, Faculty of Mechanical Engineering, MBA na University of Pittsburgh
Membership of the bodies of other companies: Member of the Board of Directors – RWE Transgas, a.s., Member of the Supervisory Board – Severomoravská plynárenská, a.s. and Východočeská plynárenská, a.s.
Any other business activities: None

Olga Sedláčková
Member of the Supervisory Board
Born: 3 October 1956
Education: Secondary School of Economics, Brno
Membership of bodies of other companies: None
Any other business activities: None

Jiří Šrámek
Member of the Supervisory Board
Born: 27 October 1967
Education: Technical University, Brno, Faculty of Civil Engineering
Membership of bodies of other companies: None
Any other business activities: Viniculture

The term of office of members of the Supervisory Board is five years. JMP has not implemented any special rules for appointing and discharging members of the Supervisory Board.

Changes in the JMP Supervisory Board during 2008

At its meeting held on 14 December 2007, the Supervisory Board of JMP co-opted Tomáš Varcop a substitute member effective as of 1 January 2008.

On 12 May 2008, the General Meeting of JMP elected Holger Carl and Tomáš Varcop members of the Supervisory Board effective as of 13 May 2008 and effective as of 12 June 2008 reelected Michal Fehn whose term of office had expired.

Following the end of the term of office of member of JMP's Supervisory Board Rudolf Jokeš, an election of JMP's Supervisory Board member appointed by employees was held on 10 June 2008. Jiří Šrámek was elected a new member of JMP's Supervisory Board effective as of 2 July 2008.

4.4 Persons Responsible for the Annual Report and Audit of Financial Statements

Auditors and Audit Firm Responsible for Auditing the Financial Statements of JMP and the JMP Group during 2005 to 2008:

Audit firm:
PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Registered on the list of audit firms
of the Chamber of Auditors of the Czech Republic
Certificate No. 021

Auditor in charge:
Petr Šobotník
Certificate No. 113

Brno, 30 March 2009

Person Responsible for Accounting

Ivana Chalupová

Ivana Chalupová
Accounting and Taxation Manager

Persons Responsible for the Jihomoravská plynárenská, a.s. 2008 Annual Report

We hereby certify that the information stated in this Annual Report is truthful and that no important facts that could have a material effect on the accurate and correct assessment of the issuer and securities issued by the issuer have been omitted or misrepresented.

Tomáš Tichý
Chairman of the Board of Directors

Dušan Malý
Vice-Chairman of the Board of Directors

ORCHIS PURPUREA (Lady Orchid)
A perennial herbaceous plant from the Orchidaceae family. It is the tallest Orchis in the country. The plants are typically measuring at 50 cm or taller. Flowers occur around May to June and have 6 petals. It is relatively common only in southern and central Moravia. The level of protection afforded to this species is: Endangered.

5 FINANCIAL PART

5.1 JMP Group Financial Statements

CONSOLIDATED BALANCE SHEET

31 December 2008
(CZK million)

	31 December 2008	31 December 2007	Note
ASSETS			
Non-current assets			
Property, plant and equipment	9,092	8,613	6
Intangible assets	4	7	7
	9,096	8,620	
Current assets			
Inventories	8	6	8
Trade and other receivables	229	158	9
Other tax receivables	260	128	9
Cash and cash equivalents	853	585	10
	1,350	877	
Non-current assets and disposal group held-for-sale	**9**	**9**	11
Total current assets	**1,359**	**886**	
TOTAL ASSETS	**10,455**	**9,506**	
EQUITY AND LIABILITIES			
Equity			
Share capital	2,687	2,687	12
Retained earnings and other capital funds	3,321	3,266	12
Equity attributable to shareholders of the parent company	**6,008**	**5,953**	
Non-current provisions and liabilities			
Provisions	24	42	13
Derivatives	45	-	17
Other non-current liabilities	43	30	14
Deferred income tax liabilities	292	252	15
	404	**324**	
Current provisions and liabilities			
Provisions	16	34	13
Trade and other liabilities	1,273	1,341	16
Derivatives	158	-	17
Advances received	808	753	18
Current income tax liabilities	-	57	16
Other tax liabilities	24	3	16
Other financial liabilities	1,764	1,041	19
	4,043	**3,229**	
Total liabilities	**4,447**	**3,553**	
TOTAL EQUITY AND LIABILITIES	**10,455**	**9,506**	

The notes on pages 34 to 67 are an integral part of these separate financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008
(CZK million)

	2008	2007	Note
Sales	18,323	15,379	20
Purchased gas and services related to gas supplies	(15,760)	(12,545)	21
Other operating income	92	23	22
Employee benefits	(417)	(434)	23
Depreciation and amortization	(379)	(381)	6, 7
Other operating expenses (net)	(923)	(636)	24
Operating profit	**936**	**1,406**	
Finance income	26	23	25
Finance cost	(52)	(14)	25
Net finance income/(costs)	**(26)**	**9**	
Profit before income tax	**910**	**1,415**	
Income tax	(174)	(250)	26
Profit for the year	**736**	**1,165**	
Earnings per share (expressed in CZK per share)			
– Basic	493	781	27
– Diluted	493	781	27

The notes on pages 34 to 67 are an integral part of these separate financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008
(CZK million)

	Share capital	Other capital funds	Retained earnings	Total equity	Note
Balance as at 1 January 2007	**2,687**	**2,045**	**1,024**	**5,756**	
Dividends paid	-	-	(968)	(968)	27
Profit for the year	-	-	1,165	1,165	
Balance as at 31 December 2007	**2,687**	**2,045**	**1,221**	**5,953**	
Dividends paid	-	-	(681)	(681)	
Profit for the year	-	-	736	736	
Balance as at 31 December 2008	**2,687**	**2,045**	**1,276**	**6,008**	

The notes on pages 34 to 67 are an integral part of these separate financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008
(CZK million)

	2008	2007	Note
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	**910**	**1,415**	
Adjustments for non-cash movements:			
Depreciation and amortization	379	381	6, 7
Change in provisions and impairment of assets	(28)	51	9, 11, 13
Gain from disposal of property, plant and equipment and intangible assets	(2)	(3)	22
Net interest expense/(income)	26	(9)	25
Other non cash movements	216	-	
Cash flow from operating activities before tax and changes in working capital	**1,501**	**1,835**	
(Increase)/decrease in inventories	(2)	(2)	8
(Increase)/decrease in current receivables	(128)	(77)	9
Increase/(decrease) in current liabilities	17	(406)	16
Cash generated from operations	**1,388**	**1,350**	
Interest received	(53)	21	25
Interest paid	27	(13)	25
Income tax paid	(285)	(246)	26
Net cash flow from operating activities	**1,077**	**1,112**	
CASH FLOW FROM INVESTMENT ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	(853)	(721)	6
Proceeds from disposal of property, plant and equipment and intangible assets	2	4	6, 22
Net cash flow from investment activities	**(851)**	**(717)**	
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid	(681)	(969)	27
Received loans/re-paid liabilities	800	1,000	
Net cash flow from financing activities	**119**	**31**	
Cash and cash equivalents at the beginning of the year	**546**	**120**	10
Net increase in cash and cash equivalents	**345**	**426**	
Cash and cash equivalents at the end of the year	**891**	**546**	10

The notes on pages 34 to 67 are an integral part of these separate financial statements.

5.2 Notes to JMP Group Financial Statements

31 December 2008

1 GENERAL INFORMATION ON CONSOLIDATED COMPANIES

Jihomoravská plynárenská, a.s. (“the Company”) has been registered in the Commercial Register kept with the Regional Court in Brno, section B, insert 1246. The Company was incorporated on 1 January 1994 and has its registered office at Brno, Plynárenská 499/1, Czech Republic. The Company’s identification number is 49970607.

The Company has been traded on the Prague stock exchange since 1995. Bearer shares (ISIN CZ0005078956) have been excluded from trading on official market organised by RM-Systém, a.s. as of 18 August 2008 and as of 1 September bearer shares have been excluded from trading on official market organised by Burza cenných papírů Praha, a.s. The last trading day was 29 August 2008. Act No. 458/2000 Coll. as amended, on conditions for undertaking the business and for the execution of state administration in the energy sector (the Energy Act) governs rendering of services and related rights and obligations except for general legal norms.

JMP Net, s.r.o. (“the Subsidiary”) has been registered in the Commercial Register kept with the Regional Court in Brno, section C, insert 52276. The Subsidiary was incorporated on 12 June 2006 and has its registered office at Brno, Plynárenská 499/1, Czech Republic. The Subsidiary’s identification number is 27689841.

The main business activity of the Company and its Subsidiary (“the Group”) is distribution of gas and trade thereof.

RWE AG with its registered seat at Opernplatz 1, Essen, Germany is the ultimate parent and controlling party of the Group. Companies controlled directly or indirectly by RWE AG are referred to in these financial statements as the “RWE Group”.

As at 31 December 2008, the ownership structure of the Company was as follows:

Company name	Share in %
RWE GAS International B.V.	47.66
RWE Transgas, a.s.	2.46
Subtotal of RWE Group share	50.12
E.ON Czech Holding AG	43.73
Other shareholders	6.15
Total	**100.00**

As at 1 January 2007, the Company separated part of its business in accordance with the European Union Directives and the amendment of the Energy Act and contributed this part of the business related to gas distribution to its 100% subsidiary JMP Net, s.r.o. JMP Net, s.r.o. assumed the role of the distribution network provider.

2 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Consolidated financial statements of the Group for the year ended 31 December 2008 include the Company and the Subsidiary.

2.1 Basis of preparation of consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union effective as at the balance sheet date.

The consolidated financial statements have been prepared under the historical cost convention, as modified by financial instruments at fair value through profit or loss.

The Company applied the following standards in 2008:

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant for the Group's operations:
- IFRIC 11, IFRS 2 – Group and treasury share transactions;
- IFRIC 12 – Service concession arrangements; and
- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

Standards, amendments and interpretations to existing standards that are not effective for the year 2007 and were not earlier adopted by the Group:

The following standards, amendments and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, subject to endorsement by the European Union if indicated below:
- IAS 1 (Amendment), Presentation of Financial Statements (revised September 2007; effective from annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements, but to have no impact on the recognition or measurement of specific transactions and balances;
- IAS 23 (Amendment), Borrowing costs (revised March 2007, effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or

sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group is currently assessing the impact of the amendment to the standard on its consolidated financial statements;

- Amendments to IAS 32 and IAS 1 – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation, (effective for annual periods from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group does not expect the amendment to affect its consolidated financial statements. The amendments to IAS 32 and IAS 1 have not yet been endorsed by the European Union;
- IAS 39 (Amendment), Eligible hedged items (revised in July 2008, effective from 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is elgible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's consolidated financial statements as the Group does not apply hedge accounting;
- Amendments to IAS 39 and IFRS 7, Reclassification of financial assets (revised in October 2008, the reclassifications allowed by the amendments might not be applied before 1 July 2008 and retrospective applications are only allowed if made prior to 1 November 2008). The amendments amend the existing rules for reclassifications of financial assets among their categories and allow, in rare circumstances, a reclassification of financial assets out of the held for trading and available for sale categories. The Group is currently assessing whether it will elect to make any optional reclassifications;
- Amendments to IFRS 1 and IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate (issued in May 2008, effective from 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendments will not have impact on the Group's consolidated financial statements;
- IFRS 1 (Amendment), First time adoption of international financial reporting standards (revised in December 2008, effective from 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements. The amendment has not yet been endorsed by the European Union;
- IFRS 2 (Amendment), Share based payments – Vesting conditions and cancellations; (revised in January 2008, effective retrospectively in annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share based payment are non vesting conditions. The amendment is not relevant for the Group since it does not have share based payments;
- IFRS 3, Business combinations (revised version) and IAS 27, Consolidated and Separate Financial Statements (Amendment) (effective from 1 July 2009). The revised IFRS 3 reinforces the existing IFRS 3 model but remedies problems that have emerged in its application. The project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The objective was to develop a single high quality accounting standard that would ensure that the accounting for business combinations is the same whether an entity is applying International Financial Reporting Standards (IFRS) or US generally accepted accounting principles (GAAP). The Group does not expect the revised IFRS 3 and amended IAS 27 to affect the presentation of its consolidated financial statements or to have any impact on the recognition or measurement of specific transactions and balances. The amendments to IAS 27 and IFRS 3 have not yet been endorsed by the European Union;

- IFRS 8, Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group is currently assessing the impact of IFRS 8 on presentation of its financial statements;
- IFRIC 13, Customer loyalty programmes (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because it does not operate any loyalty programmes. IFRIC 13 has not yet been endorsed by the European Union;
- IFRIC 15, Agreements for the Construction of Real Estate (effective from 1 January 2009). The interpretation clarifies whether IAS 11, Construction contracts or IAS 18, Revenues should be applied to a particular construction agreement. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate. IFRIC 15 has not yet been endorsed by the European Union;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008). The interpretation stems from current principles of IAS 21, The Effects of Changes in Foreign Exchange Rates and IAS 39, Financial Instruments. IFRIC 16 does not have any impact on these consolidated financial statements as the Group does not apply hedge accounting. IFRIC 16 has not yet been endorsed by the European Union;
- IFRIC 17, Distribution of non-cash assets to owners (effective from 1 July 2009). The interpretation is to standardise practice in the accounting treatment of distribution of non-cash assets as dividend to owners. IFRIC 17 is not relevant to Group's operations because it does not distribute non-cash assets to owners. IFRIC 17 has not yet been endorsed by the European Union;
- Improvements to International Financial Reporting Standards (issued in May 2008). The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The Group does not expect the amendments to have any material effect on its consolidated financial statements;
- IFRIC 18, Transfers of assets from Customers (effective from 1 July 2009). The interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect to the customer to network or provide the customer with ongoing access to a supply of goods or services (such as supply of electricity, gas or water). IFRIC 18 is not expected to have any material impact on the Group's consolidated financial statements. IFRIC 18 has not yet been endorsed by the European Union.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

2.2 Consolidation method

Subsidiaries over which the Company has direct or indirect control were consolidated. Subsidiaries are fully consolidated from the date of control transfer to the Group and are excluded from consolidation as at date of control loss. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services, within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency transaction

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment, in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Czech Crowns millions, which is the Group's functional and presentation currency.

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of transaction. All foreign exchange gains and losses from such transactions and from translation of monetary assets and liabilities denominated in foreign currencies using the foreign exchange rate ruling at the end of the accounting period are recognized in the consolidated income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses, if applicable. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement when incurred.

When payments for acquisition of property, plant and equipment are deferred (the due date surpasses normal credit terms), then the acquisition price of fixed property, plant and equipment equals to the present value of the related future cashflows. The difference between the acquisition cost and the total amount of instalments is gradually recognized as interest in the consolidated income statement until the liability is settled.

Certain property, plant and equipment items were acquired with the assistance of grants (see Note 2.18).

Depreciation of property, plant and equipment is calculated using the straight-line method over their estimated useful lives. Land is not depreciated.

The estimated useful lives of assets were set as follows:

Buildings and constructions	14–50 years
Machinery and equipment	3–8 years
Gas pipelines	40 years
Other machinery and office equipment	3–12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. In 2008 the estimate useful lives of gas pipelines were changed (see Note 6). An asset's carrying amount is written down immediatelly to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on liquidation and disposals of assets are determined as difference between proceeds and the carrying amounts and are charged to the consolidated income statement.

2.6 Intangible assets

Intangible assets are recorded at cost less accumulated amortization and accumulated losses from impairment, if applicable. Intangible assets and subsequent costs are capitalized only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Intangible fixed assets have limited useful lives and are amortized applying the straight-line method.

The estimated useful lives of intangible assets were set as follows:

Software	3–5 years
Other intangible assets	5–6 years

Research expenditures (studies – costs of research focused on acquiring new pieces of information for future utilization in practice) are recognized as an expense when incurred.

If the carrying amount of an asset exceeds at the balance sheet date its estimated recoverable amount, a provision for impairment is created (see Note 2.7).

2.7 Impairment of non-financial assets

Property, plant and equipment and other non-financial assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Intangible assets not yet available for use are tested for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. As at 31 December 2008 and 2007, the Group recognised the following categories of financial assets:

a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading with the receivable. They are included in current assets, except for maturities exceeding 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in Trade and other receivables in the consolidated balance sheet.

b) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss represent financial assets available for sale. Financial assets are classified under this category in the case that the Group acquired these for re-sale in near future or in the case these are derivatives (except derivatives held as effective hedge instruments).

2.9 Derivatives

Derivatives are initially recognised at fair value at the date when the contract is concluded. Derivatives are subsequently measured at fair value. The Group does not use hedge accounting. All derivatives are classified as Derivatives at fair value through profit or loss as assets, if their fair value is positive, and as liabilities, if their fair value is negative. Changes in the fair value are recognised in the consolidated income statement within Other net operating (expense)/income. The fair value of derivative is calculated as the present value of expected future cash flows from derivatives. The expected cash flows are based on current market conditions (commodity price, foreign exchange rates and interest rates) as at balance sheet date.

2.10 Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured using the effective interest method, less a provision for impairment ("a provision for impairment"). A provision for impairment for trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The Group creates provisions for impairment in the amount of 50% of the carrying value of receivables for trade receivables that are overdue for more than 6 months and less than a year. A 100% provision for impairment is created for receivables that are overdue for more than one year. Trade receivables under bankruptcy and settlement proceedings are fully provided for. These rules are based on the analysis of receivables' ageing and the risk of default. The amount of the provision approximates the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The Group does not create provisions for impairment for receivables due from the RWE Group companies. Impairment loss is recognised in the consolidated income statement. When a trade receivable is uncollectible, it is written-off against the provision for trade receivables. Subsequently received recoveries of amounts previously written–off are credited to the consolidated income statement.

2.11 Non-current assets held for sale

Non-current assets (or groups or assets) are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuous use. Non-current assets held-for-sale are not depreciated.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less estimated variable selling expenses.

Cost of inventory includes appropriate cost to bring the inventory to its present state and location.

The weighted average cost method is applied for all disposals.

2.13 Unbilled gas supplies and advances received for gas

The Group offsets the amount of unbilled gas supplies with the total amount of advance payments received for gas from individual customers. The net balance is therefore recognised in the consolidated balance sheet as a net asset or a net liability (see Note 18). The net balance approximates the amounts receivable from or payable to customers. If the net balance is an asset, it is a financial asset, which will be settled in cash. If the net balance is a liability, it is a non-financial liability (advance received), which will be settled by supply of gas.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

The Group uses cash-pooling arrangements within the RWE Group. A receivable/(liability) that arises from cash-pooling is presented in the cash flow statement as part of the item Cash and cash equivalents.
If the liability arising from cash-pooling represents a form of financing, then it is not presented in the consolidated cash flow statement as part of the item Cash and cash equivalents.

2.15 Share capital

Share capital of the Company is represented by ordinary shares. No preference shares were issued.
The Company does not own any of its equity share capital.

2.16 Trade payables

Trade payables and other payables are recognised initially at fair value. Subsequently, trade payables and other financial liabilities are stated at amortized costs using the effective interest rate method.

2.17 Employee benefits

a) Contributions to the State pension scheme
The Group pays its employees contributions to the State pension system, which is managed on the basis of defined contribution scheme. The Group has no other liabilities related to the State pension scheme after paying contributions in the amount defined by law.

b) Pension and life insurance
In accordance with the valid Collective Agreement, the Group makes monthly contributions to pension schemes and life insurance schemes for its employees. The contributions are paid to an independent entity under a defined contribution scheme. The contributions are recognised in the consolidated income statement as incurred.

c) Other obligations
The Group pays one-off rewards to employees upon retirement or anniversary. These rewards are defined in the Collective Agreement. The carrying amount of these liabilities is not material for disclosure in the financial statements.

2.18 Grants and subsidies

Grants and subsidies related to the purchase of property, plant and equipment are recognized at their fair value in current and non-current liabilities upon their receipt by the Group.

Grants and subsidies are released to the consolidated income statement on a straight line basis over the expected useful life of the fixed assets purchased from the grants.

2.19 Provisions

Provisions are recognised if the Group has a present legal or constructive obligation as a result of past events, and if 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.

Restructuring provisions comprise employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the impact of discounting is significant, the provisions are carried at present value of future costs. Subsequent increase in provisions due to time impact is recorded as interest expense.

2.20 Revenues

Sales revenue is recognised when significant risks and rewards from the ownership have been transferred to the buyer or when services that can be reliably measured are rendered and it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenues from sales of goods and services are presented net of Value Added Tax and net of discounts and are measured at fair value of the consideration received or receivable.

a) Revenues from sale and distribution of gas
Revenues from gas supplies are recognised when the commodity is delivered. Revenue from the sale of natural gas on the market, that was fully liberalised effective 1 January 2007 in accordance with article 55 of Act No. 458/2000 Coll., is measured based on the commodity value reflecting all costs for purchase of natural gas including the gross margin that covers costs of gas trade and eligible profit, and also other energy services related to gas deliveries to the customer in the required quantity and at the required time.

Effective 1 April 2007 the end customers' price for high-volume customers with annual consumption higher than 5 million m^3 is calculated using the price formula linked to quotation of reference fuels and foreign exchange rates. The price formula mirrors the same arrangement on the side of the gas purchase. Other customers in high-volume and middle-volume category have the option to conclude the contract using either a price formula (see above) or fixed price for a pre-set period of one month for customers with consumption over 630 thousand m^3 or fixed price for a pre-set period of three months based on the valid Company's price list for customers with consumption below 630 thousand m^3. Prices for other customers are fixed for a pre-set period of three months in accordance with up-to-date price list of the Company. The quarterly price reflects corrections arising from the difference between planned and actual costs for gas purchases in previous periods.

The final price of gas supplies includes energy activities such as distribution, transportation and storage. Distribution and transportation prices are regulated by Energy Regulatory Office ("ERO"), storage prices are contractual prices.

Natural gas supplies to high-volume and middle-volume customers ("VO" and "SO") are billed on a monthly basis based on actual readings of consumption. Natural gas supplies to low-volume customers ("MO") and households ("DOM") are billed periodically, based on the reading of the consumption at each consumption site, which is performed at least once in 18 months.

Revenues from MO and DOM categories comprise of the revenue billed based on gas meters readings and so-called unbilled gas supplies (see Note 18).

b) Other revenues
Other revenues of the Group are recognised as follows:

- Interest income is recognised on a time-proportion basis using the effective interest rate method.

2.21 Lease

Leases of property, plant and equipment where majority of the risks and rewards of ownership have been transferred to the Group are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the settlement of the liability and finance charges. Related lease obligations are included in current or non-current liabilities in the consolidated balance sheet. The interest is charged directly to the consolidated income statement over the lease period so as to achieve a constant interest rate on the outstanding liability balance. The property, plant and equipment acquired via finance leases are recorded in the consolidated balance sheet and depreciated over their estimated useful lives or over the lease period, if it is shorter.

Operating lease instalments are charged to the consolidated income statement on a straight-line basis over the lease term.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends distribution is approved by the General meeting of shareholders.

2.23 Income tax

Income tax for the accounting period consists of current and deferred tax.

Current income tax represents the estimated tax payable for the accounting period calculated by using the tax rate and laws enacted or substantially enacted as at the balance sheet date and valid for the period.

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the consolidated balance sheet and their tax bases. However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than business combination. The temporary differences arise mainly from the difference between tax and accounting net book values of buildings and equipment and tax non-deductible adjustments and non-taxable provisions. Deferred tax asset is recognized when it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax asset and liability are determined using the tax rate, which will be valid in the period, in which the tax asset is realized or tax liability is settled, according to tax acts enacted as at balance sheet date.

3 FINANCIAL RISK MANAGEMENT

3.1 Credit risks

Credit risk (counterparty credit risk) presents risk of inability of counterparty to fulfil their (particularly financial) obligations to the Group. The Group is subject to two basic categories of credit risk: (i) credit risk by virtue of distribution and sale of natural gas to the Group's customers and (ii) credit risk by virtue of management of available resources.

Management of credit risk arising from the of sale of natural gas to the Group's customers follows the internal directive Management of Credit Risk, the wording of which is based on group rules for credit risk management within the RWE Group. The directive was updated in 2008. Customers target group, for which the risk is evaluated, was extended and the calculation was modified in such a manner that it contains probability of customer's insolvency. A maximum credit exposure and expected risk of loss is set for each customer with the annual natural gas consumption above 42 GWh or for a customer who intends to conclude or has already concluded a contract with the Company containing both price formula and non-standard payment conditions. The maximum credit exposure and expected risk of loss are determined by the credit assessment of the customer expressed by the credit rating set by Creditreform, an independent rating agency.

Every time a new contract is concluded with such a customer, the Group calculates the expected risk of loss and a period from the transaction approval till the contract termination, that cannot exceed the approval competences assigned by the Group. The expected level of risk of loss depends on customer's expected consumption diagram, set payment terms and expected natural gas prices.

The Group participates in cash-pooling arrangement of RWE Transgas, a.s. Under the terms of the cash-pooling arrangements the Group deposits all of its available funds to RWE Transgas, a.s., either in the form of short-term borrowings payable within 1 year or in the form of overnight roll-over loans. Company RWE Transgas, a.s. is a related party controlled by RWE AG, the S&P rating of which (A) represents an acceptable level of credit exposure.

Credit quality of financial assets

The credit quality of financial asset which are neither due nor impaired is based on historical data on individual customers groups.

The credit quality structure is as follows:

	31 December 2008	31 December 2007
	CZK million	CZK million
Receivables		
– with the Creditreform rating	3	1
– without the Creditreform rating	57	79
Cash and cash equivalents		
– cash-pooling RWE Transgas, a.s. (rating A)	853	584
Total financial assets due, not impaired	**913**	**664**

The maximum exposure of the Group to credit risk equals to the carrying value of receivables, derivatives with positive fair value and cash and cash equivalents, as follows:

	31 December 2008	31 December 2007
	CZK million	CZK million
Trade and other receivables	213	140
Cash and cash equivalents	853	585
Total	**1,066**	**725**

3.2 Liquidity risk

Liquidity risk represents a risk of insufficient free cash. Continuous management and forecasting of the Group's future cash flows represents the basic tool of liquidity risk management. The Group prepares a forecasted cash flow on a daily detail for the next 12 months. The forecast is updated at least on a weekly basis for the forthcoming period and on a monthly basis for at least twelve months. Based on the forecast the Group must have a sufficient volume of liquid instruments to finance its activities for the monitored period.

Under the terms of the cash-pooling arrangements the Group concluded with RWE Transgas, a.s. a cap loan agreement, in accordance with which the Group was in the year 2008 entitled to draw short-term loans due within one year up to the amount of CZK 4,150 million, and roll-over overdrafts up to CZK 600 million. The credit limits for short-term loans are updated at least once a year based on the expected Group's cash flow.

The table below shows the financial liabilities of the Group grouped according to their remaining contractual maturities as at the balance sheet date. The amounts in the table represent contractual undiscounted cash flows.

	Within 1 year	Within 1–2 years	Within 2–5 years	After 5 years
	CZK million	CZK million	CZK million	CZK million
Balance as at 31 December 2008				
Trade and other liabilities	1,235	-	-	-
Derivatives	158	45	-	-
Other liabilities	1,764	-	-	-
Balance as at 31 December 2007				
Trade and other liabilities	1,292	-	-	-
Other liabilities	1,041	-	-	-

The Group expects the following amounts of cash and cash equivalents:

as at 31 December 2009	CZK (553) million
as at 31 December 2010	CZK (672) million
as at 31 December 2011	CZK (690) million

3.3 Market risks

a) Interest rate risk

The Group income and operating cash flow are not directly dependent on changes of market interest rates. The Group does not have any significant assets or liabilities with floating interest rate. All drawings of short-term loans and roll-over overdrafts lent to or borrowed by the Group under the terms of RWE Transgas, a.s. cash-pooling as at 31 December 2008 and 2007 have fixed interest rates. As a result the amount of interest expense related to these loans and overdrafts does not depend on interest rate changes.

Due to the above-stated reasons, the Group does not actively manage its interest rate risk.

Sensitivity analysis:
As at 31 December 2008, if the interest rate had decreased by 50 basic points with all other variables held constant, profit before tax for the year would have been CZK 4 million higher, mainly as a result of decreased interest expense from cash-pooling, which is partially compensated by the increase in negative fair value of derivatives. Alternatively, as at 31 December 2008, if the interest rate had increased by 50 basic points, with all other variables held constant, profit before tax for the year would have been CZK 4 million lower, mainly as a result of increased interest expense from cash-pooling, partially compensated by the decrease in negative fair value of derivatives.

The Group was not exposed significantly to interest rate risk arising from financial instruments in 2007 and therefore, the sensitivity analysis has only been prepared for the year 2008.

b) Foreign exchange risk

The Group’s business activities (including purchases and sales of natural gas) are realised in Czech Crowns only. As a result, the Group’s financial assets and liabilities are not directly exposed to foreign exchange risk.

As at 31 December 2008 and 2007 the Group did not recognise any material assets or liabilities denominated in foreign currency.

The Group offers to its customers term contracts on gas supplies with fixed price, or contracts on gas supplies with the price derived from a price formula with a fixed foreign currency exchange rate. Based on these contracts, a customer commits to purchase from the Group the contracted amount of natural gas. The Group hedges the risks arising from the differences between the commodity purchase prices and the contractual prices with customers derived from the above-mentioned price formulas, by concluding commodity derivative contracts – type CIS (commodity index swap) or CCS (commodity currency swap) with RWE Transgas, a.s. in accordance with the framework agreement. Price agreements with customers do not qualify to be recognised as derivatives. Commodity and foreign exchange rate derivatives are recognised at fair value through profit or loss. The Group does not apply hedge accounting for these types of contracts as the related administrative task would be excessive.

Sensitivity analysis:
Individual foreign exchange rate scenarios were based on the statistical data analysis. The selected foreign exchange rate scenarios demonstrate the impact on the Company's (Group's) profit assuming that only one factor changes while the other variables affecting derivatives' fair values remain constant.

	Estimated yearly deviation (in %)	
Currency pair	**Decrease**	**Increase**
EUR/CZK	(5)%	5%
EUR/USD	(8)%	9%

	Impact on profit before tax (CZK million)	
EUR/CZK	(27)	28
EUR/USD	44	(40)

As at 31 December 2008, if the CZK had strengthened by 5% against the EUR/USD; with all other variables held constant; profit before tax for the year would have been CZK 27 million lower as a result of the increase in negative fair value of derivates.

As at 31 December 2008, if the USD had strengthened by 8% to EUR, with all other variables held constant, the profit before tax for the year would have been CZK 44 million higher, as a result of the decrease of negative fair value of derivatives.

The Group was not exposed significantly to foreign exchange risks arising from its financial instruments in 2007; therefore the sensitivity analysis has only been prepared for the year 2008.

c) Commodity risk
The purchase price for natural gas is derived from a price formula dependent on market prices of oil products (light and heavy fuel oil), black coal, foreign currency exchange rates of EUR and USD and interest rates of CZK and EUR. The price at which the Group sells gas is directly linked to the purchase price of gas. As a result of this the Group is hedged against commodity risks. The value of assets and liabilities arising from the purchase and sale of natural gas recognised by the Group as at 31 December 2008 and 2007 is not dependent on further development of oil derivatives and coal prices.

As at 31 December 2008 and 2007, the Group did not recognise any material assets or liabilities, the value of which would depend on changes in other market drivers.

The Group is exposed to commodity risk from natural gas supplies for fixed price (see Note b) Foreign exchange risk).

Sensitivity analysis:
Individual commodity scenarios were based on the statistical analysis of commodity prices. The scenarios demonstrate the possible impact on the Group's profit assuming that only one factor changes while the other variables affecting the fair value of derivatives remaining constant.

	Estimated yearly deviation (in %)	
Commodity	Decrease	Increase
Gasoil [USD]	(25)%	34%
Fuel Oil [USD]	(28)%	39%
Hard Coal ICR [USD]	(19)%	24%
Hard Coal StaBu [EUR]	(16)%	19%

	Estimated yearly deviation (CZK million)	
Gasoil [USD]	(49)	66
Fuel Oil [USD]	(40)	56
Hard Coal ICR [USD]	(3)	3
Hard Coal StaBu [EUR]	(10)	11

The Group was not exposed significantly to commodity risks resulting from its financial instruments in 2007; therefore the sensitivity analysis has been prepared only for the year 2008.

3.4 Capital risk

The Group does not actively manage capital. The capital is managed at RWE Group level.

All components of equity in the financial statements are considered to be the capital of the Group. For additional information, see Note 12 and the consolidated Statement of changes in shareholder equity.

3.5 Classes of financial assets – reconciliation to balance sheet lines

31 December 2008

Classes	Receivables	Cash and cash equivalents		
Balance sheet lines/Categories	Loans and receivables	Loans and receivables	Non-financial assets	Total
	CZK million	CZK million	CZK million	CZK million
Trade and other receivables	213	-	16	229
Cash and cash equivalents	-	853	-	853
Total	**213**	**853**	**16**	**1,082**

31 December 2007

Classes	Receivables	Cash and cash equivalents		
Balance sheet lines/Categories	Loans and receivables	Loans and receivables	Non-financial assets	Total
	CZK million	CZK million	CZK million	CZK million
Trade and other receivables	140	-	18	158
Cash and cash equivalents	-	585	-	585
Total	**140**	**585**	**18**	**743**

No financial assets were used as collateral for liabilities.

3.6 Fair value measurement

Fair values of financial assets and liabilities that are not traded in an active market are determined by using valuation techniques based on discounted future cash flow. The Group uses several valuation methods and makes assumptions based on market conditions that existed as at the balance sheet date.

The carrying amounts of short-term receivables less impairment provision and short-term payables approximate their fair values. The fair value of non-current liabilities for disclosure purposes is estimated using the method of estimated discounted future cash flows based on the current interest market rate available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions related to the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be material under the circumstances.

4.1 Unbilled supplies of natural gas

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to unbilled supplies of natural gas.

Revenues in MO and DOM categories comprise of:
- billing invoices within individual billing cycles at least once every 18 months;
- unbilled revenues from sold gas for the given period.

During 2008, the Group changed the estimate for unbilled gas as a result of the harmonisation of unbilled gas calculation method, that was used within the RWE Group companies.

The harmonised calculation method applied from the fourth quarter of 2008 enables the Group to allocate the calculated total amount of unbilled gas among individual consumption sites using the simulation of consumption derived from the last billing of the particular consumption site.

The impact of the change of the unbilled gas estimate resulting from the implementation of harmonised methodology throughout whole RWE Group in the Czech Republic resulted in a decrease in revenues amounting to CZK 26 million for the year 2008. The change of the estimate reflects mainly the different allocation of customers to individual price tariffs and application of dynamic valuation of the estimated consumption for individual consumption sites.

Should the recognised balance equation losses change, the carrying value of unbilled gas supplies as at 31 December 2008 would change as follows:

	Network losses higher / (lower) by:				
Inaccuracy of estimated network losses	**(1.00)%**	**(0.50)%**	**0.00%**	**0.50%**	**1.00%**
(Decrease)/increase in the carrying amount of unbilled deliveries (CZK million)	175	88	-	(88)	(175)

4.2 Recent volatility in global and Czech financial markets

The ongoing global economic recession which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market trading, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets.

Impact on customers:
Debtors of the Group may be affected by a lower liquidity situation, which could in turn impact on their ability to repay the amounts owed. Deteriorating operational conditions for debtors may also have an impact on cash-flow forecasts and on assessment of the impairment of financial and non-financial assets.

Fair value of financial assets and liabilities:
Fair values of derivative financial instruments were defined by the Group using valuation techniques which include the use of recent arm's length transaction valuation, discounted cash-flows analyses, option pricing models and other valuation techniques commonly used by market participants. The valuation methods reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date.

Management of the Group evaluated all the information available and currently does not expect a significant impact of the economic recession on the Group's business, specifically on the Group's liquidity and funding. Management of the Group believes it is taking all the necessary measures to support the sustainability and growth of the Group's business under the current circumstances.

5 SEGMENT REPORTING

The Group identified only one business and geographical segment. The Group's operations mainly comprise of sale and distribution of gas. Neither of these activities constitutes a separately reportable segment. As well, from the geographical point of view, the Group generates almost all of its revenue in the Southern Moravia region.

6 PROPERTY, PLANT AND EQUIPMENT

	Property and plant	Machines, machinery and technical equipment		Other machinery and office equipment	Assets under construction, advances paid	Total
		Equipment	Gas lines			
	CZK million	CZK million	CZK million	CZK million	CZK million	CZK million
Balance as at 1 January 2007						
Cost	2,010	2,904	9,933	738	91	15,676
Accumulated depreciation	(320)	(2,075)	(4,372)	(661)	-	(7,428)
Net carrying amount as at 1 January 2007	1,690	829	5,561	77	91	8,248
Year ended 31 December 2007						
Opening carrying amount as at 1 January 2007	1,690	829	5,561	77	91	8,248
Additions	10	65	592	43	16	726
Disposals and transfers *	11	7	78	(3)	(88)	5
Depreciation	(43)	(103)	(183)	(37)	-	(366)
Closing carrying amount as at 31 December 2007	1,668	798	6,048	80	19	8,613
Balance as at 31 December 2007						
Cost	2,031	2,976	10,603	778	19	16,407
Accumulated depreciation	(363)	(2,178)	(4,555)	(698)	-	(7,794)
Closing carrying amount as at 31 December 2007	1,668	798	6,048	80	19	8,613
Year ended 31 December 2008						
Opening carrying amount as at 1 January 2008	1,668	798	6,048	80	19	8,613
Additions	52	40	741	10	20	863
Disposals and transfers	7	11	(5)	(1)	(12)	-
Depreciation	(45)	(112)	(203)	(24)	-	(384)
Closing carrying amount as at 31 December 2008	1,682	737	6,581	65	27	9,092
Balance as at 31 December 2008						
Cost	2,095	3,005	11,337	512	27	16,976
Accumulated depreciation	(413)	(2,268)	(4,756)	(447)	-	(7,884)
Closing carrying amount as at 31 December 2008	**1,682**	**737**	**6,581**	**65**	**27**	**9,092**

*) Disposals and transfers for the year 2007 include reclassification of fixed assets in the amount of CZK 11 million which were recognised under Assets held-for-sale category.

Advances paid relate mainly to constructions of gas network.

In cases when the Group is a lessee under finance lease contract, Machines, machinery and technical equipment and Other machinery and office equipment include the following amounts:

	Gas lines and other equipment	Other machinery and office equipment	Total
	CZK million	CZK million	CZK million
Balance as at 31 December 2007			
Cost	516	112	628
Accumulated depreciation	(262)	(111)	(373)
Net carrying amount as at 31 December 2007	**254**	**1**	**255**
Balance as at 31 December 2008			
Cost	507	103	610
Accumulated depreciation	(266)	(103)	(369)
Net carrying amount as at 31 December 2008	**241**	**-**	**241**

7 INTANGIBLE ASSETS

	Software	Other	Total
	CZK million	CZK million	CZK million
Balance as at 1 January 2007			
Cost	175	3	178
Accumulated amortization	(158)	-	(158)
Net carrying amount as at 1 January 2007	17	3	20
Year ended 31 December 2007			
Opening net carrying amount as at 1 January 2007	17	3	20
Amortization	(12)	(1)	(13)
Closing net carrying amount as at 31 December 2007	5	2	7
Balance as at 31 December 2007			
Cost	175	3	178
Accumulated amortization	(170)	(1)	(171)
Net carrying amount as at 31 December 2007	5	2	7
Year ended 31 December 2008			
Opening net carrying amount as at 1 January 2008	5	2	7
Additions	-	-	-
Amortization	(2)	(1)	(3)
Closing net carrying amount as at 31 December 2008	3	1	4
Balance as at 31 December 2008			
Cost	175	3	178
Accumulated amortization	(172)	(2)	(174)
Net carrying amount as at 31 December 2008	**3**	**1**	**4**

Other intangible assets include royalties and other intangible fixed assets.

8 INVENTORIES

	31 December 2008	31 December 2007
	CZK million	CZK million
Material	16	14
Provision for diminution in value	(8)	(8)
Net carrying amount	**8**	**6**

Inventory includes mainly raw material used for investment construction and gas network maintenance.

The change of provision for diminution in value is analysed as follows:

	2008	2007
	CZK million	CZK million
Opening balance as at 1 January	8	7
Creation of provision	-	1
Closing balance as at 31 December	**8**	**8**

During 2008 and 2007, the following inventory values were recognized as expenses in the consolidated income statement:

	2008	2007
	CZK million	CZK million
Purchase of natural gas	15,584	12,386
Material consumption	77	79
Total	**15,661**	**12,465**

9 TRADE AND OTHER RECEIVABLES / OTHER TAX RECEIVABLES

	31 December 2008	31 December 2007
	CZK million	CZK million
Trade receivables from third parties	376	307
Trade receivables from related parties	6	3
Total trade receivables	382	310
Provision for impairment of trade receivables	(185)	(178)
Net carrying amount of trade receivables	197	132
Advances paid	16	18
Unbilled deliveries	13	4
Other receivables	3	4
Total trade and other receivables	229	158
Other tax receivables – value added tax	164	128
Corporate income tax	96	-
Total receivables	**489**	**286**

Trade receivables outstanding have not been secured.

Receivables from related parties are analysed in Note 31.

Fair value of trade receivables and other receivables approximates their carrying value.

As at 31 December 2008, trade receivables of CZK 130 million (31 December 2007: CZK 48 million) were due but not impaired.

The ageing of these receivables is as follows:

	31 December 2008	31 December 2007
	CZK million	CZK million
Up to 6 months	130	48
Total	**130**	**48**

The ageing of receivables that are individually determined to be impaired is as follows (net):

	31 December 2008	31 December 2007
	CZK million	CZK million
Up to 6 months	-	-
6 to 12 months	14	7
Total	**14**	**7**

Movements on the provision for impairment of trade receivables are as follows:

	2008	2007
	CZK million	CZK million
Balance as at 1 January	178	133
Creation of provision for receivables impairment	209	119
Release of provision for receivables impairment	(190)	(69)
Receivables written off during the year as uncollectible	(12)	(5)
Balance as at 31 December	**185**	**178**

The following table analyses income and expenses related to trade and other receivables:

	2008	2007
	CZK million	CZK million
Change in provision for receivables impairment	7	45
Loss on receivables written off or sold	14	5
Total net loss from receivables	**21**	**50**

10 CASH AND CASH EQUIVALENTS

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

	31 December 2008	31 December 2007
	CZK million	CZK million
Cash at bank and cash in hand	-	1
Cash equivalents from cash-pooling	853	584
Short term loan	38	(38)
Total cash and cash equivalents	**891**	**546**

Cash equivalents from cash-pooling yield the interests of 0.99% as at 31 December 2008 (as at 31 December 2007: 3.74%).

11 NON-CURRENT ASSETS AND DISPOSAL GROUP HELD-FOR-SALE

Based on the plan approved by management of the Group in 2007 the following property and plant have been classified as non-current assets held-for-sale as at 31 December 2008. The transaction is expected to be completed by the end of 2009.

	31 December 2008	31 December 2007
Land and buildings	CZK million	CZK million
Cost	19	21
Accumulated depreciation	(4)	(5)
Impairment value	(6)	(7)
Carrying amount	**9**	**9**

Those properties are vacant as they are not used by the Group. The Group is actively marketing those properties for sale to third parties. No material amounts recognised in the consolidated income statement during the year 2008 in relation to those properties.

12 SHARE CAPITAL AND OTHER CAPITAL FUNDS

	31 December 2008	31 December 2007
	CZK million	CZK million
Bearer shares	1,773	1,773
Registered shares	914	914
Total share capital registered in Commercial register	**2,687**	**2,687**

Share capital of the Company consists of 1,493,046 shares fully subscribed and paid. Nominal value of one share is CZK 1.8 thousand. Share capital of the company consists of 985,409 bearer shares and 507,637 registered shares. Both categories of bearer and ordinary registered shares hold the same rights.

The Group creates the following funds, which are recognised under Retained earnings and other capital funds:

	31 December 2008	31 December 2007
	CZK million	CZK million
Statutory reserve fund	557	557
Other capital funds	1,488	1,488
Total other capital funds	**2,045**	**2,045**

The statutory reserve fund comprises funds that the Group is required to retain according to the Commercial Code. Use of the statutory reserve fund is limited by the legislation and the Statutes of the Company and the Subsidiary and is not available for distribution to the shareholders, but may be used only to offset losses.

Other capital funds represent an increase of property, pland and equipment in a form of received gifts or transfer of title to constructions in progress from other subjects. In accordance with the Company's statutes, the distribution of these funds to the shareholders is subject to the General Meeting approval usually based on the proposal submitted by the Board of Directors as approved by the Supervisory Board.

13 PROVISIONS

	31 December 2008		31 December 2007	
	Balance	Out of which current	Balance	Out of which current
	CZK million	CZK million	CZK million	CZK million
Restructuring provision	11	11	30	30
Other provisions	30	5	46	4
Total	**41**	**16**	**76**	**34**

Change in provisions is analysed as follows:

	1 January 2008	Creation	Release of unused amounts	Utilisation	31 December 2008
	CZK million	CZK million	CZK million	CZK million	CZK million
Restructuring provision	30	11	(30)	-	11
Other provisions	46	5	(17)	(4)	30
Total	**76**	**16**	**(47)**	**(4)**	**41**

14 OTHER NON-CURRENT LIABILITIES

	31 December 2008	31 December 2007
	CZK million	CZK million
Other non-current liabilities – deposits	13	-
Other non-current liabilities – subsidies	30	30
Non-current liabilities total	**43**	**30**

Other non-current liabilities – subsidies include deferred income arising from received subsidies for acquisition of distribution network.

In 2008 the Group did not receive any subsidies on acquisition of property, plant and equipment (2007: CZK 1 million).

15 DEFERRED TAX LIABILITIES

Offsetting of deferred income tax assets and liabilities is allowed when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income tax assets and liabilities related to income tax are collected by the same tax authority.

The offset deferred tax assets and liabilities are as follows:

	31 December 2008	31 December 2007
	CZK million	CZK million
Deferred tax asset to be recovered after more than 12 months	75	45
Deferred tax asset to be recovered within 12 months	45	42
Deferred tax liability payable after more than 12 months	(412)	(339)
Deferred tax liability payable within 12 months	-	-
Net deferred tax liability	**(292)**	**(252)**

Changes in deferred tax assets and liabilities have the following structure:

Deferred tax asset(+)/ liability(-)	Non-current assets	Inventory	Receivables	Tax loss	Provisions	Liabilities	Total
	CZK million	CZK million	CZK million	CZK million	CZK million	CZK million	CZK million
Balance as at 1 January 2007	(272)	2	13	-	17	1	(239)
Impact of temporary differences in the consolidated income statement	(18)	-	5	-	(2)	2	(13)
Balance as at 31 December 2007	(290)	2	18	-	15	3	(252)
Impact of temporary differences in the consolidated income statement	(84)	-	(2)	53	(7)	-	(40)
Balance as at 31 December 2008	**(374)**	**2**	**16**	**53**	**8**	**3**	**(292)**

Net deferred tax liability is calculated using the corporate income tax rates as shown in the table below:

Period	Tax rate
2008	21%
2009	20%
2010 and after	19%

16 TRADE AND OTHER LIABILITIES

	31 December 2008	31 December 2007
	CZK million	CZK million
Trade and other liabilities		
Trade liabilities to third parties	586	587
Trade liabilities to related parties	610	675
Other liabilities	39	30
Liabilities to employees	28	37
Liabilities for social insurance	10	12
Total trade and other liabilities	**1,273**	**1,341**

Liabilities to related parties are disclosed in Note 31. Other liabilities represent mainly unbilled purchased services relating to the financial year.

Fair value of trade liabilities and other liabilities approximates their carrying value.

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

17 DERIVATIVES

The Company recognised the following amounts of derivatives at fair values:

Liability	31 December 2008
	CZK million
Derivative type CIS (commodity index swap)	203
Total	**203**
From that realised over 1 year:	
Derivative type CIS (commodity index swap)	45
From that realised within 1 year	158

As at 31 December 2007 the Group did not have any open derivative contracts. More information on open derivative contracts as at 31 December 2008 is disclosed in Note 3.3 b) Foreign exchange risk.

18 ADVANCES RECEIVED FOR UNBILLED GAS

The Group recognized the following amounts of unbilled gas supplies and related advances received for unbilled gas:

	31 December 2008	31 December 2007
	CZK million	CZK million
Unbilled gas supplies	6,882	6,066
Advance payments received for gas	(7,690)	(6,819)
Net liability from unbilled gas recognized in the consolidated balance sheet	**(808)**	**(753)**

19 OTHER FINANCIAL LIABILITIES

	31 December 2008	31 December 2007
	CZK million	CZK million
Other financial liabilities	1	1
Cashpool liability	1,763	1,040
Total	**1,764**	**1,041**

As at 31 December 2008 the Group used three short term loans under the cash-pooling arrangements with interest rates of 3.40%, 2.93% a 2.74%. The three short term loans were due in January 2009.

As at 31 December 2007 the Group used two short term loans under the cash-pooling arrangements with interest rates of 3.97% and 3.85%.

Interest on cash drawn or provided in the form of roll-over loan under the cash-pooling is derived as stated in loan contract from daily PRIBOR, PRIBID respectively for each day.

Used roll-over loan on 31 December 2008 was charged at an interest rate of 1.64% p.a.
(31 December 2007 4.29% p.a.).

20 SALES

	2008	2007
	CZK million	CZK million
Sale of natural gas	15,334	12,573
Natural gas distribution	2,889	2,722
Sale of heat	5	8
Sale of other services	95	76
Total	**18,323**	**15,379**

21 PURCHASED GAS AND SERVICES RELATED TO GAS SUPPLIES

	2008	2007
	CZK million	CZK million
Purchase of natural gas	15,583	12,386
Raw materials and energy related to gas supplies	97	90
Purchased services related to gas supplies	80	69
Total	**15,760**	**12,545**

Costs of raw material and energy related to gas deliveries comprise of purchase of gas for own consumption, energy consumption and consumption of low value gas meters not included in non-current assets and material for maintenance of gas network.

Costs of purchased services related to gas deliveries represent mainly costs of gas meters readings, maintenance and operating lease of gas network and other services related to operation of gas network.

22 OTHER OPERATING INCOME

	2008	2007
	CZK million	CZK million
Profit from sale of non-current asset	2	4
Rental income	15	7
Release and utilisation of provision	47	-
Other operating income	28	12
Total	**92**	**23**

23 EMPLOYEE BENEFITS

	2008	2007
	CZK million	CZK million
Wages and salaries	302	298
Social security costs	38	44
Pension costs – defined contribution plans	85	88
Other social costs	3	15
Wages and salaries and social security cost activated to property, plant and equipment	(11)	(11)
Total	**417**	**434**

In the year 2008 the Group employed 817 persons (weighted average) (2007: 983).

24 OTHER OPERATING EXPENSES

	2008	2007
	CZK million	CZK million
Consumption of raw material	26	29
Services and repairs	648	520
Change in receivables provision including bad debts written off	22	51
Net loss from change in derivatives at fair value	203	-
Other expenses net	24	36
Total	**923**	**636**

25 FINANCE COSTS AND INCOME

	2008	2007
	CZK million	CZK million
Interest income	26	23
Interest expense	(52)	(14)
Net finance (expense) / income	**(26)**	**9**

26 INCOME TAX

The income tax expense recognized in the consolidated income statement includes the following:

	2008	2007
	CZK million	CZK million
Current tax	133	237
Deferred tax from temporary differences (see Note 15)	41	13
Total	**174**	**250**

Reconciliation between theoretical tax charge computed from accounting profit before tax multiplied by the statutory income tax rate for the year and actual tax charge for the year can be analysed as follows:

	2008	2007
	CZK million	CZK million
Net profit before taxation	910	1,415
Theoretical income tax at 21% (2007: 24%)	193	340
Non-taxable income	-	(4)
Tax non-deductible expense	6	10
Permanent difference – depreciation of donated assets	(20)	(24)
Impact of the tax rate change on deferred tax	(3)	(71)
Subsidies	-	(1)
Tax loss deduction	-	(1)
Additional tax for previous periods	(2)	1
Total income tax charge	**174**	**250**

27 EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per share ratio is calculated as a profit attributable to the Company's shareholders divided by the weighted arithmetic average number of ordinary shares, in circulation during the year excluding ordinary shares purchased by the Company and held as own shares.

The value of diluted earnings per share ratio equals the basic earnings per share ratio because the Company does not have any dilutive equity instruments. The same rights are attached to all shares.

	2008	2007
Profit attributable to equity holders of the Company (million CZK)	736	1,165
Number of ordinary shares in circulation (thousand)	1,493	1,493
Basic earnings per share ratio (CZK per share)	493	781
Diluted earnings per share ratio (CZK per share)	493	781

In 2008, the Company paid dividends of CZK 680,829 thousand (CZK 456 per share), in 2007, the Company paid dividends of CZK 968,987 thousand (CZK 649 per share). The dividends were distributed as follows:

	2008	2007
	CZK million	CZK million
RWE GAS International B.V.	324	462
E.ON Czech Holding AG	298	424
Other shareholders	59	83
Total	**681**	**969**

28 CONTINGENT LIABILITIES

In 2004 Český plynárenský podnik, s.p. sold its receivable amounting to CZK 472,096 thousand due from Group to Mr Peter Kmeť, who brought a legal action against the Group for the repayment. This receivable has been further sold on to the company SHARI COMMERCIAL S.A., The British Virgin Islands. Management believes that it is highly unlikely that the lawsuit will result in significant cash outflow. For this reason, no provision has been recognized in the consolidated financial statements as at 31 December 2008.

The tax authorities are authorised to inspect accounting books and records at any time within three years subsequent to the reported tax year, and consequently may additionally impose income tax and penalties. In 2004–2005, tax authorities have carried out a full-scope tax audit at the Company for the years 2000–2002. The Group's management is not aware of any circumstances which may in the future give rise to a potential material contingent liability in this respect.

Management of the Group is not aware of any other significant contingent liabilities as at 31 December 2008.

29 COMMITMENTS

Material contractual capital commitments are analysed as follows:

	31 December 2008	31 December 2007
	CZK million	CZK million
Property, plant and equipment	136	126
Total	**136**	**126**

The summary of minimum lease payment commitments under irrevocable operating leases is as follows (undiscounted):

	31 December 2008	31 December 2007
	CZK million	CZK million
Outstanding amount payable within one year	43	56
Outstanding amount payable within 1–5 years	43	56
Total	**86**	**112**

The Group leases gas pipelines primarily from municipalities, companies and individuals. Contracts for operating leases for the gas lines are concluded for indefinite period with one year's notice.

Maintenance costs for these pipelines are covered by the Group in accordance with the rental agreements.

30 REGULATORY FRAMEWORK

As at 1 January 2007, the legal unbundling of activities of distribution services from the originally vertically integrated gas company took place. Based on gained licences, the Company continues trading with natural gas and the subsidiary JMP Net, s.r.o. operates the distribution network.

a) Price regulation – gas sale
Effective 1 January 2007, the full gas market liberalisation took place and as a result of this all end customers have a choice of their gas supplier. The price regulation of the Energy Regulatory Office by the means of regulating maximum gas prices ceased effective from 1 April 2007. With respect to the dominant position of regional gas companies of RWE Group on the Czech market, Energy Regulatory Office performs a general oversight on price levels in accordance with the Act No. 526/1990 Coll., Act on prices, as amended.

b) Price regulation – gas distribution
The ERO sets the ultimate level of allowed revenues for the distribution companies and it also sets the procedures for calculation of tariffs for the usage of distribution network. The methodology of distribution regulation should enable each gas distribution company to cover their allowed costs including depreciation and allowed return on assets needed for the operation of licensed activities. In case of variance between the allowed and actual generated regulated revenues, ERO applies corrections in future tariffs for gas distribution.

31 RELATED PARTY TRANSACTIONS AND BALANCES

The Group is controlled by RWE GAS International B.V. The ultimate controlling party and parent company is RWE AG.

The Group was involved in the following transactions with related parties:

	2008	2007
	CZK million	CZK million
Costs related to supply of natural gas to the Group		
– RWE Transgas, a.s.	14,713	11,749
Other expenses		
– RWE Transgas, a.s. – services	259	51
– Other gas distribution and regional companies – services	369	325
– Other related companies within RWE group – services	434	236
Interest expense		
– RWE Transgas, a.s.	51	13
Total costs	**15,826**	**12,374**

	2008	2007
	CZK million	CZK million
Revenue from sale of natural gas		
– Other gas distribution and regional companies	3	56
– Other related companies within RWE group – services	15	14
Other revenues		
– RWE Transgas, a.s. – services	4	1
– Other gas distribution and regional companies – services	18	6
– Other related companies within RWE group – services	25	13
Interest income		
– RWE Transgas, a.s.	26	23
Total revenues	**91**	**114**

The following related party balances were outstanding:

	31 December 2008	31 December 2007
	CZK million	CZK million
Receivables		
– RWE Transgas, a.s.	854	587
– Other gas distribution and regional companies – services	3	1
– Other related companies within RWE group	3	2
Total receivables	**860**	**590**
Liabilities		
– RWE Transgas, a.s.	2,324	1,687
– Other gas distribution and regional companies – services	4	2
– Other related companies RWE	45	27
Total liabilities	**2,373**	**1,716**

For dividends paid to shareholders in 2008 and 2007 see Note 27.

Remuneration of key members of management and members of statutory bodies:

	2008	2007
	CZK million	CZK million
Wages and current employee benefits	14	9
Social security costs	1	1
Pension costs – defined contribution plans	4	2
Total	**19**	**12**

32 SUBSEQUENT EVENTS

No events occurred subsequent to balance sheet date that would have a material impact on the consolidated financial statements as at 31 December 2008.

33 STATUTORY APPROVALS

These consolidated financial statements have been approved for submission to the general meeting of shareholders by the Company's Board of Directors.

5 March 2009

Tomáš Tichý
Chairman of the Board of Directors
CEO

Dušan Malý
Vice-Chairman of the Board of Directors
CFO

Note
The financial statements have been prepared in Czech language and English language. In all matters of interpretation of information, views or opinions, the Czech language version of our financial statements takes precedence over the English language version.

5.3 Jihomoravská plynárenská, a.s. Financial Statements

BALANCE SHEET

31 December 2008
(CZK thousand)

	31 December 2008	31 December 2007	Note
ASSETS			
Non-current assets			
Property, plant and equipment	1,420,647	1,442,707	6
Intangible fixed assets	566	1,452	7
Investment in subsidiary	6,545,486	6,545,486	8
Other non-current assets	9	-	
Deferred tax asset	70,429	28,330	9
	8,037,137	8,017,975	
Current assets			
Inventories	8,156	5,788	
Trade and other receivables	1,180,417	663,794	11
Current income tax asset	36,507	-	
Other tax receivables	158,313	102,226	11
Cash and cash equivalents	349	437	12
	1,383,742	772,245	
Non-current assets and disposal group held-for-sale	9,088	8,925	13
Total current assets	1,392,830	781,170	
TOTAL ASSETS	**9,429,967**	**8,799,145**	
EQUITY AND LIABILITIES			
Equity			
Share capital	2,687,483	2,687,483	14
Retained earnings and other capital funds	2,652,685	2,783,769	14
	5,340,168	5,471,252	
Non-current liabilities			
Provisions	3,278	4,191	15
Derivatives	44,892	-	18
Other non-current liabilities	10,241	243	16
	58,411	4,434	
Current liabilities			
Provisions	16,011	34,208	15
Trade and other liabilities	1,233,435	1,455,863	17
Derivates	158,276	-	18
Advances received	835,139	755,478	19
Current income tax liability	-	33,637	27
Other tax liabilities	24,116	3,161	17
Other financial liabilities	1,764,411	1,041,112	20
	4,031,389	**3,323,459**	
TOTAL EQUITY AND LIABILITIES	**9,429,967**	**8,799,145**	

The notes on pages 71 to 105 are an integral part of these separate financial statements.

INCOME STATEMENT

Year ended 31 December 2008
(CZK thousand)

	2008	2007	Note
Sales	19,436,525	16,796,230	21
Purchased gas and services related to gas deliveries	(18,399,729)	(15,168,459)	22
Other operating income	807,770	545,112	23
Employee benefits	(404,270)	(422,527)	24
Depreciation and amortisation	(80,907)	(107,299)	6, 7
Other operating expenses	(803,600)	(889,643)	25
Operating profit	**555,790**	**753,414**	
Finance income	3,150	4,916	26
Finance costs	(52,241)	(13,962)	26
Net finance income	**(49,091)**	**(9,046)**	
Profit before income tax	**506,699**	**744,368**	
Income tax	43,046	(63,825)	27
Profit for the year	**549,745**	**680,543**	
Earnings per share (expressed in CZK per share)			
– Basic	368	456	28
– Diluted	368	456	28

The notes on pages 71 to 105 are an integral part of these separate financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008
(CZK thousand)

	Share capital	Other capital funds	Retained earnings	Total equity	Note
Balance as at 1 January 2007	**2,687,483**	**2,045,182**	**1,026,952**	**5,759,617**	
Dividends paid	-	-	(968,908)	(968,908)	28
Profit for the year	-	-	680,543	680,543	
Balance as at 31 December 2007	**2,687,483**	**2,045,182**	**738,587**	**5,471,252**	
Dividends paid	-	-	(680,829)	(680,829)	28
Profit for the year	-	-	549,745	549,745	
Balance as at 31 December 2008	**2,687,483**	**2,045,182**	**607,503**	**5,340,168**	

The notes on pages 71 to 105 are an integral part of these separate financial statements.

CASH FLOW STATEMENT

Year ended 31 December 2008
(CZK thousand)

	2008	2007	Note
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	**506,699**	**744,368**	
Adjustments for non-cash movements:			
Depreciation and amortisation	80,907	107,299	6, 7
Change in provisions and impairment of financial assets	(13,074)	44,695	15
Loss from sale of non-current assets	(1,598)	(3,012)	23
Unpaid income from profit transfer	(747,778)	(517,300)	23
Net interest (income) / expense	49,091	9,046	26
Adjustments for other non-cash movements	218,119	5,462	18
Cash flow from operating activities before tax and changes in working capital	**92,366**	**390,558**	
Increase in inventories	(2,368)	(1,582)	
(Increase) / decrease in current receivables	154,144	(78,959)	11
Decrease / (increase) in current liabilities	(110,675)	(342,946)	17
Cash generated from operating activities	**133,466**	**(32,929)**	
Interest received	3,102	4,940	26
Interest paid	(52,476)	(13,148)	26
Income tax paid	(69,221)	(93,730)	27
Net cash flow from operating activities	**14,872**	**(134,867)**	
CASH FLOW FROM INVESTMENT ACTIVITIES			
Purchases of non-current assets	(59,492)	(58,601)	6
Proceeds from sale of non-current assets	1,826	3,659	6, 23
Net cash flow from investment activities	**(57,666)**	**(54,942)**	
CASH FLOW FROM FINANCIAL ACTIVITIES			
Dividends paid	(680,738)	(968,515)	28
Loan received	800,000	1,000,000	20
Net cash flow from financial activities	**119,262**	**31,485**	
Cash and cash equivalent at beginning of the year	**(38,456)**	**119,868**	12
Net increase / (decrease) in cash equivalents	**76,468**	**(158,324)**	
Cash and cash equivalents at the end of the year	**38,012**	**(38,456)**	12

The notes on pages 71 to 105 are an integral part of these separate financial statements.

5.4 Notes to Jihomoravská plnyárenská, a.s. Financial Statements

31 December 2008

1 GENERAL INFORMATION

Jihomoravská plynárenská, a.s. (“the Company” or “JMP, a.s.”) has been registered in the Commercial Register kept with the Regional Court in Brno, section B, insert 1246. The Company was incorporated on 1 January 1994 and has its registered office at Brno, Plynárenská 499/1, Czech Republic. The Company’s identification number is 49970607.

The Company has been traded on Prague stock exchange since 1995. From 18 August 2008 were bearer shares (ISN CZ0005078956) excluded from the trading on the official share market that is organised by RM-Systém, a.s. and from 1 September 2008 were bearer shares (ISIN CZ0005078956) excluded from the official regulated market organised by Burza cenných papírů Praha, a.s. Last trading day was 29 August 2008. Act No. 458/2000 Coll. as amended, on conditions for undertaking the business and for the execution of state administration in the energy sector (the Energy Act) governs rendering of services and related rights and obligations except for general legal norms.

The Company’s main business activity is trade with gas.

RWE AG with its registered seat at Opernplatz 1, Essen, Germany is the ultimate parent and controlling party of the Company. Companies controlled directly or indirectly by RWE AG are referred to in these financial statements as the “RWE Group“.

As at 31 December 2008, the ownership structure of the Company was as follows:

Company name	Share in %
RWE GAS International B.V.	47.66
RWE Transgas, a.s.	2.46
Subtotal of RWE group share	50.12
E.ON Czech Holding AG	43.73
Other shareholders	6.15
Total	**100.00**

As at 1 January 2007, the Company separated part of its business in accordance with the European Union Directives and the amendment of the Energy Act and contributed this part of the business related to gas distribution to its subsidiary JMP Net, s.r.o. JMP Net, s.r.o. assumed the role of the distribution network provider. The Company carries on trading with natural gas and the subsidiary JMP Net, s.r.o. operates the distribution network.

Effective from 1 January 2007, the full gas market liberalisation took place and as a result of this all end customers have a choice of their gas supplier. The price regulation of the Energy Regulatory Office by the means of regulating maximum gas prices ceased effective from 1 April 2007. With respect to the dominant position of regional RWE gas companies on the Czech market, Energy Regulatory Office performs a general oversight over price levels in accordance with the Act No. 526/1990 Coll. Act on prices, as amended.

As at 18 July 2006, the Company concluded an agreement with its subsidiary JMP Net, s.r.o. on profit transfer. The company JMP Net, s.r.o. is obliged to transfer its profit after the obligatory allocation to the statutory reserve and social funds to the Company based on the agreement. The Company is obliged to settle losses of the company JMP Net, s.r.o.

2 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union effective as at the balance sheet date.

The Company has prepared these separate financial statements in accordance with Act on Accounting. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiary undertakings – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations – have been fully consolidated. The consolidated financial statements can be obtained at the Company's registered office.

Users of these separate financial statements should read them together with the Group's consolidated financial statements as at 31 December 2008 and for the year then ended in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The financial statements have been prepared under the historical cost convention, as modified by financial instruments at fair value through profit or loss.

The Company applied the following standards in 2008:

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant for the Company's operations:
- IFRIC 11, IFRS 2 – Group and treasury share transactions;
- IFRIC 12 – Service concession arrangements; and
- IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

Standards, amendments and interpretations to existing standards that are not effective and were not earlier adopted by the Company:

The following standards, amendments and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods, subject to endorsement by the European Union if indicated below:

- IAS 1 (Amendment), Presentation of Financial Statements (revised September 2007; effective from annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;
- IAS 23 (Amendment), Borrowing costs (revised March 2007, effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company is currently assessing the impact of the amendment to the standard on its financial statements;
- Amendments to IAS 32 and IAS 1 – Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation, (effective for annual periods from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Company does not expect the amendment to affect its financial statements. The amendments to IAS 32 and IAS 1 have not yet been endorsed by the European Union;
- IAS 39 (Amendment), Eligible hedged items (revised in July 2008, effective from 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is elgible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Company's financial statements as the Company does not apply hedge accounting;
- Amendments to IAS 39 and IFRS 7, Reclassification of financial assets (revised in October 2008, the reclassifications allowed by the amendments might not be applied before 1 July 2008 and retrospective applications are only allowed if made prior to 1 November 2008). The amendments amend the existing rules for reclassifications of financial assets among their categories and allow, in rare circumstances, a reclassification of financial assets out of the held for trading and available for sale categories. The Company is currently assessing whether it will elect to make any optional reclassifications;
- Amendments to IFRS 1 and IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate (issued in May 2008, effective from 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendments will not have impact on the Company's financial statements;
- IFRS 1 (Amendment), First time adoption of international financial reporting standards (revised in December 2008, effective from 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader

to understand and to better accommodate future changes. The Company concluded that the revised standard does not have any effect on its financial statements. The amendment has not yet been endorsed by the European Union;

- IFRS 2 (Amendment), Share based payments – Vesting conditions and cancellations; (revised in January 2008, effective retrospectively in annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share based payment are non vesting conditions. The amendment is not relevant for the Company since it does not have share based payments;
- IFRS 3, Business combinations (revised version) and IAS 27, Consolidated and Separate Financial Statements (Amendment) (effective from 1 July 2009). The revised IFRS 3 reinforces the existing IFRS 3 model but remedies problems that have emerged in its application. The project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The objective was to develop a single high quality accounting standard that would ensure that the accounting for business combinations is the same whether an entity is applying International Financial Reporting Standards (IFRS) or US generally accepted accounting principles (GAAP). The Company does not expect the revised IFRS 3 and amended IAS 27 to affect the presentation of its financial statements or to have any impact on the recognition or measurement of specific transactions and balances.
The amendments to IAS 27 and IFRS 3 have not yet been endorsed by the European Union;
- IFRS 8, Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Company is currently assessing the impact of IFRS 8 on presentation of its financial statements;
- IFRIC 13, Customer loyalty programmes (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company’s operations because it does not operate any loyalty programmes. IFRIC 13 has not yet been endorsed by the European Union;
- IFRIC 15, Agreements for the Construction of Real Estate (effective from 1 January 2009). The interpretation clarifies whether IAS 11, Construction contracts or IAS 18, Revenues should be applied to a particular construction agreement. IFRIC 15 is not relevant to the Company’s operations because it does not have any agreements for the construction of real estate. IFRIC 15 has not yet been endorsed by the European Union;
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective from 1 October 2008). The interpretation stems from current principles of IAS 21, The Effects of Changes in Foreign Exchange Rates and IAS 39, Financial Instruments. IFRIC 16 does not have any impact on these financial statements as the Company does not apply hedge accounting. IFRIC 16 has not yet been endorsed by the European Union;
- IFRIC 17, Distribution of non-cash assets to owners (effective from 1 July 2009). The interpretation is to standardise practice in the accounting treatment of distribution of non-cash assets as dividend to owners. IFRIC 17 is not relevant to Company’s operations because it does not distribute non-cash assets to owners. IFRIC 17 has not yet been endorsed by the European Union;
- Improvements to International Financial Reporting Standards (issued in May 2008). The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The Company does not expect the amendments to have any material effect on its financial statements.

– IFRIC 18, Transfers of assets from Customers (effective from 1 July 2009). The interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect to the customer to network or provide the customer with ongoing access to a supply of goods or services (such as supply of electricity, gas or water). IFRIC 18 is not expected to have any significant impact on the Company's financial statements. IFRIC 18 has not yet been endorsed by the European Union.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.3 Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment, in which the entity operates ("the functional currency"). The financial statements are presented in Czech Crowns, which is the Company's functional and presentation currency.

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of transaction. All foreign exchange gains and losses from such transactions and from translation of monetary assets and liabilities denominated in foreign currencies using the foreign exchange rate ruling at the end of the accounting period are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses, if applicable. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when incurred.

When payments for acquisition of property, plant and equipment are deferred (the due date surpasses normal credit terms), the acquisition cost of property, plant and equipment equals the present value of the related future cashflows. The difference between the acquisition cost and the total amount of instalments is recognised as interest in the income statement until the liability is settled.

Depreciation of property, plant and equipment is calculated using the straight-line method over their estimated useful lives. Land is not depreciated.

The estimated useful lives of assets were set as follows:

Buildings and constructions	14–50 years
Machinery and equipment	3–8 years
Other machinery and office equipment	3–12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, as at each balance sheet date. If the carrying amount of assets exceeds its estimated recoverable amount, a provision for impairment is created (see Note 2.6).

Gains and losses on liquidation and disposals of assets are determined as the difference between proceeds and the carrying amount and are charged to the income statement.

2.5 Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and accumulated losses from impairment, if applicable. Intangible assets and subsequent costs are capitalised only if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Intangible assets have limited useful lives and are amortised using the straight-line method.

The estimated useful lives of intangible assets were set as follows:

Software	3–5 years
Other intangible assets	5–6 years

Research expenditure (studies – costs of research focused on acquiring new pieces of information for future utilization in practice) is recognised as an expense as incurred.

If the carrying amount of an intangible asset exceeds its estimated recoverable amount as at the balance sheet date, a provision for impairment is created (see Note 2.6).

2.6 Impairment of non-financial assets

Property, plant and equipment and other non-financial assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Intangible assets not yet available for use are tested for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately-identifiable cash flows (cash-generating units).

2.7 Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. As at 31 December 2008 and 2007, the Company recognised the following categories of financial assets:

a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading with the receivable. They are included in current assets, except for maturities exceeding 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in Trade and other receivables in the balance sheet.

b) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss represent financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if it is a derivative (except derivatives held as effective hedge instruments).

c) Investment in subsidiaries and associates
Investment in subsidiaries and associates are measured at acquisition cost, which includes acquisition price and costs related to the acquisition. If the carrying amount of the investment exceeds its estimated recoverable amount, a provision for impairment is created (see Note 2.6).

When the investment in a subsidiary results from a contribution of non-monetary asset/(s), the cost is determined with reference to the commercial substance of the transaction. When the contribution does not significantly change the configuration of the cash flows to the Company, the investment is measured at the carrying amount(s) of the contributed asset(s) decreased by the value of contributed liabilities.

2.8 Derivatives

Derivatives are initially recognised at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value. The Company does not use hedge accounting. All derivatives are classified as Derivates under assets, if their fair value is positive, or under liabilities, if their fair value is negative. Changes in fair value are recognised in the income statement within Other net operating (expense) / income. The fair value of derivatives is calculated as the present value of expected future cash flows from derivatives. The expected cash flows are based on current market conditions (commodity prices, foreign exchange rates, interest rates) as at balance sheet date.

2.9 Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured using the effective interest method, less a provision for impairment (“a provision for impairment”). A provision for impairment for trade receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

The Company creates provisions for impairment in the amount of 50% of the carrying value of receivables for trade receivables that are overdue for more than 6 months and less than a year. A 100% provision for impairment is created for receivables that are overdue for more than one year. Trade receivables under bankruptcy and settlement proceedings are fully provided for. These rules are based on the analysis of receivables' ageing and the risk of default. The amount of the provision approximates the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The Company does not create provisions for impairment for receivables due from the RWE Group companies. Impairment loss is recognised in the income statement. When a trade receivable is uncollectible, it is written-off against the provision for trade receivables. Subsequently received recoveries of amounts previously written–off are credited to the income statement.

2.10 Non-current assets held-for-sale

Non-current assets (or groups or assets) are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets held-for-sale are not depreciated.

2.11 Construction contracts

When the outcome of a construction contract can be estimated reliably, revenues and costs are recognised based on the stage of completion as at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

The unbilled revenues, calculated using the stage of completion method, are reduced by progress billing paid by the customer. The Company presents as a liability (current or non-current part) the advances received from customers for which the advances received for construction contract exceed the cost incurred plus recognised profits.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2.12 Unbilled gas supplies and advance payments received for gas

The Company offsets the amount of unbilled gas supplies with the total amount of advance payments received for gas from individual customers. The net balance is therefore recognised in the balance sheet as a net asset or a net liability (see Note 19). The net balance approximates the actual amounts receivable from or payable to customers. If the net balance is an asset, it is a financial asset, which will be settled in cash. If the net balance is a liability, it is a non-financial liability (advance received), which will be settled by supply of gas.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

The Company uses cash-pooling arrangements within the RWE 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 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.

2.14 Share capital

Share capital of the Company is represented by ordinary shares. No preference shares were issued. The Company does not hold any of its equity shares.

2.15 Trade and other liabilities

Trade payables and other liabilities are recognised initially at fair value. Subsequently, trade payables and other financial liabilities are stated at amortised costs using the effective interest rate method.

2.16 Employee benefits

a) Contributions to the State pension scheme
The Company pays its employees contributions to the State pension system, which is managed on the basis of defined contribution scheme. The Company has no other liabilities related to the State pension scheme after paying contributions in the amount defined by law.

b) Pension and life insurance
In accordance with the valid Collective Agreement, the Company makes monthly contributions to pension and life insurance schemes for its employees. The contributions are paid to an independent entity under a defined contribution scheme. The contributions are recognised in the income statement as incurred.

c) Other obligations
The Company pays one-off rewards to employees upon retirement or anniversary. These rewards are defined in the Collective Agreement. The carrying amount of these liabilities is not material for disclosure in the financial statements. Other benefits (e.g. for holidays) represents short-term benefits and are recognised in the income statement on an accrual basis.

2.17 Provisions

Provisions are recognised if the Company has a present legal or constructive obligation as a result of past events, and if 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.

Restructuring provisions comprise of employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at a best estimate of the expenditure required to settle the present obligation as at the balance sheet date. If the impact of discounting is significant, the provisions are carried at present value of future costs. Any subsequent increase in provisions due to time impact is recorded as interest expense.

2.18 Revenues

Sales revenue is recognised when significant risks and rewards from the ownership have been transferred to the buyer or when services that can be reliably measured are rendered and it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenues from sales of goods and services are presented net of Value Added Tax and net of discounts and are measured at fair value of the consideration received or receivable.

a) Revenues from sale and distribution of gas

Revenues from gas supplies are recognised when the commodity is delivered. Revenue from the sale of natural gas on the market, that was fully liberalised effective 1 January 2007 in accordance with article 55 of Act No. 458/2000 Coll., is measured based on the commodity value reflecting all costs for purchase of natural gas including the gross margin that covers costs of gas trade and eligible profit, and also other energy services related to gas deliveries to the customer in the required quantity and at the required time.

Effective 1 April 2007 the end customers' price for high-volume customers with annual consumption higher than 5 million m^3 is calculated using the price formula linked to quotation of reference fuels and foreign exchange rates. The price formula mirrors the same arrangement on the side of the gas purchase.

Other high-volume and middle-volume customers have the opportunity to conclude a contract using either the price formula (see above) or fixed price for a pre-set period of one month for customers with consumption over 630 thousand m^3 or fixed price for a pre-set period of three months based on the Company's valid price list for customers with consumption below 630 thousand m^3. Prices for other customers are fixed for a pre-set period of three months in accordance with up-to-date price list of the Company. The quarterly price reflects corrections arising from the difference between planned and actual costs for gas purchases in previous periods.

The final price of gas supplies includes energy activities such as distribution, transportation and storage. Distribution and transportation prices are regulated by Energy Regulatory Office ("ERO"), storage prices are contractual prices.

Natural gas supplies to high-volume and middle-volume customers ("VO" and "SO") are billed on a monthly basis based on actual readings of consumption. Natural gas supplies to low-volume customers ("MO") and households ("DOM") are billed periodically, based on the reading of the consumption at each consumption site, which is performed at least once in 18 months.

Revenues from MO and DOM categories comprise of the revenue billed based on gas meters readings and so-called unbilled gas supplies (see Note 19).

b) Other revenues
Other revenues of the Company are recognised as follows:
- Revenues from service level agreements ("SLA") are recognised when services are provided;
- Revenue from construction contracts is recognised using the stage of completion method (see Note 2.11);
- Interest income is recognised on a time-proportion basis using the effective interest rate method;
- Dividends/shares of profit received from the subsidiary are recognised when the right to receive the payment is established.

2.19 Lease

Leases of property, plant and equipment where majority of the risks and profits of ownership have been transferred to the Company are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the settlement of the liability and finance charges. Related lease obligations are included in current or non-current liabilities. The interest is charged directly to the income statement over the lease period so as to achieve a constant interest rate on the outstanding liability balance. The ownership of leased fixed assets is transferred to the Company after the end of lease. The property, plant and equipment acquired via finance leases are recorded in the balance sheet and depreciated over their estimated useful lives or over the lease period, if it is shorter.

Operating lease instalments are charged to the income statement on a straight-line basis over the lease term.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends distribution is approved by the General meeting of shareholders.

2.21 Income tax

Income tax for the accounting period consists of current and deferred tax.

Current income tax represents the estimated tax payable for the accounting period calculated by using the tax rate and laws enacted or substantially enacted as at the balance sheet date and valid for the period.

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and their tax bases. However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination. The temporary differences arise mainly from the difference between tax and accounting net book values of buildings and equipment and tax non-deductible adjustments. A deferred tax asset is recognised when it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The deferred tax asset and liability are determined using the tax rate expected to be valid in the period, in which the tax asset is realised or tax liability is settled, according to tax law enacted or substantially enacted as at balance sheet date.

3 FINANCIAL RISK MANAGEMENT

3.1 Credit risks

Credit risk (counterparties credit risk) represents a risk of a counterparty's inability to fulfil its (particularly financial) obligations against the Company. The Company is subject to two basic categories of credit risk: (i) credit risk by virtue of the sale of natural gas to the Company's customers and (ii) credit risk by virtue of management of available resources.

Management of credit risk arising from the sale of natural gas to the Company's customers follows the internal directive Management of Credit Risk, the wording of which is based on group rules for credit risk management within the RWE Group. The directive was updated in 2008. Customers target group, for which the risk is evaluated, was extended and the calculation was modified in such a manner that it contains a probability of customer's insolvency. A maximum credit exposure and expected risk of loss is set for each customer with the annual natural gas consumption above 42 GWh or for a customer who intends to conclude or has already concluded a contract with the Company containing both price formula and non-standard payment conditions. The maximum credit exposure and expected risk of loss are determined by the Company based on the methodology set in the internal directive. The credit limit is determined by the credit assessment of the customer expressed by the credit rating set by Creditreform, an independent rating agency.

Every time a new contract is concluded with such a customer, the Company calculates the expected risk of loss and a period from the transaction approval till the contract termination, which cannot exceed approval competences assigned by the Company. The expected risk of loss level of maximum credit exposure depends on the customer's expected consumption diagram, set payment terms and expected natural gas prices.

The Company participates in the cash-pooling arrangement of RWE Transgas, a.s. Under the terms of the cash-pooling arrangement the Company deposits all of its available financial funds with RWE Transgas, a.s., either in the form of short-term borrowings payable within 1 year or in the form of overnight roll-over overdrafts. RWE Transgas, a.s. is a related company controlled by RWE AG, the S&P rating of which (A) represents an acceptable level of credit exposure.

Credit quality of financial assets

The credit quality of financial assets which are neither due nor impaired is based on historical data on individual customer groups.

The credit quality information is as follows:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Receivables	69,400	77,316
– with the Creditreform rating	2,918	842
– without the Creditreform rating	65,488	75,918
– other receivables	994	556
Share on profit receivable from JMP Net, s.r.o. (rating A)	747,778	517,300
Total financial assets due, not impared	**817,178**	**594,616**

The maximum exposure to credit risk equals to the carrying amount of receivables, derivatives with positive fair value and cash and cash equivalents.

Their structure is as follows:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Trade and other receivables	958,716	651,443
Cash and cash equivalents	349	437
Total	**959,065**	**651,880**

3.2 Liquidity risk

Liquidity risk represents a risk of insufficient free cash. Continuous management and forecasting of the Company's future cash flows represents the basic tool of liquidity risk management. The Company prepares a forecasted cash flow on a daily detail for at least the next 12 months. The forecast is updated at least on a weekly basis for the forthcoming period and on monthly basis for at least twelve months. Based on the forecast the Company must have sufficient volume of liquid instruments to finance its activities for the monitored period.

Under the terms of the cash-pooling arrangements the Company concluded a cap loan agreement, in accordance with which the Company was in the year 2008 entitled to draw short-term borrowings due within one year up to the amount of CZK 2,800,000 thousand, and roll-over overdrafts up to CZK 300,000 thousand. The credit limits for short-term loans are updated at least once a year based on the expected Company's cash flow.

The table below shows the financial liabilities of the Company grouped according to their remaining contractual maturities as at the balance sheet date. The amounts in the table represent contractual undiscounted cash flows, including interest payable where applicable.

	Up to 1 year	1–2 years	2–5 years	After 5 years
	CZK'000	CZK'000	CZK'000	CZK'000
Balance as at 31 December 2008				
Trade and other liabilities	1,196,365	-	-	-
Derivatives	158,276	44,892	-	-
Other financial liabilities	1,764,411	-	-	-
Balance as at 31 December 2007				
Trade and other liabilities	1,455,863	-	-	-
Other financial liabilities	1,041,980	-	-	-

Other financial liabilities as at 31 December 2008 contain cashpool liability to RWE Transgas, a.s. amounting CZK 1,762,337 thousand (31 December 2007: CZK 1,038,893 thousand).

The Company expects the following amounts of cash and cash equivalents:

as at 31 December 2009	CZK (1,420.934) thousand
as at 31 December 2010	CZK (1,397,535) thousand
as at 31 December 2011	CZK (1,313,719) thousand

3.3 Market risks

a) Interest rate risk

The Company's income and operating cash flows are not directly dependent on changes in market interest rates. The Company does not have any significant assets or liabilities with a floating interest rate. All drawing of short-term loans and roll-over overdrafts lent or borrowed by the Company under the terms of RWE Transgas, a.s. cash-pooling as at 31 December 2008 and 2007 had fixed interest rates. As a result the amount of interest expense related to these loans and overdrafts does not depend on interest rate changes.

Due to the above-stated reasons, the Company does not actively manage its interest rate risk.

As at 31 December 2008 the interest rate had decreased by 50 basic points with all other variables held constant; profit before tax for the year would have been CZK 8 million higher due to decreased interest expense from cash-pooling partly compensated by the increase in the negative fair value of derivates. Alternatively, as at 31 December 2008, if the interest rate had increased by 50 basic points with all other variables held constant; profit for the year would have been CZK 8 million lower; mainly as a result of increased interest expense from cash-pooling partly compensated by the decrease at the negative fair value of derivates.

The Company was not exposed significantly to interest rate risk arising from financial instruments in 2007 and therefore, the sensitivity analysis has only been prepared for the year 2008.

b) Foreign exchange risk

The Company's business activities (including purchases and sales of natural gas) are realised in Czech Crowns only. As a result, the Company's financial assets and liabilities are not directly exposed to foreign exchange risk.

As at 31 December 2008 and 2007 the Company did not recognise any material assets or liabilities denominated in foreign currencies.

The Company offers to its customers term contracts on gas supplies with fixed price, or contracts on gas supplies with the price derived from a price formula with a fixed foreign currency exchange rate. Based on these contracts, a customer commits to purchase from the Company the contracted amount of natural gas. The Company hedges the risks arising from the differences between the commodity prices and the contractual prices with customers derived from the above mentioned price formulas by concluding commodity derivative contracts – type CIS (commodity index swap) or CCS (commodity currency swap) with RWE Transgas, a.s. in accordance with the framework agreement. Price agreements with customers do not qualify to be recognised as derivatives. Commodity and foreign exchange rate derivates are recognised at fair value through profit or loss. The Company does not apply hedge accounting for these types of contracts.

Sensitivity analysis:
Individual foreign exchange rate scenarios were based on the statistical analysis of data. The selected foreign exchange rate scenarios demonstrate the impact on the Company's profit assuming that only the factor changes while the other variables affecting derivatives fair values remain constant.

	Estimated yearly deviation (in %)	
Currency pair	**Decrease**	**Increase**
EUR/CZK	(5)%	5%
EUR/USD	(8)%	9%

	Impact on profit before tax (CZK million)	
EUR/CZK	(27)	28
EUR/USD	44	(40)

As at 31 December 2008, if the CZK had strengthened by 5% against the EUR/USD; with all other variables held constant profit for the year would have been CZK 27 million lower as a result in the negative fair value of derivates.

As at 31 December 2008, if the USD had strengthtened by 8% against the EUR, with all other variables held constant profit before tax for the year would have been CZK 44 million higher, as a result of the decrease of negative fair value of derivatives.

The Company was not exposed by to significant foreign exchange risks arising from its financial instruments in 2007; therefore the sensitivity analysis has only been prepared for the year 2008.

c) Commodity risks
The purchase price for natural gas is derived from a price formula dependent on market prices of oil products (light and heavy fuel oil), black coal, foreign currency exchange rates of EUR and USD and interest rates of CZK and EUR. The price at which the Company sells gas is directly linked to the purchase price of gas. As a result of this the Company is hedged against commodity risks. The value of assets and liabilities arising from the purchase and sale of natural gas recognised by the Company

as at 31 December 2008 and 2007 is not dependent on further development of oil derivatives and coal prices. As at 31 December 2008 and 2007, the Company did not recognise any material assets or liabilities, the value of which would depend on changes in other market drivers.

The Company is exposed to commodity risk from natural gas supplies for fixed price (see Note b) Foreign exchange risk).

Sensitivity analysis:
Individual commodity scenarios were based on the statistical analysis of commodity prices. The scenarios demonstrate the possible impact on the Company's profit assuming that only one factor changes while the other variables affecting the fair value of derivatives remaining constant.

	Estimated yearly deviation (in %)	
Commodity	**Decrease**	**Increase**
Gasoil [USD]	(25)%	34%
Fuel Oil [USD]	(28)%	39%
Hard Coal ICR [USD]	(19)%	24%
Hard Coal StaBu [EUR]	(16)%	19%

	Impact on profit before tax (CZK million)	
Gasoil [USD]	(49)	66
Fuel Oil [USD]	(40)	56
Hard Coal ICR [USD]	(3)	3
Hard Coal StaBu [EUR]	(10)	11

The Company was not exposed significantly to commodity risks resulting from its financial instruments in 2007; therefore the sensitivity analysis has been prepared only for the year 2008.

3.4 Capital risk

The Company does not actively manage capital. The capital is managed at the RWE Group level.

All the equity components in the financial statements are considered to be the capital by the Company. For additional information, see Note 14 and the Statement of changes in shareholder equity.

3.5 Classes of financial assets – reconciliation to balance sheet lines

31 December 2008

Classes	Receivables	Cash and cash equivalents		
Balance sheet lines/Categories	**Loans and receivables**	**Loans and receivables**	**Non-financial assets**	**Total**
	CZK'000	CZK'000	CZK'000	CZK'000
Trade and other receivables	958,716	-	221,701	1,180,417
Cash and cash equivalents	-	349	-	349
Total	**958,716**	**349**	**221,701**	**1,180,766**

31 December 2007

Classes	Receivables	Cash and cash equivalents		
Balance sheet lines/Categories	Loans and receivables	Loans and receivables	Non-financial assets	Total
	CZK'000	CZK'000	CZK'000	CZK'000
Trade and other receivables	651,443	-	12,351	663,794
Cash and cash equivalents	-	437	-	437
Total	**651,443**	**437**	**12,351**	**664,231**

No financial assets have been provided as collateral for liabilities.

3.6 Fair value measurement

Fair values of financial assets and liabilities that are not traded in an active market are determined by using valuation techniques based on discounted future cash flow. The Company uses several valuation methods and makes assumptions based on market conditions that existed as at the balance sheet date.

The carrying amounts of short-term receivables less impairment provision and short-term payables approximate their fair values. The fair value of non-current liabilities for disclosure purposes is estimated using the method of estimated discounted cash flows based on the current interest market rates available to the Company for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions related to the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be material under the circumstances.

4.1 Unbilled supplies of natural gas

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to unbilled supplies of natural gas.

Revenues in MO and DOM categories comprise of:

- billing invoices within individual billing cycles at least once every 18 months;
- unbilled revenues from sold gas for the given period.

During 2008, the Company changed the estimate for unbilled gas as a result of the harmonisation of unbilled gas calculation method that was used within the RWE Group companies.

The harmonised calculation method applied from the fourth quarter of 2008 enables the Company to allocate the calculated total amount of unbilled gas among individual consumption sites using the simulation of actual consumption derived from the last billing of the particular consumption site.

The impact of the change of the unbilled gas estimate resulting from the implementation of harmonised methodology throughout whole RWE Group in the Czech Republic resulted in a decrease in revenues amounting to CZK 26,238 thousand for year 2008. The change of the estimate reflects mainly the different allocation of customers to individual price tariffs and application of dynamic valuation of the estimated consumption for individual consumption sites.

Should the recognised balance equation losses change, the carrying value of unbilled gas supplies as at 31 December 2008 would change as follows:

	Network losses higher / (lower) by:				
Inaccuracy of estimated network losses	(1.00)%	(0.50)%	0.00%	0.50%	1.00%
(Decrease) / increase in the carrying amount of unbilled deliveries (CZK'000)	175,052	87,526	-	(87,526)	(175,052)

4.2 Recent volatility in global and Czech financial markets

The ongoing global economic recession which commenced in the middle of 2008 has resulted in, among other things, a lower level of capital market trading, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets.

Impact on customers:
Debtors of the Company can be influenced by a lower liquidity situation, which could in turn impact on their ability to repay the amounts owned. Deteriorating operational conditions have an impact on management's cash-flow forecasts and on assessment of the impairment of financial and non-financial assets.

Fair value of financial assets and liabilities:
Fair values of derivative financial instruments were defined by the Company using valuation techniques which include the use of recent arm's length transaction valuation, discounted cash-flows analyses, option pricing models and other valuation techniques commonly used by market participants. The valuation methods reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date.

Management of the Company evaluated all the information available and currently does not expect a significant impact of the economic recession to have a significant impact on the Company's business, specifically on the Company's liquidity and funding. Management of the Company believes it is taking all the necessary measures to support the sustainability and growth of the Company's business under the current circumstances.

5 SEGMENT REPORTING

The Company identified only one business and geographical segment. The Company's operations mainly comprise of sale and distribution of gas. Neither of these activities constitutes a separately reportable segment. As well, from geographical point of view, the Company generates almost all of its revenue in the Southern Moravia region.

6 PROPERTY, PLANT AND EQUIPMENT

	Property and plant	Machines, machinery and technical equipment		Other machinery and office equipment	Tangible fixed assets under construction including advances paid	Total
		Equipment	Gas network			
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Balance as at 1 January 2007						
Cost	2,010,393	2,904,074	9,931,719	738,253	91,145	15,675,584
Accumulated depreciation	(319,979)	(2,075,282)	(4,371,626)	(661,187)	-	(7,428,074)
Net carrying amount as at 1 January 2007	1,690,414	828,792	5,560,093	77,066	91,145	8,247,510
Year ended 31 December 2007						
Contribution of part of a business as at 1 January 2007**	(562,815)	(563,946)	(5,560,093)	(2,422)	(89,930)	(6,779,206)
Additions	7,006	9,499	-	41,896	5,603	64,004
Disposals and transfers*	11,188	(2,061)	-	(3,353)	(89)	5,685
Depreciation and impairment	(30,094)	(29,011)	-	(36,181)	-	(95,286)
Closing net carrying amount as at 31 December 2007	1,115,699	243,273	-	77,006	6,729	1,442,707
Balance as at 31 December 2007						
Cost	1,402,450	549,487	-	475,575	6,729	2,434,241
Accumulated depreciation	(286,751)	(306,214)	-	(398,569)	-	(991,534)
Net carrying amount as at 31 December 2007	1,115,699	243,273	-	77,006	6,729	1,442,707
Year ended 31 December 2008						
Additions	48,433	7,704	-	9,741	-	65,878
Disposals and transfers	3,876	(4,123)	-	(1,066)	(6,604)	(7,917)
Depreciation and impairment	(29,574)	(27,431)	-	(23,016)	-	(80,021)
Closing net carrying amount as at 31 December 2008	1,138,434	219,423	-	62,665	125	1,420,647
Balance as at 31 December 2008						
Cost	1,455,753	542,287	-	392,145	125	2,390,310
Accumulated depreciation	(317,319)	(322,864)	-	(329,480)	-	(969,663)
Net carrying amount as at 31 December 2008	**1,138,434**	**219,423**	**-**	**62,665**	**125**	**1,420,647**

*) Disposals and transfers for the year 2007 include reclassification of fixed assets in the amount of CZK 11,233 thousand, which were recognised under Assets held-for-sale category.

**) see Note 1

In cases when the Company is a lessee under finance lease contracts, machines, machinery and technical equipment and other machinery and office equipment include the following amounts:

	Gas network and other equipment	Other machinery and office equipment	Total
	CZK'000	CZK'000	CZK'000
Balance as at 31 December 2007			
Cost	102,246	111,781	214,027
Accumulated depreciation	(84,641)	(111,331)	(195,972)
Net carrying amount as at 31 December 2007	**17,605**	**450**	**18,055**
Balance as at 31 December 2008			
Cost	93,079	103,409	196,488
Accumulated depreciation	(78,933)	(103,139)	(182,072)
Net carrying amount as at 31 December 2008	**14,146**	**270**	**14,416**

7 INTANGIBLE ASSETS

	Software	Other	Total
	CZK'000	CZK'000	CZK'000
Balance as at 1 January 2007			
Cost	175,112	3,569	178,681
Accumulated amortisation	(157,750)	(680)	(158,430)
Net carrying amount as at 1 January 2007	17,362	2,889	20,251
Year ended 31 December 2007			
Contribution of part of a business as at 1 January 2007*	(4,993)	(1,432)	(6,425)
Opening net carrying amount as at 1 January 2007	12,369	1,457	13,826
Disposals and transfers	-	(360)	(360)
Amortisation	(11,718)	(296)	(12,014)
Closing Net carrying amount as at 31 December 2007	651	801	1,452
Balance as at 31 December 2007			
Cost	166,737	1,777	168,514
Accumulated amortisation	(166,086)	(976)	(167,062)
Net carrying amount as at 31 December 2007	651	801	1,452
Year ended 31 December 2008			
Opening net carrying amount as at 1 January 2008	651	801	1,452
Disposals and transfers	-	-	-
Amortisation	(590)	(296)	(886)
Closing Net carrying amount as at 31 December 2008	61	505	566
Balance as at 31 December 2008			
Cost	166,737	1,777	168,514
Accumulated amortisation	(166,676)	(1,272)	(167,948)
Net carrying amount as at 31 December 2008	**61**	**505**	**566**

*) see Note 1

Other intangible assets include valuable rights and other intangible assets.

8 INVESTMENT IN SUBSIDIARIES

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Investment in subsidiaries	6,545,486	6,545,486

Investment in subsidiaries represents investment in JMP Net, s.r.o., which is a 100% subsidiary of the Company incorporated in the Czech Republic. JMP Net, s.r.o. was registered in the Commercial Register on 12 June 2006. As at 1 January 2007 the Company contributed part of a business related to gas distribution to JMP Net, s.r.o.

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Registered capital	9,448,883	9,448,883
Equity	10,293,942	10,024,107
Net profit	787,135	578,512

9 DEFERRED TAX ASSET

Offsetting of deferred income tax assets and liabilities is allowed when there is a legally enforceable right to offset current tax assets and current tax liabilities and when the deferred income tax assets and liabilities related to income tax are collected by the same tax authority.

The offset deferred tax assets and liabilities are as follows:

	31 December 2008	31 December 2007	Contribution of part of a business as at 1 December 2007*
	CZK'000	CZK'000	CZK'000
Deferred tax asset to be recovered after more than 12 months	67,143	34,036	27,181
Deferred tax asset to be recovered within 12 months	40,296	26,809	13,123
Deferred tax liability payable after more than 12 months	(37,010)	(32,515)	(223,169)
Deferred tax liability payable within 12 months	-	-	(86,790)
Net deferred tax asset / (liability)	70,429	28,330	(269,655)

*) see Note 1

Changes in deferred tax assets and liabilities have the following structure:

Deferred tax asset(+) / liability(-)	Non-current assets	Inventories	Receivables	Provisions	Liabilities	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Balance as at 1 January 2007	**(271,805)**	**1,733**	**13,519**	**16,584**	**1,047**	**(238,922)**
Contribution of part of a business as at 1 January 2007*	279,676	-	-	(9,042)	(979)	269,655
Impact on the income statement	(7,150)	(61)	4,388	438	(18)	(2,403)
Balance as at 31 December 2007	**721**	**1,672**	**17,907**	**7,980**	**50**	**28,330**
Impact on the income statement	(4,541)	(79)	50,879	(4,155)	(4)	42,100
Balance as at 31 December 2008	**(3,820)**	**1,593**	**68,786**	**3,825**	**46**	**70,430**

*) see Note 1

Net deferred tax asset/liability is calculated using the corporate income tax rates as shown in the table below:

Period	Tax rate
2008	21%
2009	20%
2010 and after	19%

10 CONSTRUCTION CONTRACTS

Construction contracts are recognised in financial statements as follows:

	2008	2007
	CZK'000	CZK'000
Total income from construction contracts based on percentage of completion	-	350,924

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Receivables from construction contracts (included in Trade and other receivables)	-	2,372

The Company did not have any open construction contracts as at 31 December 2008.

11 TRADE AND OTHER RECEIVABLES / OTHER TAX RECEIVABLES

	31 December 2008	31 December 2007	Contribution of part of a business as at 1 January 2007*
	CZK'000	CZK'000	CZK'000
Trade receivables from third parties	339,175	268,604	38,551
Trade receivables from related parties	25,347	36,297	740
Total trade receivables	364,522	304,901	39,291
Provision for impairment of trade receivables	(183,946)	(177,910)	-
Net carrying amount of trade receivables	180,576	126,991	39,291
Advances paid	220,813	11,465	1,576
Unpaid income from share on profit and other unbilled deliveries	30,362	4,760	-
Receivables from construction contracts	-	2,372	-
Other receivables	748,666	518,206	-
Total trade and other receivables	1,180,417	663,794	40,867
Other tax receivables – VAT	158,313	102,226	-
Other tax receivables – income tax	36,507	-	-
Total receivables	**1,375,237**	**766,020**	**40,867**

*) see Note 1

Trade receivables outstanding have not been secured.

Receivables from related parties are analysed in Note 32.

Other receivables represent also income from profit of JMP Net, s.r.o. for year 2008 of CZK 747,778 thousand (2007: CZK 517,300 thousand).

The carrying amount of trade and other receivables approximates their fair values.

As at 31 December 2008, trade receivables of CZK 128,559 thousand (31 December 2007: CZK 47,935 thousand) were past due but not impaired.

The ageing of trade and other receivables overdue, which were not impaired as at the balance sheet date is as follows:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Up to 6 months	128,559	47,935
Total	**128,559**	**47,935**

The ageing of trade and other receivables that are individually determined to be impaired is as follows (net):

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Up to 6 months	-	-
6 to 12 months	12,979	6,501
Over 1 year	-	-
Total	**12,979**	**6,501**

Movements on the provision for impairment of trade receivables are as follows:

	2008	2007
	CZK'000	CZK'000
Balance as at 1 January	177,910	132,950
Creation of provision for receivables impairment	207,422	119,415
Release of provision for receivables impairment	(189,173)	(68,993)
Bad debt write-off	(12,213)	(5,462)
Balance as at 31 December	**183,946**	**177,910**

The following table analyses income and expenses related to trade and other receivables:

	2008	2007
	CZK'000	CZK'000
Change in provision for receivables impairment	11,263	44,960
Loss on receivables written off and sold	14,492	5,389
Total net loss from receivables	**25,755**	**50,349**

12 CASH AND CASH EQUIVALENTS

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

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Cash at bank and cash in hand	349	437
Cash equivalents from cash-pooling (see Notes 20 and 2.13)	37,663	(38,893)
Total cash and cash equivalents	**38,012**	**(38,456)**

13 NON-CURRENT ASSETS AND DISPOSAL GROUP HELD-FOR-SALE

Based on the plan approved by management of the Company in 2007 the following property and plant have been classified as non-current assets held-for-sale. The transaction is expected to be finished during year 2009.

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Land and buildings		
Cost	19,549	21,070
Accumulated depreciation	(4,388)	(4,975)
Impairment value	(6,123)	(7,170)
Carrying amount	**9,088**	**8,925**

Those properties are vacant as they are not used by the Company. The Company is actively marketing those properties for sale to third parties. No material amounts recognized in the Income Statement during the year 2008 in relation to those properties.

14 SHARE CAPITAL AND OTHER CAPITAL FUNDS

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Bearer shares	1,773,736	1,773,736
Registered shares	913,747	913,747
Total share capital registered in Commercial register	**2,687,483**	**2,687,483**

Share capital of the Company consists of 1,493,046 shares fully subscribed and paid. Nominal value of one share is CZK 1.8 thousand. Share capital of Company is divided into 985,409 pieces of bearer shares and 507,637 pieces of registered shares. Both categories of bearer and ordinary registered shares hold the same rights.

The Company creates the following funds, which are recognised under Retained earnings and other capital funds:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Statutory reserve fund	556,896	556,896
Other capital funds	1,488,286	1,488,286
Total other capital funds	**2,045,182**	**2,045,182**

The statutory reserve fund comprises funds that the Company is required to retain according to the Commercial Code. Use of the statutory reserve fund is limited by the legislation and the Statutes of the Company and is not available for distribution to the shareholders, but may be used only to offset losses.

Other capital funds represent an increase of property, plant and equipment in a form of received gifts or transfer of title to constructions in progress from other subjects. In accordance with the Company's statutes, the distribution of these funds to the shareholders is subject to the General Meeting approval usually based on the proposal submitted by the Board of Directors as approved by the Supervisory Board.

15 PROVISIONS

	31 December 2008		31 December 2007	
	Balance	Out of which current	Balance	Out of which current
	CZK'000	CZK'000	CZK'000	CZK'000
Restructuring provision	10,890	10,890	29,983	29,983
Other provisions	8,399	5,121	8,416	4,225
Total	**19,289**	**16,011**	**38,399**	**34,208**

Change in provisions in the period is analysed as follows:

	1 January 2008	Creation	Release of unused amounts	Utilisation	31 December 2008
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Restructuring provision	29,983	10,890	(29,983)	-	10,890
Other provisions	8,416	3,536	-	(3,553)	8,399
Total	**38,399**	**14,426**	**(29,983)**	**(3,553)**	**19,289**

16 OTHER NON-CURRENT LIABILITIES

	31 December 2008	31 December 20007	Contribution of part of a business as at 1 January 2007*
	CZK'000	CZK'000	CZK'000
Non-current part of grants for purchase of non-current assets	10,000	-	-
Other non-current liabilities – subsidy	222	243	22,041
Total non-current liabilities	**10,222**	**243**	**22,041**

*) see Note 1

Most of the grants and subsidies related to the purchase of property, plant and equipment were transferred to the subsidiary JMP Net, s.r.o. as at 1 January 2007.

17 TRADE AND OTHER LIABILITIES

	31 December 2008	31 December 2007	Contribution of part of a business as at 1 January 2007*
	CZK'000	CZK'000	CZK'000
Trade and other liabilities			
Trade liabilities to third parties	533,297	559,045	37,827
Trade liabilities to related parties	647,114	832,467	-
Liabilities to employees	27,319	36,277	741
Liabilities for social insurance	9,751	11,155	-
Other liabilities	15,954	16,919	26,416
Total trade and other liabilities	**1,233,435**	**1,455,863**	**64,984**

*) see note 1

Liabilities to related parties are disclosed in Note 32. Other liabilities represent mainly uninvoiced purchased services and purchased natural gas relating to the financial year.

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

The carrying amount of trade and other liabilities approximates their fair values.

18 DERIVATIVES

Liability	31 December 2008
	CZK'000
Derivative type CIS (commodity index swap)	203,168
Total	**203,168**
From that realised after more than 1 year:	
Derivative type CIS (commodity index swap)	44,892
From that realised within 1 year	158,276

The Company does not have any unsettled derivatives as at 31 December 2007. For more information related to unsettled derivatives as at 31 December 2008 refer to Note 3.3 Market risk.

19 ADVANCES RECEIVED OF UNBILLED GAS SUPPLIES

The Company recognised the following amounts of unbilled gas supplies and related advances received for gas consumption:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Unbilled gas supplies	6,873,729	6,062,623
Advance payment received for gas	(7,708,868)	(6,818,101)
Net liability from unbilled gas recognised in the balance sheet	**(835,139)**	**(755,478)**

Net liability from unbilled gas recognised in the balance sheet represents mainly advance payments received for gas consumption offset with unbilled gas supplies.

20 OTHER FINANCIAL LIABILITIES

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Current financial liabilities		
– finance lease liabilities	-	2
– other financial liabilities	1,477	1,386
– cash-pooling liabilities – RWE Transgas	1,762,934	1,039,724
Total	**1,764,411**	**1,041,112**

Cash provided as a roll-over loan from cash-pooling has daily interest rate derivated based on the loan agreement from daily PRIBOR rate, respectively PRIBID for every day.

Drawn roll-over loan from 31 December 2008 has interest rate 1.64% p.a. (31 December 2007: 4.29% p.a.). Provided roll-over loan from 31 December 2008 has interest rate 0.99% p.a. (31 December 2007: 3.74% p.a.).

As at 31 December 2008 the Company used three short term loans under the cash-pooling arrangements with interest rates of 3.40%, 2.93% and 2.74%. These short term loans were due in January 2009.

21 SALES

	2008	2007
	CZK'000	CZK'000
Revenues from sale of natural gas	15,714,623	12,850,763
Sale of heat	2,822,050	2,700,870
Revenue from construction contracts	-	350,924
Revenue from service level agreements	682,197	859,246
Sale of other services	217,655	34,427
Total	**19,436,525**	**16,796,230**

Revenue from construction contracts represents revenue from investment activities which the Company provided to JMP Net, s.r.o. during the year 2007.

Revenue from service level agreements contains mainly revenue from the repair and maintenance of the gas network, measuring and other operating services provided to JMP Net, s.r.o. during the year 2008 and 2007.

22 PURCHASED GAS AND SERVICES RELATED TO GAS SUPPLIES

	2008	2007
	CZK'000	CZK'000
Purchase of natural gas	15,601,238	12,398,992
Raw materials and energy related to gas supplies	46,005	49,446
Purchased services related to gas supplies	2,752,486	2,720,021
Total	**18,399,729**	**15,168,459**

Costs of raw material and consumables related to gas supplies comprise of the purchase of gas for own consumption and energy consumption.

Costs of purchased services related to gas supplies represent mainly costs of gas distribution, gas consumption readings and rent of gas equipments.

Following amounts were recorded as cost during the year 2008 and 2007:

	2008	2007
	CZK'000	CZK'000
Natural gas purchase	18,343,937	12,398,992
Raw material consumption	35,467	41,101
Total	**18,379,404**	**12,440,093**

23 OTHER OPERATING INCOME

	2008	2007
	CZK'000	CZK'000
Profit from the sale of non-current asset	1,826	3,659
Profit transfer from the subsidiary	747,778	517,300
Use and release of provisions	29,983	-
Other operating income	28,183	24,153
Total	**807,770**	**545,112**

24 EMPLOYEE BENEFITS

	2008	2007
	CZK'000	CZK'000
Wages and salaries	284,619	282,749
Social security costs	35,899	40,711
Pension costs – defined contribution plans	80,783	84,437
Other social costs	2,969	14,630
Total	**404,270**	**422,527**

The average number of employees in 2008 was 781 (2007: 944).

25 OTHER OPERATING EXPENSES

	2008	2007
	CZK'000	CZK'000
Consumption of raw material	24,840	29,590
Services, repairs and other service agreements	537,075	781,508
Additions to the provision for impairment of trade receivables including bad debts written-off	20,528	50,349
Net loss from change in fair value of derivatives	203,169	-
Other (gains) / expenses (net)	17,988	28,196
Total	**803,600**	**889,643**

26 FINANCE COSTS AND INCOME

	2008	2007
	CZK'000	CZK'000
Interest income	3,150	4,916
Interest expense	(52,241)	(13,962)
Net finance income / (costs)	**(49,091)**	**(9,046)**

27 INCOME TAX

The income tax expense recognised in the income statement includes the following:

	2008	2007
	CZK'000	CZK'000
Current income tax	(947)	61,422
Deferred income tax (see Note 9)	(42,099)	2,403
Total	**(43,046)**	**63,825**

Reconciliation between theoretical tax charge computed from accounting profit before tax multiplied by the statutory income tax rate for the year and actual tax charge for the year:

	2008	2007
	CZK'000	CZK'000
Net profit before taxation	506,699	744,367
Theoretical income tax at 21% (2007: 24%)	106,407	178,648
Profit transfer and other non-taxable income	(157,036)	(128,111)
Tax non-deductible expense	3,503	9,039
Impact of the tax rate change on deferred tax	5,027	4,230
Gifts	-	(940)
Tax relief	-	(404)
Income tax relating to previous periods	(947)	1,363
Total income tax charge	**(43,046)**	**63,825**

28 EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per share ratio are calculated as a profit attributable to the Company's shareholders divided by the weighted arithmetic average number of ordinary shares, calculated during the year excluding ordinary shares purchased by the Company and held as own shares.

The value of diluted earnings per share ratio equals the basic earnings per share ratio because the Company does not have any dilutive equity instruments. The same rights are attached to all shares.

	2008	2007
Profit attributable to equity holders of the Company (thousand CZK)	549,745	680,543
Number of ordinary shares in circulation (thousand)	1,493	1,493
Basic earnings per share ratio (CZK per share)	368	456
Diluted earnings per share ratio (CZK per share)	368	456

In 2008, the Company paid dividends of CZK 680,829 thousand (CZK 456 per share), in 2007 CZK 968,987 thousand (CZK 649 per share). Dividends were paid as follows:

	2008	2007
	CZK'000	CZK'000
RWE GAS International B.V.	324,483	461,819
E.ON Czech Holding AG	297,727	423,738
Other shareholders	58,619	83,430
Total	**680,829**	**968,987**

29 CONTINGENT LIABILITIES

In 2004 Český plynárenský podnik, s.p. sold its receivables amounting to CZK 472,096 thousand due from the Company to Mr Peter Kmeť, who brought a legal action against the Company for the repayment. Based on the agreement from 8 December 2008 the receivable was transferred to SHARI COMMERCIAL S.A., British Virgin Islands Management believes that it is highly unlikely that the lawsuit will result in a significant cash outflow. For this reason, no provision has been recognized in the financial statements as at 31 December 2008.

The tax authorities are authorised to inspect accounting books and records at any time within three years subsequent to the reported tax year, and consequently may additionally impose income tax and penalties. In 2004–2005, tax authorities have carried out a full-scope tax audit at the Company for the years 2000–2002. The Company's management is not aware of any circumstances which may in the future give rise to a potential material contingent liability in this respect.

Management of the Company is not aware of any other significant contingent liabilities as at 31 December 2008.

30 COMMITMENTS

Significant contractual capital commitments are analysed as follows:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Property, plant and equipment	-	30,888
Total	**-**	**30,888**

The summary of minimum lease payments under irrevocable operating leases is as follows (undiscounted):

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Outstanding amount payable within one year	377	226
Outstanding amount payable within 1–5 years	359	226
Total	**736**	**452**

31 REGULATORY FRAMEWORK

The gas market is fully liberalized in 2008 and all end customers have a choice of their gas supplier. With respect to the dominant position of regional RWE gas companies on the Czech market, Energy Regulatory Office performs a general oversight over price levels in accordance with the Act No. 526/1990 Coll., Act on prices, as amended.

32 RELATED PARTY TRANSACTIONS AND BALANCES

The Company is owned by RWE GAS International B.V. The ultimate controlling party and parent company is RWE AG.

The Company was involved in the following transactions with related parties controlled by parent company:

	2008	2007
	CZK'000	CZK'000
Subsidiary:		
Cost related to supply and distribution of natural gas to the Company		
– JMP Net, s.r.o.	2,742,721	2,706,425
Other related parties controlled by RWE Group:		
Costs related to supply and distribution of natural gas to the Company		
– RWE Transgas, a.s.	14,713,312	11,748,940
Other expenses		
– RWE Transgas, a.s. – services	255,871	50,324
– Other gas distribution and regional companies – services	348,555	323,577
– Other related companies within RWE Group – services	327,283	194,491
Interest expense		
– RWE Transgas, a.s.	50,964	12,874
Total costs	**18,438,706**	**15,036,631**

	2008	2007
	CZK'000	CZK'000
Subsidiary:		
Revenue from sale and distribution of natural gas		
– JMP Net, s.r.o.	382,918	277,808
Other revenues		
– JMP Net, s.r.o. – services	838,257	1,217,884
– JMP Net, s.r.o. (profit transfer of the year 2007)	747,778	517,300
Other related parties controlled by RWE Group:		
Revenue from sale and distribution of natural gas		
– RWE Transgas, a.s.	-	4
– Other gas distribution and regional companies	3,388	49,011
– Other related companies within RWE Group	14,680	14,251
Other revenues		
– RWE Transgas, a.s. – services	372	1,097
– Other gas distribution and regional companies – services	9	324
– Other related companies within RWE Group – services	24,344	13,379
Interest income		
– RWE Transgas, a.s.	3,150	4,916
Total income and revenues	**2,014,896**	**2,095,974**

The following related party balances were outstanding:

	31 December 2008	31 December 2007
	CZK'000	CZK'000
Receivables		
Subsidiary:		
– JMP Net, s.r.o.	243,187	35,609
– JMP Net, s.r.o. (receivables from profit attributable to equity holders of the company for the year 2007)	747,778	517,300
Other parties controlled by RWE Group:		
– RWE Transgas, a.s.	50	192
– Other gas distribution and regional companies – services	316	455
– Other related companies within RWE Group	3,020	2,413
Total receivables	**994,351**	**555,969**
Liabilities		
Subsidiary:		
– JMP Net, s.r.o.	52,111	163,121
Other parties controlled by RWE Group:		
– RWE Transgas, a.s.	2,323,476	1,686,651
– Other gas distribution and regional companies – services	-	258
– Other related companies within RWE Group	34,117	21,865
Total liabilities	**2,409,704**	**1,871,895**

For dividends paid to shareholders in 2008 and 2007 see Note 28.

Remuneration of key members of management and members of statutory bodies:

	2008	2007
	CZK'000	CZK'000
Wages and current employee benefits	11,857	7,503
Social security costs	458	828
Pension costs – defined contribution plans	880	1,716
Total	**13,195**	**10,047**

33 SUBSEQUENT EVENTS

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2008.

34 STATUTORY APPROVALS

These financial statements have been approved for submission to the general meeting of shareholders by the Company's Board of Directors.

5 March 2009

Tomáš Tichý
Chairman of the Board of Directors
CEO

Dušan Malý
Vice-Chairman of the Board of Directors
CFO

Note
The financial statements have been prepared in Czech language and English language. In all matters of interpretation of information, views or opinions, the Czech language version of the financial statements takes precedence over the English language version.

6 INDEPENDENT AUDITOR'S REPORT

6.1 Auditor's Report on the JMP Group Financial Statements

PRICEWATERHOUSECOOPERS

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF JIHOMORAVSKÁ PLYNÁRENSKÁ, A.S.

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

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

PRICEWATERHOUSECOOPERS

Shareholders of Jihomoravská plynárenská, a.s.
Independent auditor's report

Auditor's Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group'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 Group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

5 March 2009

PricewaterhouseCoopers Audit, s.r.o.

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

Petr Šobotník
Auditor, Licence No. 113

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

6.2 Auditor's Report on the JMP Group Annual Report

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF JIHOMORAVSKÁ PLYNÁRENSKÁ, A.S.

We have audited the financial statements of Jihomoravská plynárenská, a.s. ("the Company") for the year ended 31 December 2008 disclosed in the annual report in Notes 5.3 and 5.4 and issued the opinion dated 5 March 2009 and disclosed in Note 6.3. We have also audited the consolidated financial statements of the Company for the year ended 31 December 2008 disclosed in Notes 5.1 and 5.2 and issued the opinion dated 5 March 2009 and disclosed in Note 6.1 (hereinafter collectively referred to as "the financial statements").

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2008 is consistent with the financial statements referred to above. The Board of Directors 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 2008 is consistent, in all material respects, with the financial statements referred to above.

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

PRICEWATERHOUSECOOPERS

Shareholders of Jihomoravská plynárenská, a.s.
Independent auditor's report

Report on review of the Report on Relations

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

Scope of Review

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

Conclusion

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

30. března 2009

PricewaterhouseCoopers Audit, s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
zastoupená partnerem

Petr Šobotník
auditor, osvědčení č. 113

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

6.3 Auditor's Report on the Jihomoravská plynárenská, a.s. Financial Statements

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF JIHOMORAVSKÁ PLYNÁRENSKÁ, A.S.

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

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

Shareholders of Jihomoravská plynárenská, a.s.
Independent auditor’s report

Auditor’s Responsibility (continued)

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

5 March 2009

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

Petr Šobotník
Auditor, Licence No. 113

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

7 REPORT OF THE JIHOMORAVSKÁ PLYNÁRENSKÁ, A.S. BOARD OF DIRECTORS ON RELATIONS BETWEEN RELATED PARTIES AS AT 31 DECEMBER 2008

Whereas Jihomoravská plynárenská, a.s. ("JMP") has not entered into a controlling contract as a controlled entity that would be in effect during 2008, the Board of Directors has compiled this report on relations between JMP and controlling parties and between JMP and other parties controlled by the same controlling parties ("related parties") for 2008, insofar as such persons are known to JMP. The report ("report") was compiled in accordance with Section 66a(9) of Act No. 513/1991 Coll., the Commercial Code, as amended, and it constitutes an integral part of the JMP 2008 Annual Report. JMP's shareholders will have the report available at the same time and under the same conditions as the annual financial statements.

1 CONTROLLING PARTIES

Throughout the past fiscal reporting period, JMP was controlled by the following parties:

a) Directly
- RWE Gas International B.V., with its registered office at Diamantlaan 15, 2132 WV Hoofddorp, Kingdom of the Netherlands, was a JMP shareholder holding a 47.66% share in its voting rights, and
- RWE Transgas, a.s., with its registered office at Limuzská 12/3135, 100 98 Prague 10-Strašnice, Company No. 26460815, was a JMP shareholder holding a 2.46% share in its voting rights, and was directly controlled by its shareholder – RWE Gas International B.V. The total share of both companies acting in concert in JMP's voting rights was 50.12%.

b) Indirectly
- RWE Energy Aktiengesellschaft ("RWE Energy AG"), with its registered address at Rheinlanddamm 24, 44139 Dortmund, Federal Republic of Germany, was the sole member of RWE Gas International B.V., and
- RWE Aktiengesellschaft ("RWE AG"), with its registered address at Opernplatz 1, 45128 Essen, Federal Republic of Germany, was the sole shareholder of RWE Energy AG.

2 OTHER RELATED PARTIES

The Company has requested the above listed controlling parties to provide a list of other parties that were controlled by the same controlling parties in the last fiscal reporting period. The present report was compiled based on information provided by the controlling parties and other information available to the JMP Board of Directors. The ties and the controlling structure between companies within the RWE Group as at 31 December 2008 are shown on the third page of the cover of this Annual Report.

3 CONTRACTS SIGNED BY JMP AND RELATED PARTIES, SERVICES RENDERED, AND PAYMENTS RECEIVED

In the last fiscal reporting period, JMP and related parties entered into the contracts referred to in Annex No. 1. JMP has not incurred any damage by performing these contracts, including contracts signed in preceding accounting periods. There was, therefore, no need to secure compensation for damage or enter into any agreements to this effect. The value of services rendered and payments made between related parties in the last fiscal reporting period is specified in Note 31 of the Notes to the Financial Statements as at 31 December 2008.

4 OTHER LEGAL ACTS COMPLETED IN THE INTEREST OF RELATED PARTIES

As of 31 December 2007, JMP's Facility and Transport Management Department and Customer Service Department were closed and their activities transferred to RWE Interní služby, a.s. (RWE Interní služby, s.r.o. since 1 January 2009) and RWE Zákaznické služby, s.r.o., which have been conducting all the relevant activities on an outsourcing basis since 1 January 2008. The transaction included a transfer of 30 third-party contracts to RWE Interní služby, a.s.

5 MEASURES ADOPTED IN THE INTEREST OR AT THE REQUEST OF RELATED PARTIES

In the last financial year did not accept JMP, respectively did not have any measures in order or at the related parties.

6 NON-EXISTENCE OF DAMAGE

In the last fiscal reporting period, JMP incurred no damage under contracts with related parties, other legal acts completed in the interest of related parties, or measures carried out in the interest or at the request of such parties, which were executed or adopted prior to the past fiscal period.

7 CONFIDENTIALITY

This report does not contain any information that would constitute JMP's trade secret.

8 SUMMARY

This report was approved by the Board of Directors of JMP on 24 February 2008, and it has been presented for examination to the JMP Supervisory Board and the auditor who reviews the financial statements in accordance with the law.

Brno, 30 March 2009

Tomáš Tichý
Chairman of the Board of Directors

Dušan Malý
Vice-Chairman of the Board of Directors

Annex No. 1

Contracts Signed between the Company and Related Parties in the Last Accounting Period

Contracting party	Contract type/subject matter	Quantity
RWE Interní služby, a.s.*	Orders	4
	Agreement on Assignment of Contractual Rights and Obligations	2
	Movables Lease Agreement	1
	Annex No. 1 to Movables Lease Agreement	1
	Vehicle Lease Agreement	1
	CCS Card Use Agreement	1
	Movables Purchase Agreement	1
	Commercial Lease Agreement	1
	Annex No. 1 to Commercial Lease Agreement	1
	Agreement on Assignment of Receivables	1
	Mobile Telephone, Data Card, and Blackberry Lease Agreement	1
	Mobile Telephone Purchase Agreement	1
	Environmental Pollution Services Agreement	1
	Facility Management Services Agreement	1
	Annex No. 1 to Facility Management Services Agreement	1
	Transport Services Agreement	1
	Annex No. 1 to Transport Services Agreement	1
	Vehicle Fleet Maintenance Services Agreement	1
	Annex No. 1 to Vehicle Fleet Maintenance Services Agreement	1
	Mobile Telephone and IP Telephone Lease, Logistics, and Billing Services Agreement	1
	Annexes No. 1 and 2 to Mobile Telephone and IP Telephone Lease, Logistics, and Billing Services Agreement	2
	Information Technology Services Agreement	1
	Annexes No. 1 and 2 to Information Technology Services Agreement	2
	CNG Facility Management Services Agreement	1
	Annex No. 1 to CNG Facility Management Services Agreement	1
	Purchasing and Logistics Services Agreement	1
	Annex No. 1 to Purchasing and Logistics Services Agreement	1
	Central Payroll Processing Services Agreement	1
	Annex No. 1 to Central Payroll Processing Services Agreement	1
RWE Plynoprojekt, a.s.*	Agreement on Assignment of Contractual Rights and Obligations	1
	Purchase Agreement	1
	Order – Services	5
	Aggregate Natural Gas Supply Services Agreement – CNG Filling Stations	1
RWE IT Czech, s.r.o.	Commercial Lease Agreement	1
	Movables Lease Agreement	1
	Human Resources Services Agreement	1

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

Contracting party	Contract type/subject matter	Quantity
RWE Transgas, a.s.	Annex No. 3 to Master Agreement – Currency, Interest, and Commodity Swap Transactions dated 10 November 2005	1
	Annexes No. 5, 6, 7, 8, 9, and 10 to Agreement on Natural Gas Purchase and Sale – Five-Year with Structuring Service	6
	Annexes No. 5 and 6 to Master Agreement on Natural Gas Purchase and Sale	2
	Annexes No. 4, 5, and 6 to Marketing Services Agreement	3
	"A" Marketing Commercial Lease Agreement	1
	Annex No. 1 to "A" Marketing Commercial Lease Agreement	1
	Consulting - P & O Services Agreement	1
	Annex No. 1 to Consulting - P & O Services Agreement	1
	SLA Consulting – TG Governance Services Agreement	1
	Annexes No. 1 and 2 to SLA Consulting – TG Governance Services Agreement	2
	Public Relations Services Agreement	1
	Commercial Lease Agreement	1
	Annex No. 1 to Commercial Lease Agreement	1
	SLA Access Agreement	1
	Master Agreement on Natural Gas Purchase and Sale – One-Year with Structuring Service No. 2	1
	Annex No. 1 to Consulting Services Agreement	1
	Mandate Agreement – Currency Transactions	1
	Annex No. 1 to Cash-pooling Agreement	1
	Agreement on Securing Joint Trade Dispatching (ODIS)	1
	Master Agreement on Trading Unused Tolerances	1
	Non-Disclosure Agreement	1
RWE Transgas Net, s.r.o.	Gas Transmission Agreement	1
	Annexes No. 1, 2, 3, and 4 to Gas Transmission Agreement	4
	Order	4
	ArGUS Consulting SLA	1
	Agreement on Aggregate Natural Gas Supply Services	1
Severomoravská plynárenská, a.s./ RWE Transgas Net, s.r.o.	Agreement on Transfer of Liability for Deviations	1
Severomoravská plynárenská, a.s.	Contractual Transmission Capacity Transfer Agreement signed pursuant to Article 21 of Transmission Network Code	1
	Contractual Transmission Capacity Transfer Agreement signed pursuant to Article 21 of Transmission Network Code	1
	Contractual Transmission Capacity Transfer Agreement signed pursuant to Article 21 of Transmission Network Code	1
	Contractual Transmission Capacity Transfer Agreement signed pursuant to Article 21 of Transmission Network Code	1
	Contractual Transmission Capacity Transfer Agreement signed pursuant to Article 21 of Transmission Network Code	1
	Contractual Transmission Capacity Transfer Agreement signed pursuant to Article 21 of Transmission Network Code	1
RWE Distribuční služby, s.r.o.	Commercial Lease Agreement	1
	Annex No. 1 to Commercial Lease Agreement	1

Contracting party	Contract type/subject matter	Quantity
RWE Zákaznické služby, s.r.o.	Billing Services Agreement	1
	Annexes No. 1 and 2 to Billing Services Agreement	2
	Call Center Services Agreement	1
	Annexes No. 1 and 2 to Call Center Services Agreement	2
	Debt Collection Services Agreement for Small Business and Household Customer Segments	1
	Annexes No. 1, 2, and 3 to Debt Collection Services Agreement for Small Business and Household Customer Segments	3
	Press Center Services Agreement	1
	Annex No. 1 to Press Center Services Agreement	1
	Agreement on Services in the Area of Personal and Written Contact with Small Business and Household Customers	1
	Annexes No. 1 and 2 to Agreement on Services in the Area of Personal and Written Contact with Small Business and Household Customers	2
	Movables Purchase Agreement	1
	Commercial Lease Agreement	1
	Annex No. 1 to Commercial Lease Agreement	1
JMP Net, s.r.o.	Annexes No. 1, 2, and 3 to Gas Facility Construction Planning Services Agreement	3
	Annexes No. 1, 2, and 3 to Gas Facility Construction Services Agreement	3
	Annexes No. 1, 2, and 3 to Agreement on Gas Facility Construction Supervision Services for Third-Party Investors	3
	Annexes No. 1, 2, and 3 to Technical Dispatching Services Agreement	3
	Annexes No. 1, 2, and 3 to Network Documentation Services Agreement	3
	Annexes No. 1, 2, 3, and 4 to Metering Services Agreement	4
	Annexes No. 1, 2, and 3 to Gas Facility Operations Management Agreement	3
	Annexes No. 1, 2, and 3 to Network Operations and Maintenance Services Agreement	3
	Commercial Lease Agreement	1
	Annex No. 1 to Commercial Lease Agreement	1
	Financial, Accounting, and Controlling Services Agreement	1
	Agreement Terminating Financial, Accounting, and Controlling Services Agreement	1
	Annex No. 3 to Gas Supply Agreement for Own Consumption and DS Losses	1
SČP Net, s.r.o.	Order	1

ABBREVIATIONS USED

a.s.	Public limited company
AG	Aktiengesellschaft (public limited company)
CAS	Czech Accounting Standards
DOM	Household customers
ERO	Energy Regulatory Office
HR	Human Resource
HW	Hardware
IČ	Company No.
IFRS	International Financial Reporting Standards
IS-U	Customer Information System
IT	Information Technologies
JMP	Jihomoravská plynárenská, a.s.
JMP Net	JMP Net, s.r.o.
MF ČR	Ministry of Finance of the Czech Republic
MND	Moravské naftové doly, a.s.
MO	Small business customers
PRS	Transfer regulating station
PZ	Gas facilities
RC	Regional center
RS	Regulating station
s.p.	State enterprise
s.r.o.	Limited liability company
SO	Business customers
SW	Software
VAT	Value added tax
VO	Key account (industrial) customers
VTL	High pressure (pressures up to 4 MPa)
VVTL	Very high pressure (pressures over 4 MPa)

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

- RWE Aktiengesellschaft
  - 100.00% RWE Energy Aktiengesellschaft
    - 1.00% RWE Energy Hungária Tanácsadó Kft.
    - 100.00% RWE Gas International B.V.
      - 100.00% RWE Transgas, a.s.
        - 100.00% RWE Transgas Net, s.r.o.
        - 100.00% RWE Gas Storage, s.r.o.
        - 100.00% RWE Interní služby, a.s. *
        - 100.00% RWE Distribuční služby, s.r.o.
        - 100.00% RWE Zákaznické služby, s.r.o.
        - 100.00% RWE Plynoprojekt, a.s. *
        - 100.00% RWE Key Account CZ, s.r.o.
        - 100.00% RWE Gas Slovensko, s.r.o.
        - 100.00% Gasnet, s.r.o. v likvidaci
        - 18.09% Severomoravská plynárenská, a.s.
        - 2.95% Východočeská plynárenská, a.s.
        - 2.46% Jihomoravská plynárenská, a.s.
      - 100.00% Severočeská plynárenská, a.s.
        - 100.00% SČP Net, s.r.o.
      - 100.00% Západočeská plynárenská, a.s.
        - 100.00% ZČP Net, s.r.o.
      - 100.00% Středočeská plynárenská, a.s.
        - 100.00% STP Net, s.r.o.
      - 63.62% Východočeská plynárenská, a.s.
        - 100.00% VČP Net, s.r.o.
      - 49.64% Severomoravská plynárenská, a.s.
        - 100.00% SMP Net, s.r.o.
        - 52.25% GASFINAL, a.s.
      - 47.66% Jihomoravská plynárenská, a.s.
        - 100.00% JMP Net, s.r.o.
        - 47.75% GASFINAL, a.s.
      - 100.00% Českomoravská plynárenská, a.s. - v likvidaci
      - 100.00% RWE Energy Nederland N.V.
      - 99.00% RWE Energy Hungária Tanácsadó Kft.

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

Jihomoravská plynárenská, a.s.

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